



# WEINLANDER FITZHUGH

SHIAWASSEE REGIONAL EDUCATIONAL  
SERVICE DISTRICT  
OWOSSO, MICHIGAN

FINANCIAL STATEMENTS  
JUNE 30, 2018

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# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

October 8, 2018

Board of Education  
Shiawassee Regional Educational Service District  
Owosso, Michigan

### **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 Shiawassee Regional Educational Service District (School District), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the School 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards 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 School District'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 School District'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 Shiawassee Regional Educational Service District as of June 30, 2018 and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

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Board of Education  
Shiawassee Regional Educational Service District  
October 8, 2018

## ***Emphasis of Matter***

As discussed in Note 12 to the financial statements, in 2018, the School District adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis, budgetary comparison information, pension schedules and other postemployment benefits schedules as noted 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 U.S. generally accepted auditing standards, 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 School District's basic financial statements. The nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is also not a required part of the basic financial statements.

The nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.



# WEINLANDER FITZHUGH

Board of Education  
Shiawassee Regional Educational Service District  
October 8, 2018

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2018, on our consideration of the School 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 solely 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 the effectiveness of the School District's 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 School District's internal control over financial reporting and compliance.

*Weinlander Fitzhugh*

**SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2018**

Our discussion and analysis of Shiawassee Regional Educational Service District's (School District) financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2018.

**Financial Highlights**

The School District's net position decreased by \$1,386,904 or 5%. Program revenues were \$13,130,159 or 49% of total revenues, and general revenues were \$13,942,082 or 51%.

The General Fund reported a positive fund balance of \$1,433,091. The Special Education Fund reported a positive fund balance of \$4,527,192.

For the year ended June 30, 2018 School District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These changes are significant at the government-wide level.

The 2017 figures have not been updated for the adoption of GASB 75.

**Using this Annual Financial Report**

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and Special Education Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- District-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Pension Schedules (Required Supplemental Information)

OPEB Schedules (Required Supplemental Information)

Other Supplemental Information

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Management's Discussion & Analysis  
For the Year Ended June 30, 2018

**Reporting the District as a Whole**

*The Statement of Net Position and Statement of Activities*

One of the most important questions asked about the School District's finances is: "Is the School District better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the School District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School District's net position as a way to measure the School District's financial position. The change in net position provides the reader a tool to assist in determining whether the School District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, student enrollment growth and facility conditions in arriving at their conclusion regarding the overall health of the School District.

**Reporting the District's Most Significant Funds**

*Fund Financial Statements*

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other sources of revenue. The School District's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

*Governmental Funds*

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

*Fiduciary Funds*

The School District is the trustee, or fiduciary, for its student activity fund. All of the School District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.



**SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT**  
**Management's Discussion & Analysis**  
For the Year Ended June 30, 2018

**District-wide Financial Analysis**

The statement of net position provides the perspective of the School District as a whole. Exhibit A provides a summary of the School District's net position as of June 30, 2018 and 2017:

<b>Exhibit A</b>	<u>Governmental Activities</u>	
	<u>2018</u>	<u>Nonrestated 2017</u>
<b>Assets</b>		
Current and other assets	\$ 13,060,544	\$ 13,920,581
Capital assets - net of accumulated depreciation	4,542,801	4,706,218
Total assets	<u>17,603,345</u>	<u>18,626,799</u>
<b>Deferred Outflows of Resources</b>		
Related to OPEB	650,606	0
Related to pensions	7,476,274	5,185,635
Total deferred outflows of resources	<u>8,126,880</u>	<u>5,185,635</u>
<b>Liabilities</b>		
Current liabilities	6,738,424	7,039,230
Long-term liabilities	43,401,620	30,960,514
Total liabilities	<u>50,140,044</u>	<u>37,999,744</u>
<b>Deferred Inflows of Resources</b>		
Related to pensions	3,025,927	1,118,812
Related to OPEB	372,782	0
Total deferred inflows of resources	<u>3,398,709</u>	<u>1,118,812</u>
<b>Net Position</b>		
Net investment in capital assets	4,542,801	4,706,218
Restricted	361,837	359,445
Unrestricted	(32,713,166)	(20,371,785)
Total net position	<u>\$ (27,808,528)</u>	<u>\$ (15,306,122)</u>

The analysis above focuses on net position (see Exhibit A). The School District's net position of governmental activities was \$(27,808,528) at June 30, 2018. Investment in property and equipment, net of related debt totaling \$4,542,801, compares the original costs less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Restricted net position is reported separately to show legal constraints from debt requirements and legislation that limit the School District's ability to use that net position for day-to-day operations.

**SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT**  
**Management's Discussion & Analysis**  
For the Year Ended June 30, 2018

The \$(32,713,166) in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The School District implemented GASB Statement No. 68 in 2015. The effect of this Statement required the School District to report in the summary of net position, a liability of \$32,158,350 for 2018 and \$30,770,702 for 2017.

The School District implemented GASB Statement No. 75 in 2018. The effect of this Statement required the School District to report in the summary of net position, a liability of \$11,026,665 for 2018 and \$0 for 2017. The 2017 summary of the School District's net position was not restated to reflect this implementation.

The results of this year's operations for the School District as a whole are reported in the statement of activities. Exhibit B provides a summary of the changes in net position for the years ended June 30, 2018 and 2017.

<b>Exhibit B</b>	Governmental Activities	
	2018	Nonrestated 2017
<b>Revenues</b>		
Program revenue:		
Charges for services	\$ 3,144,460	\$ 2,696,126
Grants and categoricals	9,985,699	8,554,622
General revenue:		
Property taxes	7,490,872	7,417,743
State aid	5,711,526	6,358,959
Other	739,684	789,321
Total revenues	27,072,241	25,816,771
<b>Function/Program Expenses</b>		
Instruction	5,589,922	5,115,669
Support	17,423,464	16,249,830
Community services	560,554	591,326
Capital outlay	17,362	319,637
Transfer out to other local districts	4,491,375	3,986,168
Depreciation (unallocated)	376,468	430,556
Total expenses	28,459,145	26,693,186
<b>Change in Net Position</b>	\$ (1,386,904)	\$ (876,415)

The School District implemented GASB Statement No. 75 for 2018. The effect of this Statement required the School District to report in the summary of the change in net position, an expense of \$896,000. The 2017 summary of the School District's change in net position was not restated to reflect this implementation.

**SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2018**

As reported in the statement of activities, the cost of all of our governmental activities this year was \$28,459,145. Certain activities were partially funded from those who benefited from the programs, \$3,144,460, or by the other governments and organizations that subsidized certain programs with grants and categoricals of \$9,985,699. We paid for the remaining "public benefit" portion of our governmental activities with \$7,490,872 in taxes, \$5,711,526 in State aid and with our other revenues, such as interest and entitlements.

The School District's governmental activities had a decrease in net position of \$1,386,904. The major reason was that expenses to maintain countywide support to the local districts continues to exceed the revenue from local, state and federal sources.

**The School District's Funds**

The School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

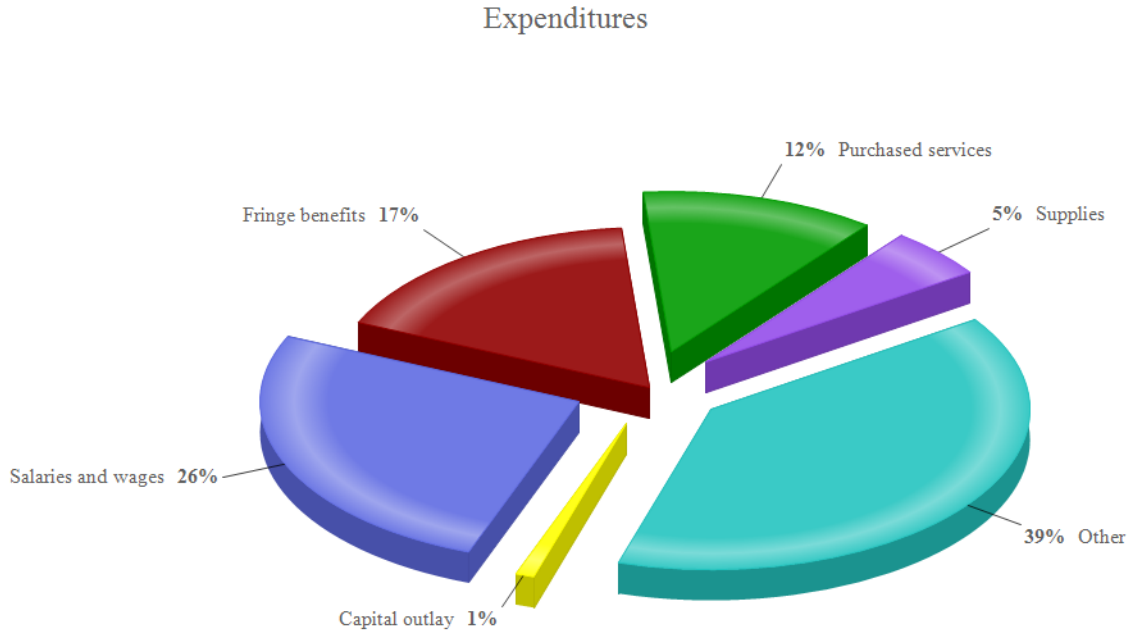
The School District's governmental funds reported a combined fund balance of \$6,322,120, which is below last year's total of \$6,881,351. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2018 and 2017.

	Fund Balance 6/30/2018	Fund Balance 6/30/2017	Increase (Decrease)
General	\$ 1,433,091	\$ 1,442,834	\$ (9,743)
Special Education Fund	4,527,192	5,079,072	(551,880)
Capital Projects	361,837	359,445	2,392
	<u>\$ 6,322,120</u>	<u>\$ 6,881,351</u>	<u>\$ (559,231)</u>

- Our General Fund decrease is mainly attributable to costs to administer county educational programs that were not fully covered by local, state and federal sources.
- Our Special Revenue Funds decreased mainly due to increased cost to accommodate student needs.
- Our Capital Projects Fund increased due to interest gain on accounts.

**SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2018**

As the graph below illustrates, the largest portions of General Fund expenditures are for salaries and fringe benefits. The School District by nature is a labor intensive organization.

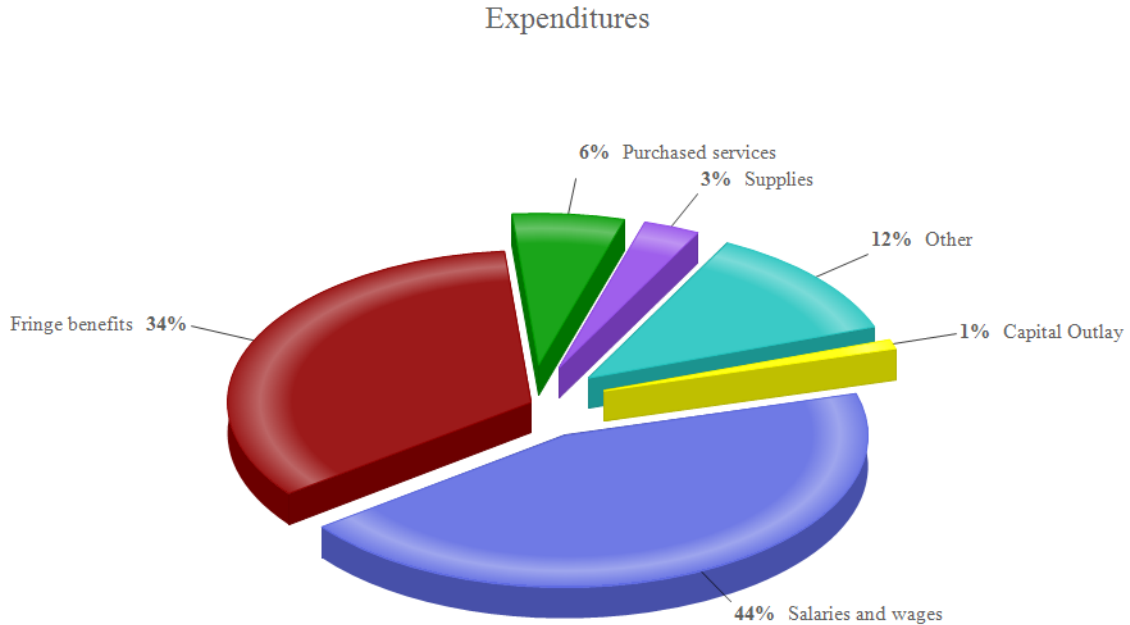


Expenditures by Object	2018	2017
Salaries and wages	\$ 2,595,964	\$ 2,492,815
Fringe benefits	1,733,264	1,594,298
Purchased services	1,222,150	944,798
Supplies	513,582	334,560
Capital outlay	3,839	8,330
Other	3,878,721	3,485,207
Total	<u>\$ 9,947,520</u>	<u>\$ 8,860,008</u>

Expenditures have increased by \$1,087,512 from the prior year mainly due to increased payments to other local districts from grants managed by the Shiawassee RESD and increased wage and insurance costs.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
 Management's Discussion & Analysis  
 For the Year Ended June 30, 2018

As the graph below illustrates, the largest portions of Special Education Fund expenditures are for salaries and fringe benefits. The School District by nature is a labor intensive organization.



Expenditures by Object	2018	2017
Salaries and wages	\$ 8,239,506	\$ 8,062,820
Fringe benefits	6,435,384	5,944,676
Purchased services	1,144,924	1,222,351
Supplies	472,609	469,886
Capital Outlay	252,698	93,629
Other	2,209,844	2,463,723
Total	<u>\$ 18,754,965</u>	<u>\$ 18,257,085</u>

Expenditures have increased by \$497,880 from the prior year mainly due to increased salary, benefits and contracted services to accommodate student needs.

**SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT**  
Management's Discussion & Analysis  
For the Year Ended June 30, 2018

**Budgetary Highlights**

Over the course of the year, the School District revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund and Special Education Fund original budget were as follows:

- Budgeted revenues for the General Fund were increased by \$2,157,440 to reflect an increase in state funding.
- Actual revenue for the General Fund was \$1,224,973 less than budgeted revenues due to program revenues that were not fully expended and were carried into the next year as unearned income.
- Budgeted expenditures for the General Fund were increased by \$661,794. This increase was due to increased payment to other local districts from grants managed by the Shiawassee RESD.
- Actual expenditures for the General Fund were \$1,015,862 less than budget expenditures due to state grant programs that will not be fully expended until September 20, 2018.
- Budgeted revenues for the Special Education Fund were increased by \$8,138 due to an increase in state funding.
- Actual revenue for the Special Education Fund was \$127,972 more than budgeted revenues due to increased property values and state funding.
- Budgeted expenditures for the Special Education Fund were increased by \$1,227,888. This was due to increased salary, benefits and contracted services to accommodate student needs.
- Actual expenditures for the Special Education Fund were \$827,006 less than budget expenditures due to overestimated instructional expenses for the year.

**SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2018**

**Capital Assets**

At June 30, 2018, the School District had \$4,542,801 invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net decrease (including additions and disposals) of 3% from last year.

	<u>2018</u>	<u>2017</u>
Land	\$ 13,138	\$ 13,138
Buildings and improvements	5,784,169	5,775,520
Land improvements	243,715	243,715
Equipment and furniture	1,660,305	1,660,305
Vehicles	<u>2,801,640</u>	<u>3,045,367</u>
Total capital assets	10,502,967	10,738,045
Less accumulated depreciation	<u>5,960,166</u>	<u>6,031,827</u>
Net capital assets	<u>\$ 4,542,801</u>	<u>\$ 4,706,218</u>

This year's additions of \$213,051 were for two buses and an air conditioning unit. No debt was issued for these additions.

We present more detailed information about our capital assets in the notes to the financial statements.

**Factors Expected to have an Effect on Future Operations**

The following factors will affect the District in the future and were considered in preparing the District's budget for the 2018-2019 fiscal year:

Foundation Allowance - No increase was budgeted for 2018-2019.

Retirement Rate - In 2018-19, the rate is anticipated to increase to 26.18%. However, the School District will be required to pay an additional 12.21% for all wages earned October 1, 2018 and later, for the Unfunded Actuarial Accrued Liability (UAAL).

**Requests for Information**

This financial report is designed to provide a general overview of the School District's finances for all those with an interest in the School District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Business Office  
 Shiawassee Regional Education Service District  
 114 West North Street  
 Owosso, MI 48867

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Statement of Net Position  
June 30, 2018

	Governmental Activities
<u>Assets</u>	
Cash and investments	\$ 9,544,044
Receivables - net:	
Accounts receivable	914,226
Due from other governmental units	2,394,409
Prepaid expenses	207,865
Capital assets less accumulated depreciation \$5,960,166	4,542,801
Total assets	17,603,345
<u>Deferred Outflows of Resources</u>	
Related to pensions	7,476,274
Related to OPEB	650,606
Total Deferred Outflows of Resources	8,126,880
<u>Liabilities</u>	
Accounts payable	40,207
Unearned revenue	4,816,786
Accrued payroll and payroll taxes	1,881,431
Long-term liabilities:	
Due in more than one year	216,605
Net pension liability	32,158,350
Net OPEB liability	11,026,665
Total liabilities	50,140,044
<u>Deferred Inflows of Resources</u>	
Related to pensions	3,025,927
Related to OPEB	372,782
Total deferred inflows of resources	3,398,709
<u>Net Position</u>	
Net investment in capital assets	4,542,801
Restricted for capital projects	361,837
Unrestricted	(32,713,166)
Total net position	\$ (27,808,528)

See accompanying notes to financial statements.



SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2018

	Program Revenues			Governmental Activities
Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Position	
<u>Functions/Programs</u>				
Primary government -				
Governmental activities:				
Instruction	\$ 5,589,922	\$ 1,920,389	\$ 9,791,491	\$ 6,121,958
Support	17,423,464	1,158,341	194,208	(16,070,915)
Community services	560,554	65,730	0	(494,824)
Capital outlay	17,362	0	0	(17,362)
Transfer out to other local districts	4,491,375	0	0	(4,491,375)
Depreciation (unallocated)	376,468	0	0	(376,468)
	<u>\$ 28,459,145</u>	<u>\$ 3,144,460</u>	<u>\$ 9,985,699</u>	<u>(15,328,986)</u>
Total governmental activities				
General revenues:				
Taxes:				
Property taxes, levied for general purposes				7,490,872
State aid				5,711,526
Interest and investment earnings				18,989
Other				720,695
				<u>13,942,082</u>
Total general revenues				
Change in net position				(1,386,904)
Net position - beginning of year, restated				<u>(26,421,624)</u>
Net position - end of year				<u>\$ (27,808,528)</u>

See accompanying notes to financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Governmental Funds  
Balance Sheet  
June 30, 2018

	General	Special Education Fund	Other Nonmajor Governmental Funds	Total
<u>Assets</u>				
Cash and investments	\$ 3,046,644	\$ 6,135,563	\$ 361,837	\$ 9,544,044
Receivables - net:				
Accounts receivable	617,462	296,764	0	914,226
Due from other funds	1,169,277	0	0	1,169,277
Due from other governmental units	1,217,519	1,176,890	0	2,394,409
Prepaid expenditures	49,343	158,522	0	207,865
Total assets	\$ 6,100,245	\$ 7,767,739	\$ 361,837	\$ 14,229,821
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accounts payable	\$ 33,218	\$ 6,989	\$ 0	\$ 40,207
Due to other funds	0	1,169,277	0	1,169,277
Unearned revenue	3,343,468	1,473,318	0	4,816,786
Accrued payroll and payroll taxes	1,290,468	590,963	0	1,881,431
Total liabilities	4,667,154	3,240,547	0	7,907,701
<u>Fund Balance</u>				
Nonspendable - prepaid	49,343	158,522	0	207,865
Restricted for special education	0	3,173,670	0	3,173,670
Restricted for capital projects	0	0	361,837	361,837
Committed	30,000	595,000	0	625,000
Assigned	95,000	600,000	0	695,000
Unassigned	1,258,748	0	0	1,258,748
Total fund balance	1,433,091	4,527,192	361,837	6,322,120
Total liabilities and fund balance	\$ 6,100,245	\$ 7,767,739	\$ 361,837	\$ 14,229,821

See accompanying notes to financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
 Reconciliation of Balance Sheet of Governmental Funds  
 to the Statement of Net Position  
June 30, 2018

Total fund balance - governmental funds	\$ 6,322,120
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 are not reported in the funds	
Cost of the capital assets	10,502,967
Accumulated depreciation	(5,960,166)
Deferred outflows used in governmental activities are not financial resources and therefore are not reported in governmental funds:	
Related to pensions	7,476,274
Related to OPEB	650,606
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Compensated absences	(216,605)
Net pension liability	(32,158,350)
Net OPEB liability	(11,026,665)
Deferred inflows used in governmental activities are not recognized as current resources and therefore are not reported in governmental funds:	
Related to pensions	(3,025,927)
Related to OPEB	(372,782)
Total net position - governmental activities	\$ (27,808,528)

See accompanying notes to financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended June 30, 2018

	General	Special Education Fund	Other Nonmajor Governmental Funds	Total
<u>Revenues</u>				
Property taxes	\$ 474,922	\$ 7,015,950	\$ 0	\$ 7,490,872
Other local sources	492,131	1,125,043	2,392	1,619,566
State sources	5,626,046	6,295,239	0	11,921,285
Federal sources	391,875	3,087,591	0	3,479,466
Interdistrict and other sources	<u>1,827,803</u>	<u>679,262</u>	<u>0</u>	<u>2,507,065</u>
Total revenues	<u>8,812,777</u>	<u>18,203,085</u>	<u>2,392</u>	<u>27,018,254</u>
<u>Expenditures</u>				
Instruction	766,077	4,638,073	0	5,404,150
Support services	5,250,793	11,853,251	0	17,104,044
Community services	502,315	58,239	0	560,554
Improvements	<u>0</u>	<u>17,362</u>	<u>0</u>	<u>17,362</u>
Total expenditures	<u>6,519,185</u>	<u>16,566,925</u>	<u>0</u>	<u>23,086,110</u>
Excess (deficiency) of revenues over expenditures	<u>2,293,592</u>	<u>1,636,160</u>	<u>2,392</u>	<u>3,932,144</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	1,125,000	0	0	1,125,000
Operating transfers out	0	(1,125,000)	0	(1,125,000)
Transfers out to other local districts	<u>(3,428,335)</u>	<u>(1,063,040)</u>	<u>0</u>	<u>(4,491,375)</u>
Total other financing sources (uses)	<u>(2,303,335)</u>	<u>(2,188,040)</u>	<u>0</u>	<u>(4,491,375)</u>
Net change in fund balance	(9,743)	(551,880)	2,392	(559,231)
Fund balance - beginning of year	<u>1,442,834</u>	<u>5,079,072</u>	<u>359,445</u>	<u>6,881,351</u>
Fund balance - end of year	<u>\$ 1,433,091</u>	<u>\$ 4,527,192</u>	<u>\$ 361,837</u>	<u>\$ 6,322,120</u>

See accompanying notes to financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balance of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2018

Net change in fund balance - total governmental funds	\$ (559,231)
<p>Amounts reported for governmental activities in the statements of activities are different because:</p>	
<p style="padding-left: 20px;">Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation</p>	
Depreciation expense	(376,468)
Capital outlay	213,051
<p>Increases in compensated absences are reported as a subtraction in expenditures when financial resources are used in the governmental fund in accordance with GASB Interpretation No. 6</p>	
	(26,793)
<p>Some revenue and expenses reported in the statement of activities are not recognized as or require the use of current resources and, therefore are not reported in the governmental funds</p>	
Pension related items	(1,004,124)
OPEB related items	<u>366,661</u>
Change in net position of governmental activities	<u>\$ (1,386,904)</u>

See accompanying notes to financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Fiduciary Funds  
Statement of Fiduciary Net Position  
June 30, 2018

	<u>Agency Fund</u>
<u>Assets</u>	
Cash and investments	\$ <u>18,120</u>
<u>Liabilities</u>	
Due to student groups	\$ <u>18,120</u>

See accompanying notes to financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Shiawassee Regional Educational Service District (School District) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

**Reporting Entity**

The School District is governed by an elected Board of Education. 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 School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

**District-wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes; (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items are not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

**District-wide Statements** - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

**Fund-based Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are 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.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

**General Fund** - The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

**Special Revenue Funds** - The Special Revenue Funds are used to account for revenue sources that are legally restricted to expenditures for specific purposes. The School District accounts for its Special Education Fund - Major Fund in the special revenue fund.



SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The School District reports the following fund types:

**Building and Site Capital Projects Funds** - The Building and Site Capital Projects Funds are used to record bond proceeds or other revenue and the disbursement of funds specifically designated for acquiring new school sites, buildings, equipment, and for remodeling and repairs. The funds operate until the purpose for which they were created is accomplished. The School District has complied with the applicable provision of Section 1351a of the Revised School Code.

**Student Activities Agency Fund** - The School District maintains an Agency Fund to record the transactions of student groups for schools and school-related purposes. The funds are segregated and held in trust for the students.

**Assets, Liabilities, and Net Position or Equity**

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both district-wide and fund financial statements.

**Capital Assets** - Capital assets, which include land, buildings, equipment and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any asset susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Buses and other vehicles	5 years
Furniture and equipment	5-10 years

**Compensated Absences** - The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Long-term Obligations** - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

**Defined Benefit Plan** - For purposes of measuring the net pension and other postemployment benefit liability, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits and pension and other postemployment benefits expense, information about the fiduciary net position of the Michigan Public School Employees Retirement Systems (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.

**Fund Equity** - The fund balance classifications are reported on the extent to which a government is bound to observe constraints imposed on the use of the resources in governmental funds. The fund balances are classified as nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance represents amounts that are not in a spendable form. The School District's nonspendable fund balance represents inventories and prepaid expenditures. In the fund financial statements, governmental funds report restrictions on fund balances for amounts that are legally restricted by outside parties for a specific purpose. Committed fund balance represents funds formally set aside by the School District for a particular purpose. The use of committed funds would be approved by the Board of Education through the budget process or official board action.

Assigned fund balance would represent tentative management plans that are subject to change. The School District's intent would be to spend uncommitted/unassigned funds prior to the use of committed funds. When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

	General Fund	Special Education Fund	Total
Committed:			
Unemployment/sick/retirement	\$ 30,000	\$ 60,000	\$ 90,000
Distribution committed to local districts	<u>0</u>	<u>535,000</u>	<u>535,000</u>
 Total committed	 <u>\$ 30,000</u>	 <u>\$ 595,000</u>	 <u>\$ 625,000</u>
 Assigned:			
Technology	\$ 50,000	\$ 75,000	\$ 125,000
Multi-district consortium	45,000	0	45,000
Bus purchase	0	100,000	100,000
Facility	0	200,000	200,000
Medicaid	0	125,000	125,000
Local-districts - technology	<u>0</u>	<u>100,000</u>	<u>100,000</u>
 Total assigned	 <u>\$ 95,000</u>	 <u>\$ 600,000</u>	 <u>\$ 695,000</u>

**Deferred Outflows and Inflows of Resources**

**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. For district-wide financial statements, the School District reports deferred outflows of resources related to pensions and other postemployment benefits. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension and other postemployment benefits expense. Changes in assumptions relating to the net pension and other postemployment benefits liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension and other postemployment benefits contributions made after the measurement date. This amount will reduce the net pension and other postemployment benefits liability in the following year.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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. For district-wide financial statements, the School District reports deferred inflows of resources related to pensions and other postemployment benefits. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and other postemployment benefits expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to Section 147c state aid deferred to offset the deferred outflows related to Section 147c pension contributions subsequent to the measurement period.

**Use of Estimates** - The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. 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.

**Property taxes** - For the taxpayers of the School District, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

**State Aid** - For the fiscal year ended June 30, 2018, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide 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 year ended June 30, 2018, the foundation allowance was based on the average pupil membership counts taken in February and September of 2017.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2017 - August 2018. The local revenue is recognized as outlined in Note 1. Amounts receivable from the State of Michigan at June 30, 2018 relating to state aid is \$2,134,779.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Events Occurring After Reporting Date**

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying Independent Auditor's Report, which is the date the financial statements were available to be issued.

**NOTE 2 - BUDGETS**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of school districts prior to the expenditure of monies in a fiscal year.

Shiawassee Regional Educational Service District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board of Education a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board of Education throughout the year. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end and therefore cancels all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

**NOTE 3 - CASH AND INVESTMENTS**

Some statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and Investments	\$ 9,544,044	\$ 18,120	\$ 9,562,164

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 8,878,450
Investment in interlocal agreement investment pools (i.e. MILAF) with a weighted average maturity of 1 day	683,714
Total	\$ 9,562,164

The School District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. Two of the pooled investment funds utilized by the School District is the Michigan investment Liquid Assets Fund Cash Mgmt Class and Max Class (MILAF). These are external pooled investments funds of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2018, the fair value of the School District's investments is the same as the value of the pool shares.

MILAF Cash Mgmt Class and Max Class funds are considered external investment pools as defined by the GASB and as such 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.

Interest Rate Risk

In accordance with its investment policy, the School 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.

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). As of June 30, 2018, the School District's investment in the investment pool was rated AAA by Standard & Poor's.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2018, \$9,566,741 of the School District's bank balance of \$10,422,012 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The balance of the sweep accounts was used to purchase short-term federal debt securities.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

Fair Value Measurement

The School 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 School District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

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

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

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in governmental capital assets follows:

	Balance June 30, 2017	Additions	Disposals and Adjustments	Balance June 30, 2018
Assets not being depreciated:				
Land	\$ 13,138	\$ 0	\$ 0	\$ 13,138
Capital assets being depreciated:				
Buildings and improvements	5,775,520	8,649	0	5,784,169
Land improvements	243,715	0	0	243,715
Equipment and furniture	1,660,305	0	0	1,660,305
Vehicles	3,045,367	204,402	(448,129)	2,801,640
Subtotal	<u>10,724,907</u>	<u>213,051</u>	<u>(448,129)</u>	<u>10,489,829</u>
Accumulated depreciation:				
Buildings and improvements	2,239,155	129,358	0	2,368,513
Land improvements	84,632	10,785	0	95,417
Equipment and furniture	1,636,868	15,526	0	1,652,394
Vehicles	2,071,172	220,799	(448,129)	1,843,842
Subtotal	<u>6,031,827</u>	<u>376,468</u>	<u>(448,129)</u>	<u>5,960,166</u>
Net capital assets being depreciated	<u>4,693,080</u>	<u>(163,417)</u>	<u>0</u>	<u>4,529,663</u>
Net capital assets	<u>\$ 4,706,218</u>	<u>\$ (163,417)</u>	<u>\$ 0</u>	<u>\$ 4,542,801</u>

Depreciation expense for fiscal year ended June 30, 2018 was \$376,468. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.



SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

A summary of interfund receivable and payable balances at June 30, 2018 are as follows:

	<u>Payables</u>
	<u>Special Education</u>
Receivables   General	<u>\$ 1,169,277</u>

A summary of interfund transfers made during the year ended June 30, 2018 are as follows:

	<u>Transfers Out</u>
	<u>Special Education</u>
Transfers In   General	<u>\$ 1,125,000</u>

These interfund receivable and payable balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur; (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2018 consist of accounts (fees), intergovernmental grants and interest.

A summary of the intergovernmental receivables (due from other governmental units) follows:

State aid and grants	\$ 2,134,779
Federal grants	<u>259,630</u>
	<u>\$ 2,394,409</u>

**NOTE 7 - UNEARNED REVENUE**

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also reflect unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, grant and categorical aid payments received prior to meeting all eligibility requirements amounted to \$4,816,786.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 8 - LONG-TERM DEBT**

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2018:

	Balance June 30, 2017	Additions	Retirements and Payments	Balance June 30, 2018	Amount Due Within One Year
Compensated absences	\$ 189,812	\$ 26,793	\$ 0	\$ 216,605	\$ 0

Compensated absences include unused sick pay. Unused sick pay is calculated using the termination payoff rate of \$20 for eligible employees times the number of unused days (maximum 120 days). At June 30, 2018, the amount of \$216,605 has been recorded in the district-wide financial statements.

**NOTE 9 - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical claims and participates in the SET-SEG risk pool for claims relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

The SET-SEG shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

All non-union District employees have an option to participate in the District's self-funded, comprehensive medical care, dental and vision benefits program. The cost of medical care is paid out of employee and employer contributions. The District has contracted with EHIM, a third-party administrator, to provide administrative services for this health care benefits program and a deposit has been established with an ongoing \$85,000 balance to cover health costs, \$20,000 to cover dental benefits and \$3,000 to cover vision costs.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**

**Plan Description**

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

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 of the system.

**Benefits Provided - Overall**

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

<u>Plan Name</u>	<u>Plan Type</u>	<u>Plan Status</u>
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

**Benefits Provided - Pension**

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

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Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Pension Reform 2010**

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

**Pension Reform 2012**

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

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

**Option 1** – Members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic plan members: 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

**Option 2** – Members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
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**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Option 3** – Members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

**Option 4** – Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

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

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

**Pension Reform of 2017**

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan is 6%. Further, the law provides that, under certain conditions, the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

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**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Benefits Provided – Other postemployment benefit (OPEB)**

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 health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus plan members), have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

**Retiree Healthcare Reform of 2012**

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

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

**Regular Retirement (no reduction factor for age)**

Eligibility – A Basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60<sup>th</sup> birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
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**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

Annual Amount – The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member’s pension is determined by their pension election under PA 300 of 2012.

**Member Contributions**

Depending on the plan selected, member contributions range from 0% - 7% for pension and 0% - 3% for other postemployment benefits. Plan members electing the defined contribution plan are not required to make additional contributions.

**Employer Contributions**

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

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

For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of September 30, 2016 valuation will be amortized over a 22-year period for fiscal 2017.

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

	Pension	Other postemployment benefit
October 1, 2016 - September 30, 2017	15.27% - 19.03%	5.69% - 5.91%
October 1, 2017 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%

The School District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately \$3,399,000, with \$3,165,000 specifically for the Defined Benefit Plan.

The School District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately \$896,000, with \$860,000 specifically for the Defined Benefit Plan.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

These amounts, for both pension and OPEB benefit, include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (100% for pension and 0% for OPEB).

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

**Pension Liabilities**

At June 30, 2018, the School District reported a liability of \$32,158,350 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the School District's proportion was 0.12410 and 0.12333 percent.

*MPSERS (Plan) Net Pension Liability - As of September 30, 2017:*

MPSERS (Plan) Non-University Employers:	September 30, 2017	September 30, 2016
Total Pension Liability	\$ 73,501,296,000	\$ 67,355,988,000
Plan Fiduciary Net Position	\$ 47,011,783,000	\$ 42,382,361,000
Net Pension Liability	\$ 26,489,513,000	\$ 24,973,627,000
Proportionate share	0.12410 %	0.12333 %
Net Pension liability for the School District	\$ 32,158,350	\$ 30,770,702

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

For the year ended June 30, 2018, the School District recognized pension expense of approximately \$3,166,000.



SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
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**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences between expected and actual experience	\$ 279,478	\$ (157,794)
Net difference between projected and actual earnings on pension plan investments	0	(1,537,381)
Changes in assumptions	3,523,203	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,027,516	(56,056)
Unearned revenue related to pension portion of section 147 c	0	(1,274,696)
Reporting Unit contributions subsequent to the measurement date	<u>2,646,077</u>	<u>0</u>
<b>Total</b>	<u>\$ 7,476,274</u>	<u>\$ (3,025,927)</u>

\$2,646,077, reported as deferred outflows of resources related to pensions resulting from School District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

<b>Year Ended June 30</b>	<u>Amount</u>
2019	\$ 970,731
2020	1,473,499
2021	673,232
2022	(38,496)
	<u>\$ 3,078,966</u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
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**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

**OPEB Liabilities**

At June 30, 2018, the School District reported a liability of \$11,026,665 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The School District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the School District's proportion was 0.12452 and 0.12452 percent.

MPSERS (Plan) Non-University Employers:	September 30, 2017
Total Pension Liability	\$ 14,175,547,000
Plan Fiduciary Net Position	\$ 5,177,775,000
Net Pension Liability	\$ 8,997,772,000
Proportionate share	0.12452 %
Net Pension liability for the School District	\$ 11,026,665

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the School District recognized OPEB expense of approximately \$509,000.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
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**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>
Difference between expected and actual experience	\$ 0	\$ (117,402)
Net difference between projected and actual plan investment	0	(255,380)
Changes of assumption	0	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	23,234	0
School District's contributions subsequent to the measurement date	627,372	0
<b>Total</b>	<b>\$ 650,606</b>	<b>\$ (372,782)</b>

\$627,372, reported as deferred outflows of resources related to OPEB resulting from School District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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

<b>Year Ended September 30</b>	<b>Amount</b>
2019	\$ (84,891)
2020	(84,891)
2021	(84,891)
2022	(84,891)
2023	(9,984)
	<b>\$ (349,548)</b>

**Actuarial Assumptions**

**Investment rate of return for Pension** - 7.5% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus plan).

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
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For the Year Ended June 30, 2018

**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Investment rate of return for OPEB** - 7.5% a year, compounded annually net of investment and administrative expenses

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

**Inflation** - 3.0%

**Mortality assumptions** - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2025 using a projection scale BB (for men, 80% of the table rates were used and for women, 70% of the table rates were used).

**Experience study** - The annual actuarial valuation report of the System used for these statements is dated September 30, 2016. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with September 30, 2014 valuation.

**The long-term expected rate of return on pension and other postemployment benefit plan investments** - The rate was 7.5% (7% Pension Plus Plan), and the other postemployment benefit rate was 7.5% net of investment and administrative expenses 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.

**Cost of Living Pension Adjustments** – 3.0% annual non-compounded for MIP members

**Healthcare cost trend rate for other postemployment benefit** – 7.5% for year one and graded to 3.5% to year twelve.

**Additional assumptions for other postemployment benefit only – Applies to individuals hired before September 4, 2012:**

Opt Out Assumption - 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 coverage 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

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
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**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

The target asset allocation at September 30, 2017 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Investment Category</b>	<b>Target Allocation*</b>	<b>Long-Term Expected Real Rate of Return*</b>
Domestic Equity Pools	28.0%	5.6%
Alternate Investment Pools	18.0%	8.7%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	(0.1)%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short Term Investment Pools	2.0%	(0.9)%
<b>Total</b>	<b>100.0%</b>	

\*Long term rate of return are net of administrative expenses and 2.3% inflation.

**Pension Discount rate** - The discount rate used to measure the total pension liability was 7.5% (7% for Pension Plus Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current 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.

**OPEB Discount rate** - The discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school districts 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.

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**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

	<b>Pension</b>		
	<b>1% Decrease (6.5-6.0%)</b>	<b>Discount Rate (7.5-7.0%)</b>	<b>1% Increase (8.5-8.0%)</b>
School District's proportionate share of the net pension liability	<u>\$41,891,633</u>	<u>\$32,158,350</u>	<u>\$23,963,545</u>

**Sensitivity of the net OPEB liability to changes in the discount rate** - The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the Reporting Unit'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 point higher than the current rate:

	<b>Other postemployment benefit</b>		
	<b>1% Decrease (6.5%)</b>	<b>Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
School District's proportionate share of the net other postemployment benefit liability	<u>\$12,915,412</u>	<u>\$11,026,665</u>	<u>\$9,423,711</u>

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**NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Sensitivity to the net OPEB liability to changes in the healthcare cost trend rates** - The following presents the School District's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.5%), as well as what the School District's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<b>Other postemployment benefit</b>		
<b>1% Decrease (6.5% decreasing to 2.5%)</b>	<b>Healthcare cost trend rates (7.5% decreasing to 3.5%)</b>	<b>1% Increase (8.5% decreasing to 4.5%)</b>	
School District's proportionate share of the net OPEB liability	<u>\$9,338,103</u>	<u>\$11,026,665</u>	<u>\$12,943,910</u>

**Pension and OPEB Plan Fiduciary Net Position**

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2017 Comprehensive Annual Financial Report.

**Payable to the Pension and OPEB Plan** - At year end the School District is current on all required pension and other postemployment benefit plan payments. Amounts accrued at year end for accounting purposes are included in the financial statements as a liability titled accrued payroll and payroll liabilities. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

**Other Information** - On December 20, 2017, the Michigan Supreme Court affirmed that Public Act 75 of 2010 is unconstitutional as it substantially impaired the employee's employment contracts by involuntarily reducing the employee's wages by 3%. As a result, the funds collected pursuant to Public Act 75 before the effective date of Public Act 300 of 2012, must be refunded to the employees in accordance with the Michigan Court of Claims judgment on the aforementioned court case. Effective September 30, 2017, the 3% contribution collected under Public Act 75, which amounted to approximately \$554 million (including interest), was posted as a liability on the plan's CAFR report.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
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**NOTE 11 - GRANTS**

The School District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the School District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the School District administration believes such disallowance, if any, would be immaterial.

**NOTE 12 - NEW ACCOUNTING STANDARDS**

For the year ended June 30, 2018, the School District implemented the following new pronouncements:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

**Summary:**

GASB Statement No. 75 requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

The restatement of the beginning of the year net position follows:

	Governmental activities
Net position (deficit) as previously stated, July 1, 2017	\$ (15,306,122)
Adoption of GASB Statement 75:	
Net other postemployment benefit liability	(11,630,689)
Deferred outflows	875,526
Deferred inflows	(360,339)
	(11,115,502)
Net position as restated, July 1, 2017	\$ (26,421,624)



SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 13 - TAX ABATEMENTS**

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

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

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

Municipality	Taxes Abated
Corunna	\$ 2,576
Durand	8,794
Owosso	52,808
Perry	797
	\$ 64,975

The School District is considered to be an "in-formula" district. The property tax revenue that is abated for the special education is considered when the State of Michigan determines the School District's funding under section 56 of the State School Aid Act.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 14 - UPCOMING ACCOUNTING PRONOUNCEMENT**

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

Governmental Accounting Standards Board (GASB) Statement No. 87, Leases, was issued by the GASB in June 2017 and will be effective for the School District's 2021 year end. The objective of this Statement is to increase 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 financing of the right to use the 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.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Required Supplemental Information  
Budgetary Comparison Schedule - General Fund  
For the Year Ended June 30, 2018

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Local sources	\$ 773,570	\$ 1,200,508	\$ 967,053	\$ (233,455)
State sources	5,013,270	6,758,536	5,626,046	(1,132,490)
Federal sources	355,772	366,554	391,875	25,321
Interdistrict and other sources	1,877,698	1,852,152	1,827,803	(24,349)
Total revenues	<u>8,020,310</u>	<u>10,177,750</u>	<u>8,812,777</u>	<u>(1,364,973)</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	94,614	111,410	109,524	1,886
Added needs	678,760	717,967	656,553	61,414
Support services:				
Pupil	377,678	500,948	497,021	3,927
Instructional staff	2,496,047	2,556,044	2,106,911	449,133
General administrative	472,221	489,589	467,067	22,522
Business services	511,142	692,900	581,832	111,068
Operations and maintenance	283,757	314,921	293,501	21,420
Transportation	1,000	1,078	1,078	0
Central services	1,492,896	1,373,483	1,303,383	70,100
Community services	465,138	773,178	502,315	270,863
Improvements	0	3,529	0	3,529
Total expenditures	<u>6,873,253</u>	<u>7,535,047</u>	<u>6,519,185</u>	<u>1,015,862</u>
Excess (deficiency) of revenues over expenditures	<u>1,147,057</u>	<u>2,642,703</u>	<u>2,293,592</u>	<u>(349,111)</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	1,585,968	1,125,000	1,125,000	0
Transfers out to other local districts	<u>(3,021,895)</u>	<u>(4,328,488)</u>	<u>(3,428,335)</u>	<u>900,153</u>
Total other financing sources (uses)	<u>(1,435,927)</u>	<u>(3,203,488)</u>	<u>(2,303,335)</u>	<u>900,153</u>
Net change in fund balance	(288,870)	(560,785)	(9,743)	551,042
Fund balance - beginning of year	<u>1,442,834</u>	<u>1,442,834</u>	<u>1,442,834</u>	<u>0</u>
Fund balance - end of year	<u>\$ 1,153,964</u>	<u>\$ 882,049</u>	<u>\$ 1,433,091</u>	<u>\$ 551,042</u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
 Required Supplemental Information  
 Budgetary Comparison Schedule - Special Education Fund  
 For the Year Ended June 30, 2018

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Local sources	\$ 7,915,716	\$ 8,112,498	\$ 8,140,993	\$ 28,495
State sources	6,331,165	6,245,554	6,295,239	49,685
Federal sources	3,199,354	3,031,068	3,087,591	56,523
Interdistrict and other sources	620,740	685,993	679,262	(6,731)
Total revenues	<u>18,066,975</u>	<u>18,075,113</u>	<u>18,203,085</u>	<u>127,972</u>
<u>Expenditures</u>				
Instruction:				
Added needs	4,201,252	5,288,984	4,638,073	650,911
Support services:				
Pupil	7,217,587	7,357,584	7,346,259	11,325
Instructional staff	1,724,701	1,533,412	1,473,414	59,998
School administrative	179,982	465,834	462,757	3,077
Business services	100,073	36,887	28,719	8,168
Operations and maintenance	406,841	370,437	366,271	4,166
Transportation	2,024,048	2,122,417	2,044,477	77,940
Central services	241,273	134,881	131,354	3,527
Community services	60,286	55,495	58,239	(2,744)
Improvements	0	18,000	17,362	638
Total expenditures	<u>16,156,043</u>	<u>17,383,931</u>	<u>16,566,925</u>	<u>817,006</u>
Excess (deficiency) of revenues over expenditures	<u>1,910,932</u>	<u>691,182</u>	<u>1,636,160</u>	<u>944,978</u>
<u>Other Financing Sources (Uses)</u>				
Transfers out to other local districts	(1,071,000)	(1,081,000)	(1,063,040)	17,960
Operating transfers out	<u>(1,109,952)</u>	<u>(1,132,952)</u>	<u>(1,125,000)</u>	<u>7,952</u>
Total other financing sources (uses)	<u>(2,180,952)</u>	<u>(2,213,952)</u>	<u>(2,188,040)</u>	<u>25,912</u>
Net change in fund balance	(270,020)	(1,522,770)	(551,880)	970,890
Fund balance - beginning of year	<u>5,079,072</u>	<u>5,079,072</u>	<u>5,079,072</u>	<u>0</u>
Fund balance - end of year	<u>\$ 4,809,052</u>	<u>\$ 3,556,302</u>	<u>\$ 4,527,192</u>	<u>\$ 970,890</u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
 Required Supplemental Information  
 Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability  
 Michigan Public School Employees Retirement Plan  
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.12410 %	0.12333 %	0.11889 %	0.11619 %
Reporting unit's proportionate share of net pension liability	\$32,158,350	\$30,770,702	\$29,039,618	\$25,591,951
Reporting unit's covered-employee payroll*	\$10,370,198	\$10,610,457	\$ 9,947,232	\$ 9,941,001
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	32.24730 %	34.48234 %	34.25400 %	38.84425 %
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	64.21000 %	63.27000 %	63.17000 %	66.20000 %

\* The employer's covered payroll is defined by GASB 82, *Pension Issues - an amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 68 in 2015, the 10 year history will be provided prospectively until a full 10 year history is shown.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
 Required Supplemental Information  
 Schedule of the Reporting Unit's Pension Contributions  
 Michigan Public School Employees Retirement Plan  
Last 10 Reporting Unit Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 3,416,467	\$ 3,104,321	\$ 2,293,598	\$ 1,804,455
Contributions in relation to statutorily required contributions*	<u>3,416,467</u>	<u>3,104,321</u>	<u>2,293,598</u>	<u>1,804,455</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Reporting unit's covered-employee payroll**	\$10,706,969	\$10,279,216	\$ 9,947,232	\$ 9,941,001
Contributions as a percentage of covered-employee payroll	31.91 %	30.20 %	23.06 %	18.15 %

\* Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

\*\* The employer's covered payroll is defined by GASB 82, *Pension Issues - an amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based. For non-university employers, covered payroll for both pensions and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 68 in 2015, the 10 year history will be provided prospectively until a full 10 year history is shown.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
 Required Supplemental Information  
 Schedule of the Reporting Unit's Proportionate Share of the Net OPEB Liability  
 Michigan Public School Employees Retirement Plan  
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

		<u>2017</u>
Reporting unit's proportion of net OPEB liability (%)		0.12452 %
Reporting unit's proportionate share of net OPEB liability	\$	11,026,665
Reporting unit's covered-employee payroll*	\$	10,370,198
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll		94.04655 %
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)		36.39000 %

\* The employer's covered payroll is defined by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 75 in 2018, the 10 year history will be provided prospectively until a full 10 year history is shown.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
 Required Supplemental Information  
 Schedule of the Reporting Unit's OPEB Contributions  
 Michigan Public School Employees Retirement Plan  
Last 10 Reporting Unit Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2018</u>
Statutorily required contributions	\$ 860,137
Contributions in relation to statutorily required contributions*	<u>860,137</u>
Contribution deficiency (excess)	<u>\$ 0</u>
Reporting unit's covered-employee payroll**	\$10,706,969
Contributions as a percentage of covered-employee payroll	8.03 %

\* Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

\*\* The employer's covered payroll is defined by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 75 in 2018, the 10 year history will be provided prospectively until a full 10 year history is shown.



SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to Required Supplementary Information  
For the Year Ended June 30, 2018

**Changes of benefit terms:** There were no changes of benefit terms in 2018.

**Changes of assumptions:** Assumption changes are a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
 Other Supplemental Information  
 Balance Sheet  
 Nonmajor Governmental Fund  
June 30, 2018

	<u>Assets</u>	<u>Capital Projects Fund</u>
Cash and investments		\$ <u>361,837</u>
	<u>Fund Balance</u>	
Restricted for capital projects		\$ <u>361,837</u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
 Other Supplemental Information  
 Statement of Revenues, Expenditures  
 and Changes in Fund Balance - Nonmajor Governmental Fund  
For the Year Ended June 30, 2018

	<u>Capital Projects Fund</u>
<u>Revenues</u>	
Local sources	<u>\$ 2,392</u>
Net change in fund balance	2,392
Fund balance - beginning of year	<u>359,445</u>
Fund balance - end of year	<u><u>\$ 361,837</u></u>



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

October 8, 2018

Board of Education  
Shiawassee Regional Educational Service District  
Owosso, Michigan

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Shiawassee Regional Educational Service District (School District), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise Shiawassee Regional Educational Service District's basic financial statements and have issued our report thereon dated October 8, 2018.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Shiawassee Regional Educational Service District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Shiawassee Regional Educational Service District's internal control. Accordingly, we do not express an opinion on the effectiveness of Shiawassee Regional Educational Service District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Board of Education  
Shiawassee Regional Educational Service District  
October 8, 2018

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Shiawassee Regional Educational Service District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Weinlander Fitzhugh*



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
THE UNIFORM GUIDANCE

October 8, 2018

Board of Education  
Shiawassee Regional Educational Service District  
Owosso, Michigan

### **Report on Compliance for Each Major Federal Program**

We have audited Shiawassee Regional Educational Service District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Shiawassee Regional Educational Service District's major federal programs for the year ended June 30, 2018. Shiawassee Regional Educational Service District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Shiawassee Regional Educational Service District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Shiawassee Regional Educational Service District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Shiawassee Regional Educational Service District's compliance.



Board of Education  
Shiawassee Regional Educational Service District  
October 8, 2018

## ***Opinion on Each Major Federal Program***

In our opinion, Shiawassee Regional Educational Service District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

## **Report on Internal Control Over Compliance**

Management of Shiawassee Regional Educational Service District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Shiawassee Regional Educational Service District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Shiawassee Regional Educational Service District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Weinlander Fitzhugh*

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
 Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018

**SECTION I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified opinion

Internal control over financial reporting:

- Material weakness(es) identified?  YES  NO
- Significant deficiency(ies) identified?  YES  NONE REPORTED

Noncompliance material to financial statements noted?  YES  NO

**Federal Awards**

Internal Control over major programs:

- Material weakness(es) identified?  YES  NO
- Significant deficiency(ies) identified?  YES  NONE REPORTED

Type of auditor's report issued on compliance of major programs: Unmodified opinion

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  YES  NO

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Handicapped Preschool and School Program
84.173	Preschool grant

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?  YES  NO

**SECTION II - Financial Statement Findings**

There are no matters reported.

**SECTION III - Federal Award Findings and Questioned Costs**

There are no matters reported.



SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Summary Schedule of Prior Year Findings  
For the Year Ended June 30, 2018

**2017-001**

Audit Finding

The District incurred unfavorable budget variances in the Special Education Fund. These variances resulted in a violation of the Uniform Accounting and Budgeting Act, Michigan Public Act of 1975 (Act).

Corrective Action Taken

The School District implemented measures to monitor its financial activity and amend its budgets when necessary, in accordance with requirements of the Act.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2018

Federal Grantor Pass Through Grantor <u>Program Title Grant Number</u>	Federal CFDA <u>Number</u>	Approved Grant Award <u>Amount</u>	(Memo Only) Prior Year <u>Expenditures</u>	Accrued (Deferred) Revenue <u>July 1, 2017</u>	Adjustments and <u>Transfers</u>	Current Year Receipts <u>(Cash Basis)</u>	Current Year <u>Expenditures</u>	Accrued (Deferred) Revenue <u>June 30, 2018</u>	Payments to <u>Subrecipients</u>
<b><u>CLUSTERS:</u></b>									
IDEA Cluster Programs:									
U.S. Department of Education									
Passed through Michigan Department of Education:									
Handicapped Preschool & School Program	84.027								
PL 94-142 Flowthrough:									
Project 180450-1718		\$ 2,716,660	\$ -	\$ -	\$ -	\$ 2,716,660	\$ 2,716,660	\$ -	\$ -
Project 170450-1617		2,749,672	2,749,672	615,148	-	615,148	-	-	-
Project 160450-1516		2,674,307	6,090	6,090	-	6,090	-	-	-
Total		<u>8,140,639</u>	<u>2,755,762</u>	<u>621,238</u>	<u>-</u>	<u>3,337,898</u>	<u>2,716,660</u>	<u>-</u>	<u>-</u>
State Initiated / Competitive:									
Project 180480-1718EOSD		<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>	<u>-</u>
State Initiated / Department:									
Project 180491-1718TS		58,000	-	-	-	58,000	58,000	-	-
Project 170490-1617TS		<u>58,000</u>	<u>58,000</u>	<u>32,626</u>	<u>-</u>	<u>32,626</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal CFDA #84.027		<u>8,306,639</u>	<u>2,813,762</u>	<u>653,864</u>	<u>-</u>	<u>3,478,524</u>	<u>2,824,660</u>	<u>-</u>	<u>-</u>
Preschool Grant									
P.L. 94-142 Preschool Incentive:									
Project 180460-1718		108,403	-	-	-	-	-	-	-
Project 170460-1617		108,854	813	813	-	41,060	77,169	36,922	-
Project 160460-1516		<u>105,703</u>	<u>69,436</u>	<u>23,517</u>	<u>-</u>	<u>54,250</u>	<u>30,733</u>	<u>-</u>	<u>-</u>
Subtotal CFDA #84.173		<u>322,960</u>	<u>70,249</u>	<u>24,330</u>	<u>-</u>	<u>95,310</u>	<u>107,902</u>	<u>36,922</u>	<u>-</u>
Total For IDEA Cluster Programs		<u>8,629,599</u>	<u>2,884,011</u>	<u>678,194</u>	<u>-</u>	<u>3,573,834</u>	<u>2,932,562</u>	<u>36,922</u>	<u>-</u>

See accompanying notes to schedule of expenditures of federal awards.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2018

Federal Grantor Pass Through Grantor <u>Program Title Grant Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2017</u>	<u>Adjustments and Transfers</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Current Year Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2018</u>	<u>Payments to Subrecipients</u>
<b><u>OTHER FEDERAL AWARDS:</u></b>									
U.S. Department of Education:									
Passed through Michigan Department of Education:									
Infants and Toddlers									
Infants and Toddler Formula Grant:									
Project 181340-1718	84.181	\$ 106,106	\$ -	\$ -	\$ -	\$ 104,579	\$ 105,841	\$ 1,262	\$ -
Project 171340-1617		102,035	93,855	6,915	-	6,915	-	-	-
		<u>208,141</u>	<u>93,855</u>	<u>6,915</u>	<u>-</u>	<u>111,494</u>	<u>105,841</u>	<u>1,262</u>	<u>-</u>
RTT - Trusted Advisors									
Project 144740-1718	84.412	35,230	-	-	-	6,454	7,480	1,026	-
Project 144720-1617		36,850	-	-	-	32,043	32,043	-	-
		<u>72,080</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,497</u>	<u>39,523</u>	<u>1,026</u>	<u>-</u>
Total non cluster programs passed through MDE		<u>280,221</u>	<u>93,855</u>	<u>6,915</u>	<u>-</u>	<u>149,991</u>	<u>145,364</u>	<u>2,288</u>	<u>-</u>
Passed through Genesee Intermediate School District:									
Vocational Education - Basic Grants to States									
Vocational Education Regional Allocation:									
Project 183520-181215	84.048	222,839	-	-	-	42,975	222,839	179,864	-
Project 173520-171215		229,539	219,109	111,791	-	111,791	-	-	-
		<u>452,378</u>	<u>219,109</u>	<u>111,791</u>	<u>-</u>	<u>154,766</u>	<u>222,839</u>	<u>179,864</u>	<u>-</u>
Total non cluster passed through Genesee Intermediate School District		<u>452,378</u>	<u>219,109</u>	<u>111,791</u>	<u>-</u>	<u>154,766</u>	<u>222,839</u>	<u>179,864</u>	<u>-</u>
Passed through Clinton County RESA:									
Homeless Education Grant									
McKinney Vento									
Project 182320-1718	84.196A	379	-	-	-	379	379	-	-

See accompanying notes to schedule of expenditures of federal awards.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2018

Federal Grantor Pass Through Grantor <u>Program Title Grant Number</u>	Federal CFDA <u>Number</u>	Approved Grant Award <u>Amount</u>	(Memo Only) Prior Year <u>Expenditures</u>	Accrued (Deferred) Revenue <u>July 1, 2017</u>	Adjustments and <u>Transfers</u>	Current Year Receipts <u>(Cash Basis)</u>	Current Year <u>Expenditures</u>	Accrued (Deferred) Revenue <u>June 30, 2018</u>	Payments to <u>Subrecipients</u>
U.S. Department of Health and Human Services Passed through Michigan Community Health Medicaid Assistance Program Title XIX Medicaid Administrative Outreach	93.778	\$ 49,982	\$ 49,982	\$ -	\$ -	\$ 30,068	\$ 42,028	\$ 11,960	\$ -
Total non cluster programs passed through Michigan Community Health		<u>49,982</u>	<u>49,982</u>	<u>-</u>	<u>-</u>	<u>30,068</u>	<u>42,028</u>	<u>11,960</u>	<u>-</u>
U.S. Employment & Training Administration Passed through GSMW WDASOM WIOA In School Youth Services	17.259								
425-WIA-18		100,000	-	-	-	90,955	99,996	9,041	-
425-WIA-17		<u>100,000</u>	<u>100,000</u>	<u>12,600</u>	<u>-</u>	<u>12,600</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total programs passed through U.S. Employment & Training Administration		<u>200,000</u>	<u>100,000</u>	<u>12,600</u>	<u>-</u>	<u>103,555</u>	<u>99,996</u>	<u>9,041</u>	<u>-</u>
U.S. Department of Education Rural Education Achievement Program	84.358								
S358A170638		27,384	-	-	-	-	19,555	19,555	-
S358A168313		<u>25,682</u>	<u>15,625</u>	<u>-</u>	<u>-</u>	<u>9,961</u>	<u>9,961</u>	<u>-</u>	<u>-</u>
		<u>53,066</u>	<u>15,625</u>	<u>-</u>	<u>-</u>	<u>9,961</u>	<u>29,516</u>	<u>19,555</u>	<u>-</u>
Total Federal Financial Assistance		<u>\$ 9,665,625</u>	<u>\$ 3,362,582</u>	<u>\$ 809,500</u>	<u>\$ -</u>	<u>\$ 4,022,554</u>	<u>\$ 3,472,684</u>	<u>\$ 259,630</u>	<u>\$ -</u>

See accompanying notes to schedule of expenditures of federal awards.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT  
Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Shiawassee Regional Educational Service District under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Shiawassee Regional Educational Service District, it is not intended to and does not present the financial position or changes in net position of Shiawassee Regional Educational Service District.

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credit made in the normal course of business to amounts reported as expenditures.

The School District has elected not to use the 10 percent de minimus indirect cost rate to recover costs as allowed under the Uniform Guidance.

The School District does not have any subrecipients.

**NOTE 2 - OTHER DISCLOSURES**

Management has utilized the Cash Management System Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

**NOTE 3 - RECONCILIATION OF REVENUE REPORTED IN THE FINANCIAL STATEMENTS**

Total federal expenditures per Schedule of Expenditures of Federal Awards	\$ 3,472,684
Add:	
Prior year amount received after 60 days - Preschool Incentive	6,782
Revenues per financial statements - federal sources	<u>\$ 3,479,466</u>