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SHIAWASSEE REGIONAL EDUCATIONAL
SERVICE DISTRICT
OWOSSO, MICHIGAN

FINANCIAL STATEMENTS
JUNE 30, 2019

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WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

September 25, 2019

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, 2019 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, 2019 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
September 25, 2019

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
September 25, 2019

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2019, 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, 2019

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, 2019.

Financial Highlights

The School District's net position decreased by \$527,999 or 2%. Program revenues were \$13,512,598 or 46% of total revenues, and general revenues were \$15,910,706 or 54%.

The General Fund reported a positive fund balance of \$1,425,527. The Special Education Fund reported a positive fund balance of \$7,047,528.

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 and Special Education 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, 2019

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, 2019

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, 2019 and 2018:

Exhibit A	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
Assets		
Current and other assets	\$ 15,457,272	\$ 13,060,544
Capital assets - net of accumulated depreciation	4,178,466	4,542,801
Total assets	<u>19,635,738</u>	<u>17,603,345</u>
Deferred Outflows of Resources		
Related to OPEB	1,872,067	650,606
Related to pensions	12,465,379	7,476,274
Total deferred outflows of resources	<u>14,337,446</u>	<u>8,126,880</u>
Liabilities		
Current liabilities	6,619,533	6,738,424
Long-term liabilities	47,879,883	43,401,620
Total liabilities	<u>54,499,416</u>	<u>50,140,044</u>
Deferred Inflows of Resources		
Related to pensions	4,297,229	3,025,927
Related to OPEB	2,264,307	372,782
Total deferred inflows of resources	<u>6,561,536</u>	<u>3,398,709</u>
Net Position		
Net investment in capital assets	4,178,466	4,542,801
Restricted	364,684	361,837
Unrestricted	<u>(31,630,918)</u>	<u>(32,713,166)</u>
Total net position	<u>\$ (27,087,768)</u>	<u>\$ (27,808,528)</u>

The analysis above focuses on net position (see Exhibit A). The School District's net position of governmental activities was \$(27,087,768) at June 30, 2019. Investment in property and equipment, net of related debt totaling \$4,178,466, 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.

The \$(31,630,918) 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.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Management's Discussion & Analysis
For the Year Ended June 30, 2019

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 \$37,601,120 for 2019 and \$32,158,350 for 2018.

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 \$10,072,517 for 2019 and \$11,026,665 for 2018.

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, 2019 and 2018.

Exhibit B	Governmental Activities	
	2019	2018
Revenues		
Program revenue:		
Charges for services	\$ 3,568,365	\$ 3,144,460
Grants and categoricals	9,944,233	9,985,699
General revenue:		
Property taxes	8,953,707	7,490,872
State aid	6,209,213	5,711,526
Other	747,786	739,684
Total revenues	<u>29,423,304</u>	<u>27,072,241</u>
Function/Program Expenses		
Instruction	5,411,171	5,589,922
Support	18,671,539	17,423,464
Community services	843,462	560,554
Capital outlay	33,577	17,362
Transfer out to other local districts	4,627,219	4,491,375
Depreciation (unallocated)	364,335	376,468
Total expenses	<u>29,951,303</u>	<u>28,459,145</u>
Change in Net Position	<u>\$ (527,999)</u>	<u>\$ (1,386,904)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$29,951,303. Certain activities were partially funded from those who benefited from the programs, \$3,568,365, or by the other governments and organizations that subsidized certain programs with grants and categoricals of \$9,944,233. We paid for the remaining "public benefit" portion of our governmental activities with \$8,953,707 in taxes, \$6,209,213 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 \$527,999. The major reason was that an increase in student count resulted in an increase of services to be provided.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
 Management's Discussion & Analysis
For the Year Ended June 30, 2019

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 \$8,837,739, which is above last year's total of \$6,322,120. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2019 and 2018.

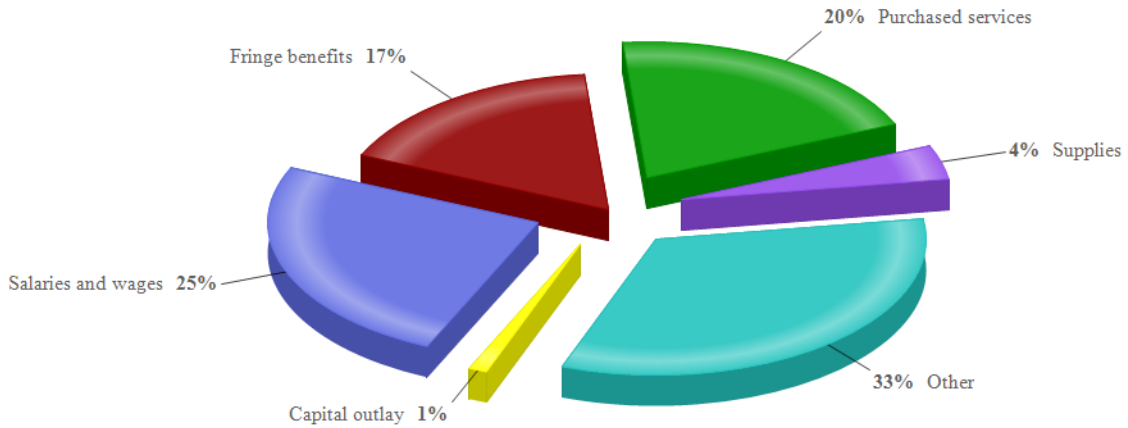
	Fund Balance <u>6/30/2019</u>	Fund Balance <u>6/30/2018</u>	Increase (Decrease)
General	\$ 1,425,527	\$ 1,433,091	\$ (7,564)
Special Education Fund - restated	7,047,528	5,775,951	1,271,577
Capital Projects	364,684	361,837	2,847
	<u>\$ 8,837,739</u>	<u>\$ 7,570,879</u>	<u>\$ 1,266,860</u>

- Our General Fund decrease is mainly attributable to increased retirement costs.
- Our Special Education Fund increased mainly due to increased property tax revenue due to new millage being passed.
- Our Capital Projects Fund increased due to no expenditures being made from this fund.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
 Management's Discussion & Analysis
 For the Year Ended June 30, 2019

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

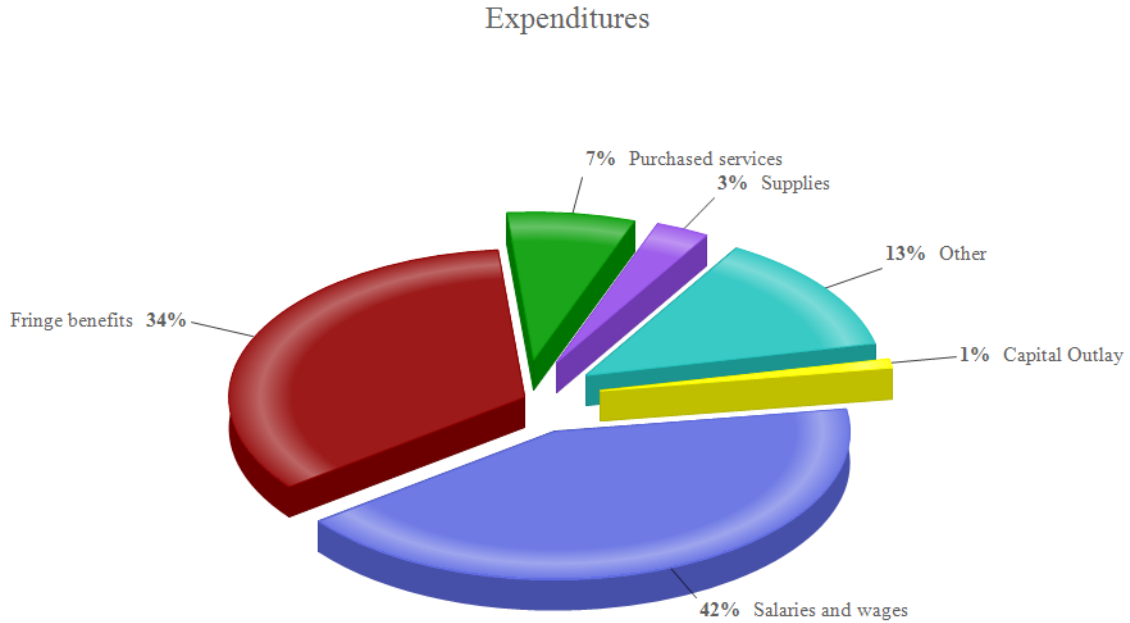


Expenditures by Object	2019	2018
Salaries and wages	\$ 2,698,009	\$ 2,595,964
Fringe benefits	1,853,697	1,733,264
Purchased services	2,088,837	1,222,150
Supplies	383,360	513,582
Capital outlay	91,228	3,839
Other	3,487,897	3,878,721
Total	<u>\$ 10,603,028</u>	<u>\$ 9,947,520</u>

Expenditures have increased by \$655,508 from the prior year mainly due to an increase in the number of grants and increased retirement costs.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
 Management's Discussion & Analysis
 For the Year Ended June 30, 2019

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	2019	2018
Salaries and wages	\$ 8,183,915	\$ 8,239,506
Fringe benefits	6,426,333	6,435,384
Purchased services	1,278,695	1,144,924
Supplies	497,493	472,609
Capital Outlay	38,061	252,698
Other	2,368,037	2,209,844
Total	<u>\$ 18,792,534</u>	<u>\$ 18,754,965</u>

Expenditures have increased by \$37,569 from the prior year mainly due to increased retirement costs.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Management's Discussion & Analysis
For the Year Ended June 30, 2019

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 \$1,753,791 to reflect more grants being received during the year.
- Actual revenue for the General Fund was \$1,922,471 less than budgeted revenues due to not all grant money being spent during the year.
- Budgeted expenditures for the General Fund were increased by \$1,029,837. This increase was due to more grants being received during the year.
- Actual expenditures for the General Fund were \$1,242,197 less than budget expenditures due to not all grant money being spent during the year.
- Budgeted revenues for the Special Education Fund were increased by \$1,894,533 due to an increase in property tax from increased millages.
- Actual revenue for the Special Education Fund was \$94,731 less than budgeted revenues due to not all grant money being spent during the year.
- Budgeted expenditures for the Special Education Fund were decreased by \$537,302. This was due to reduced staffing needs.
- Actual expenditures for the Special Education Fund were \$450,986 less than budget expenditures due to reduced staffing needs.

Capital Assets

At June 30, 2019, the School District had \$4,178,466 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 8% from last year.

	2019	2018
Land	\$ 13,138	\$ 13,138
Buildings and improvements	5,784,169	5,784,169
Land improvements	243,715	243,715
Equipment and furniture	1,024,884	1,660,305
Vehicles	2,664,232	2,801,640
Total capital assets	9,730,138	10,502,967
Less accumulated depreciation	5,551,672	5,960,166
Net capital assets	\$ 4,178,466	\$ 4,542,801

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Management's Discussion & Analysis
For the Year Ended June 30, 2019

No capital additions were noted in 2019.

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 2019-2020 fiscal year:

Foundation Allowance - No increase was budgeted for 2019-2020.

Retirement Rate - In 2019-20, the rate is anticipated to increase to 27.5%. However, the School District will be required to pay an additional 12.41% for all wages earned October 1, 2019 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, 2019

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and investments	\$ 10,973,996
Receivables - net:	
Accounts receivable	1,627,913
Due from other governmental units	2,561,588
Prepaid expenses	293,775
Capital assets less accumulated depreciation \$5,551,672	<u>4,178,466</u>
Total assets	<u>19,635,738</u>
<u>Deferred Outflows of Resources</u>	
Related to pensions	12,465,379
Related to OPEB	<u>1,872,067</u>
Total Deferred Outflows of Resources	<u>14,337,446</u>
<u>Liabilities</u>	
Accounts payable	168,469
Unearned revenue	4,577,163
Accrued payroll and payroll taxes	1,873,901
Long-term liabilities:	
Due in more than one year	206,246
Net pension liability	37,601,120
Net OPEB liability	<u>10,072,517</u>
Total liabilities	<u>54,499,416</u>
<u>Deferred Inflows of Resources</u>	
Related to pensions	4,297,229
Related to OPEB	<u>2,264,307</u>
Total deferred inflows of resources	<u>6,561,536</u>
<u>Net Position</u>	
Net investment in capital assets	4,178,466
Restricted for capital projects	364,684
Unrestricted	<u>(31,630,918)</u>
Total net position	<u>\$ (27,087,768)</u>

See accompanying notes to financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Statement of Activities
For the Year Ended June 30, 2019

	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	\$ 5,411,171	\$ 2,211,344	\$ 9,684,592	\$ 6,484,765
Support	18,671,539	1,278,022	259,641	(17,133,876)
Community services	843,462	78,999	0	(764,463)
Capital outlay	33,577	0	0	(33,577)
Transfer out to other local districts	4,627,219	0	0	(4,627,219)
Depreciation (unallocated)	364,335	0	0	(364,335)
	<u>\$ 29,951,303</u>	<u>\$ 3,568,365</u>	<u>\$ 9,944,233</u>	<u>(16,438,705)</u>
Total governmental activities				
General revenues:				
Taxes:				
Property taxes, levied for general purposes				8,953,707
State aid				6,209,213
Interest and investment earnings				66,928
Other				676,568
Gain on disposal of assets				4,290
				<u>15,910,706</u>
Total general revenues				
Change in net position				<u>(527,999)</u>
Net position - beginning of year				(27,808,528)
Prior period adjustment				<u>1,248,759</u>
Net position - beginning of year, restated				<u>(26,559,769)</u>
Net position - end of year				<u>\$ (27,087,768)</u>

See accompanying notes to financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Governmental Funds
Balance Sheet
June 30, 2019

	General	Special Education Fund	Other Nonmajor Governmental Funds	Total
<u>Assets</u>				
Cash and investments	\$ 3,752,906	\$ 6,856,406	\$ 364,684	\$ 10,973,996
Receivables - net:				
Accounts receivable	874,715	753,198	0	1,627,913
Due from other funds	1,119,292	0	0	1,119,292
Due from other governmental units	1,165,499	1,396,089	0	2,561,588
Prepaid expenditures	217,223	76,552	0	293,775
Total assets	\$ 7,129,635	\$ 9,082,245	\$ 364,684	\$ 16,576,564
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accounts payable	\$ 105,680	\$ 62,789	\$ 0	\$ 168,469
Due to other funds	0	1,119,292	0	1,119,292
Unearned revenue	4,350,190	226,973	0	4,577,163
Accrued payroll and payroll taxes	1,248,238	625,663	0	1,873,901
Total liabilities	5,704,108	2,034,717	0	7,738,825
<u>Fund Balance</u>				
Nonspendable - prepaid	217,223	76,552	0	293,775
Restricted for special education	0	4,285,217	0	4,285,217
Restricted for capital projects	0	0	364,684	364,684
Committed	30,000	595,000	0	625,000
Assigned	95,000	2,090,759	0	2,185,759
Unassigned	1,083,304	0	0	1,083,304
Total fund balance	1,425,527	7,047,528	364,684	8,837,739
Total liabilities and fund balance	\$ 7,129,635	\$ 9,082,245	\$ 364,684	\$ 16,576,564

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, 2019

Total fund balance - governmental funds	\$ 8,837,739
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	9,730,138
Accumulated depreciation	(5,551,672)
Deferred outflows used in governmental activities are not financial resources and therefore are not reported in governmental funds:	
Related to pensions	12,465,379
Related to OPEB	1,872,067
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Compensated absences	(206,246)
Net pension liability	(37,601,120)
Net OPEB liability	(10,072,517)
Deferred inflows used in governmental activities are not recognized as current resources and therefore are not reported in governmental funds:	
Related to pensions	(4,297,229)
Related to OPEB	(2,264,307)
Total net position - governmental activities	\$ (27,087,768)

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, 2019

	General	Special Education Fund	Other Nonmajor Governmental Funds	Total
<u>Revenues</u>				
Local sources	\$ 1,090,695	\$ 9,813,888	\$ 2,847	\$ 10,907,430
State sources	5,994,572	6,530,252	0	12,524,824
Federal sources	336,783	3,099,805	0	3,436,588
Interdistrict and other sources	2,059,108	620,166	0	2,679,274
Total revenues	<u>9,481,158</u>	<u>20,064,111</u>	<u>2,847</u>	<u>29,548,116</u>
<u>Expenditures</u>				
Instruction	737,899	4,375,879	0	5,113,778
Support services	5,689,122	11,974,098	0	17,663,220
Community services	794,648	48,814	0	843,462
Improvements	2,401	31,176	0	33,577
Total expenditures	<u>7,224,070</u>	<u>16,429,967</u>	<u>0</u>	<u>23,654,037</u>
Excess (deficiency) of revenues over expenditures	<u>2,257,088</u>	<u>3,634,144</u>	<u>2,847</u>	<u>5,894,079</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	1,114,306	0	0	1,114,306
Operating transfers out	0	(1,114,306)	0	(1,114,306)
Transfers out to other local districts	(3,378,958)	(1,248,261)	0	(4,627,219)
Total other financing sources (uses)	<u>(2,264,652)</u>	<u>(2,362,567)</u>	<u>0</u>	<u>(4,627,219)</u>
Net change in fund balance	<u>(7,564)</u>	<u>1,271,577</u>	<u>2,847</u>	<u>1,266,860</u>
Fund balance - beginning of year as previously stated	1,433,091	4,527,192	361,837	6,322,120
Prior period adjustment	0	1,248,759	0	1,248,759
Fund balance - beginning of year, restated	<u>1,433,091</u>	<u>5,775,951</u>	<u>361,837</u>	<u>7,570,879</u>
Fund balance - end of year	<u>\$ 1,425,527</u>	<u>\$ 7,047,528</u>	<u>\$ 364,684</u>	<u>\$ 8,837,739</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, 2019

Net change in fund balance - total governmental funds	\$ 1,266,860
<p>Amounts reported for governmental activities in the statements of activities are different because:</p> <p>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	(364,335)
Gain on disposal of assets	4,290
Proceeds from sale of assets	(4,290)
<p>Decreases in compensated absences are reported as an addition in expenditures when financial resources are used in the governmental fund in accordance with GASB Interpretation No. 6</p>	
	10,359
<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	(1,724,967)
OPEB related items	284,084
	(1,440,883)
Change in net position of governmental activities	\$ (527,999)

See accompanying notes to financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2019

	<u>Agency Fund</u>
<u>Assets</u>	
Cash and investments	\$ <u>15,862</u>
<u>Liabilities</u>	
Due to student groups	\$ <u>15,862</u>

See accompanying notes to financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2019

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, 2019

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, 2019

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, 2019

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, 2019

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	307,000	307,000
Facility	0	1,448,759	1,448,759
Medicaid	0	125,000	125,000
Local-districts - technology	0	100,000	100,000
Van purchase	<u>0</u>	<u>35,000</u>	<u>35,000</u>
 Total assigned	 <u>\$ 95,000</u>	 <u>\$ 2,090,759</u>	 <u>\$ 2,185,759</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, 2019

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, 2019, 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, 2019, the foundation allowance was based on the average pupil membership counts taken in February and September of 2018.

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 2018 - August 2019. The local revenue is recognized as outlined in Note 1. Amounts receivable from the State of Michigan at June 30, 2019 relating to state aid is \$2,238,139.

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, 2019

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, 2019

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	\$ 10,973,996	\$ 15,862	\$ 10,989,858

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

Deposits (checking and savings accounts, certificates of deposit)	\$ 10,290,384
Investment in interlocal agreement investment pools (i.e. MILAF) with a weighted average maturity of 1 day	699,474
Total	\$ 10,989,858

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, 2019, 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, 2019, 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, 2019, \$10,874,414 of the School District's bank balance of \$11,724,659 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, 2019

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, 2019

NOTE 4 - CAPITAL ASSETS

A summary of changes in governmental capital assets follows:

	Balance June 30, 2018	Additions	Disposals and Adjustments	Balance June 30, 2019
Assets not being depreciated:				
Land	\$ 13,138	\$ 0	\$ 0	\$ 13,138
Capital assets being depreciated:				
Buildings and improvements	5,784,169	0	0	5,784,169
Land improvements	243,715	0	0	243,715
Equipment and furniture	1,660,305	0	(635,421)	1,024,884
Vehicles	2,801,640	0	(137,408)	2,664,232
Subtotal	<u>10,489,829</u>	<u>0</u>	<u>(772,829)</u>	<u>9,717,000</u>
Accumulated depreciation:				
Buildings and improvements	2,368,513	129,755	0	2,498,268
Land improvements	95,417	10,785	0	106,202
Equipment and furniture	1,652,394	3,959	(635,421)	1,020,932
Vehicles	1,843,842	219,836	(137,408)	1,926,270
Subtotal	<u>5,960,166</u>	<u>364,335</u>	<u>(772,829)</u>	<u>5,551,672</u>
Net capital assets being depreciated	<u>4,529,663</u>	<u>(364,335)</u>	<u>0</u>	<u>4,165,328</u>
Net capital assets	<u>\$ 4,542,801</u>	<u>\$ (364,335)</u>	<u>\$ 0</u>	<u>\$ 4,178,466</u>

Depreciation expense for fiscal year ended June 30, 2019 was \$364,335. 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, 2019

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A summary of interfund receivable and payable balances at June 30, 2019 are as follows:

	<u>Payables</u>
	Special Education
Receivables General	<u>\$ 1,119,292</u>

A summary of interfund transfers made during the year ended June 30, 2019 are as follows:

	<u>Transfers Out</u>
	Special Education
Transfers In General	<u>\$ 1,114,306</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, 2019 consist of accounts (fees), intergovernmental grants and interest.

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

State aid and grants	\$ 2,238,139
Federal grants	<u>323,449</u>
	<u>\$ 2,561,588</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 \$4,577,163.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 8 - LONG-TERM OBLIGATIONS

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2019:

	Balance June 30, 2018	Additions	Retirements and Payments	Balance June 30, 2019	Amount Due Within One Year
Compensated absences	\$ 216,605	\$ 0	\$ 10,359	\$ 206,246	\$ 0

Long-term obligations at June 30, 2019 is comprised of the following issues:

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, 2019, the amount of \$206,246 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. Stop gap insurance has been purchased to reimburse the school district for individual claims incurred over the hard cap.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 10 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (System) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www.michigan.gov/orsschools.

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

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.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2019

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

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%.

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 (MPSERS) who became a member of MPSERS 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

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2019

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

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.

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 for Basic Plan members and Pension Plus members (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.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2019

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

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.

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.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2019

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

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 60th 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.

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

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2019

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

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, 2017 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%
October 1, 2018 - September 30, 2019	13.39% - 19.59%	7.57% - 7.93%

The School District's pension contributions for the year ended June 30, 2019 were equal to the required contribution total. Pension contributions were approximately \$3,364,000, with \$3,287,000 specifically for the Defined Benefit Plan.

The School District's OPEB contributions for the year ended June 30, 2019 were equal to the required contribution total. OPEB benefits were approximately \$880,000, with \$839,000 specifically for the Defined Benefit Plan.

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).

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2019

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

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

Pension Liabilities

At June 30, 2019, the School District reported a liability of \$37,601,120 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2017 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, 2018 and 2017, the School District's proportion was 0.12508 and 0.12410 percent.

MPERS (Plan) Net Pension Liability - As of September 30, 2018:

MPERS (Plan) Non-University Employers:	September 30, 2018	September 30, 2017
Total Pension Liability	\$ 79,863,694,000	\$ 73,501,296,000
Plan Fiduciary Net Position	\$ 49,801,889,000	\$ 47,011,783,000
Net Pension Liability	\$ 30,061,805,000	\$ 26,489,513,000
Proportionate share	0.12508 %	0.12410 %
Net Pension liability for the School District	\$ 37,601,120	\$ 32,158,350

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

For the year ended June 30, 2019, the School District recognized pension expense of approximately \$3,594,000.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2019

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

At June 30, 2019, 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	\$ 174,476	\$ (273,241)
Net difference between projected and actual earnings on pension plan investments	0	(2,570,961)
Changes in assumptions	8,708,388	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	793,558	(53,518)
Unearned revenue related to pension portion of section 147 c	0	(1,399,509)
School District's contributions subsequent to the measurement date	<u>2,788,957</u>	<u>0</u>
Total	<u>\$ 12,465,379</u>	<u>\$ (4,297,229)</u>

\$2,788,957, 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 subsequent year.

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

Year Ended June 30	<u>Amount</u>
2020	\$ 2,857,069
2021	2,051,840
2022	1,335,707
2023	534,086
	<u>\$ 6,778,702</u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2019

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, 2019, the School District reported a liability of \$10,072,517 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2017 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, 2018 and 2017, the School District's proportion was 0.12672 and 0.12452 percent.

MPSERS (Plan) Non-University Employers:	September 30, 2018	September 30, 2017
Total OPEB Liability	\$ 13,932,170,000	\$ 14,175,547,000
Plan Fiduciary Net Position	\$ 5,983,218,000	\$ 5,177,775,000
Net OPEB Liability	\$ 7,948,952,000	\$ 8,997,772,000
Proportionate share	0.12672 %	0.12452 %
Net OPEB liability for the School District	\$ 10,072,517	\$ 11,026,665

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

For the year ended June 30, 2019, the School District recognized OPEB expense of approximately \$343,000.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2019

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

At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between expected and actual experience	\$ 0	\$ (1,874,754)
Net difference between projected and actual plan investments	0	(387,111)
Changes in assumption	1,066,685	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	183,263	(2,442)
School District's contributions subsequent to the measurement date	622,119	0
Total	\$ 1,872,067	\$ (2,264,307)

\$622,119, 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:

Year Ended September 30	Amount
2020	\$ (254,595)
2021	(254,595)
2022	(254,595)
2023	(178,320)
2024	(72,254)
	\$ (1,014,359)

Actuarial Assumptions

Investment rate of return for Pension - 7.05% 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
Notes to Financial Statements
For the Year Ended June 30, 2019

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

Investment rate of return for OPEB - 7.15% a year, compounded annually net of investment and administrative expenses

Salary increases - The rate of pay increase used for individual members is 2.75%.

Inflation - 3.0%

Mortality assumptions -

Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Active: RP-2014 Male and Female Employee Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Disabled Retirees: RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2017. Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the determination of the total pension and OPEB liability beginning with the September 30, 2017 valuation.

The long-term expected rate of return on pension and other postemployment benefit plan investments - The rate was 7.05% (7% Pension Plus Plan and 6.0% Pension Plus 2), and the other postemployment benefit rate was 7.15% 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 3.0% 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

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2019

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

Coverage Election at Retirement - 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

The target asset allocation at September 30, 2018 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment Category	Target Allocation*	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.7%
Private Equity Pools	18.0%	9.2%
International Equity Pools	16.0%	7.2%
Fixed Income Pools	10.5%	0.5%
Real Estate and Infrastructure Pools	10.0%	3.9%
Absolute Return Pools	15.5%	5.2%
Short Term Investment Pools	2.0%	0.0%
Total	100.0%	

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

Pension Discount rate - A single discount rate of 7.05% was used to measure the total pension liability (7.00% for Pension Plus Plan and 6.00% for the Pension Plus 2 Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.05% (7.00% for the Pension Plus Plan and 6.00% for the Pension Plus 2 Plan). The projection of cash flows used to determine this single discount rate assumed that plan member 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 - A single discount rate of 7.15% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.15%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that 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.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2019

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 a single discount rate of 7.05% (7.00% for Pension Plus Plan and 6.00% for the Pension Plus 2 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:

	Pension		
	1% Decrease	Discount Rate	1% Increase
School District's proportionate share of the net pension liability	<u>\$49,367,366</u>	<u>\$37,601,120</u>	<u>\$27,825,282</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 7.15%, 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:

	Other postemployment benefit		
	1% Decrease	Discount Rate	1% Increase
School District's proportionate share of the net other postemployment benefit liability	<u>\$12,091,852</u>	<u>\$10,072,517</u>	<u>\$8,374,010</u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2019

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 3.0%), 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:

	Other postemployment benefit		
	1% Decrease	Healthcare cost trend rates	1% Increase
School District's proportionate share of the net OPEB liability	<u>\$8,284,535</u>	<u>\$10,072,517</u>	<u>\$12,123,699</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 2018 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.

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.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2019

NOTE 12 - 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	\$ 2,947
Durand	10,062
Owosso	60,420
Perry	911
	\$ 74,340

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.

NOTE 13 - PRIOR PERIOD ADJUSTMENT

A prior period adjustment has been reflected in the financial statements to adjust beginning fund balance in the special education fund and net position in the amount of \$1,248,759 for prior year errors in recording unearned revenue for Medicaid revenues. The unearned revenue should have been reflected as a committed fund balance for the potential of Medicaid paybacks. These amounts were never required to be paid back in subsequent years.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2019

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Local sources	\$ 1,209,745	\$ 1,037,363	\$ 1,090,695	\$ 53,332
Local sources	5,994,690	7,887,077	5,994,572	(1,892,505)
State sources	426,591	368,891	336,783	(32,108)
Interdistrict and other sources	2,068,812	2,160,298	2,059,108	(101,190)
Total revenues	<u>9,699,838</u>	<u>11,453,629</u>	<u>9,481,158</u>	<u>(1,972,471)</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	102,715	127,322	129,974	(2,652)
Added needs	757,330	603,355	607,925	(4,570)
Support services:				
Pupil	566,018	737,972	699,619	38,353
Instructional staff	2,595,852	2,026,882	1,744,851	282,031
General administrative	504,829	491,647	488,897	2,750
Business services	624,645	630,043	615,674	14,369
Operations and maintenance	325,222	300,781	282,093	18,688
Transportation	1,078	1,178	1,179	(1)
Central services	1,431,390	2,631,492	1,856,809	774,683
Community services	527,351	904,289	794,648	109,641
Improvements	0	11,306	2,401	8,905
Total expenditures	<u>7,436,430</u>	<u>8,466,267</u>	<u>7,224,070</u>	<u>1,242,197</u>
Excess (deficiency) of revenues over expenditures	<u>2,263,408</u>	<u>2,987,362</u>	<u>2,257,088</u>	<u>(730,274)</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	1,125,000	1,114,306	1,114,306	0
Transfers out to other local districts	<u>(3,901,868)</u>	<u>(4,198,668)</u>	<u>(3,378,958)</u>	<u>819,710</u>
Total other financing sources (uses)	<u>(2,776,868)</u>	<u>(3,084,362)</u>	<u>(2,264,652)</u>	<u>819,710</u>
Net change in fund balance	(513,460)	(97,000)	(7,564)	89,436
Fund balance - beginning of year	<u>1,433,091</u>	<u>1,433,091</u>	<u>1,433,091</u>	<u>0</u>
Fund balance - end of year	<u>\$ 919,631</u>	<u>\$ 1,336,091</u>	<u>\$ 1,425,527</u>	<u>\$ 89,436</u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
 Required Supplemental Information
 Budgetary Comparison Schedule - Special Education Fund
 For the Year Ended June 30, 2019

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Local sources	\$ 8,005,905	\$ 9,772,526	\$ 9,813,888	\$ 41,362
State sources	6,388,917	6,525,284	6,530,252	4,968
Federal sources	3,208,793	3,240,868	3,099,805	(141,063)
Interdistrict and other sources	660,695	620,165	620,166	1
Total revenues	<u>18,264,310</u>	<u>20,158,843</u>	<u>20,064,111</u>	<u>(94,732)</u>
<u>Expenditures</u>				
Instruction:				
Added needs	4,821,311	4,451,322	4,375,879	75,443
Support services:				
Pupil	7,754,868	7,608,338	7,573,607	34,731
Instructional staff	1,620,135	1,500,007	1,468,555	31,452
School administrative	471,286	426,464	379,874	46,590
Business services	35,087	49,914	46,380	3,534
Operations and maintenance	374,761	412,622	393,487	19,135
Transportation	2,016,982	2,168,842	1,944,049	224,793
Central services	220,330	178,611	168,146	10,465
Community services	53,495	53,333	48,814	4,519
Improvements	50,000	31,500	31,176	324
Total expenditures	<u>17,418,255</u>	<u>16,880,953</u>	<u>16,429,967</u>	<u>450,986</u>
Excess (deficiency) of revenues over expenditures	<u>846,055</u>	<u>3,277,890</u>	<u>3,634,144</u>	<u>356,254</u>
<u>Other Financing Sources (Uses)</u>				
Transfers out to other local districts	(1,071,000)	(1,193,090)	(1,248,261)	(55,171)
Operating transfers out	<u>(1,267,445)</u>	<u>(1,115,595)</u>	<u>(1,114,306)</u>	<u>1,289</u>
Total other financing sources (uses)	<u>(2,338,445)</u>	<u>(2,308,685)</u>	<u>(2,362,567)</u>	<u>(53,882)</u>
Net change in fund balance	<u>(1,492,390)</u>	<u>969,205</u>	<u>1,271,577</u>	<u>302,372</u>
Fund balance - beginning of year	4,527,192	4,527,192	4,527,192	0
Prior period adjustment	<u>1,248,759</u>	<u>1,248,759</u>	<u>1,248,759</u>	<u>0</u>
Fund balance - beginning of year, restated	<u>5,775,951</u>	<u>5,775,951</u>	<u>5,775,951</u>	<u>0</u>
Fund balance - end of year	<u>\$ 4,283,561</u>	<u>\$ 6,745,156</u>	<u>\$ 7,047,528</u>	<u>\$ 302,372</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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.12508 %	0.12410 %	0.12333 %	0.11889 %	0.11619 %
Reporting unit's proportionate share of net pension liability	\$37,601,120	\$32,158,350	\$30,770,702	\$29,039,618	\$25,591,951
Reporting unit's covered-employee payroll*	\$10,785,518	\$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	28.68403 %	32.24730 %	34.48234 %	34.25400 %	38.84425 %
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	62.36000 %	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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 3,286,520	\$ 3,416,467	\$ 3,104,321	\$ 2,293,598	\$ 1,804,455
Contributions in relation to statutorily required contributions*	<u>3,286,520</u>	<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>	<u>\$ 0</u>
Reporting unit's covered-employee payroll**	\$ 10,825,531	\$ 10,706,969	\$ 10,279,216	\$ 9,947,232	\$ 9,941,001
Contributions as a percentage of covered-employee payroll	30.36 %	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>2018</u>	<u>2017</u>
Reporting unit's proportion of net OPEB liability (%)	0.12672 %	0.12452 %
Reporting unit's proportionate share of net OPEB liability	\$ 10,072,517	\$ 11,026,665
Reporting unit's covered-employee payroll*	\$ 10,785,518	\$ 10,370,198
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	107.07868 %	94.04655 %
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)	42.95000 %	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>2019</u>	<u>2018</u>
Statutorily required contributions	\$ 839,421	\$ 860,137
Contributions in relation to statutorily required contributions*	<u>839,421</u>	<u>860,137</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>
Reporting unit's covered-employee payroll**	\$10,825,531	\$10,706,969
Contributions as a percentage of covered-employee payroll	7.75 %	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, 2019

Changes of benefit terms: There were no changes of benefit terms in 2019.

Changes of assumptions: Assumption changes are a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
 Other Supplemental Information
 Balance Sheet
 Nonmajor Governmental Fund
June 30, 2019

	<u>Assets</u>	<u>Capital Projects Fund</u>
Cash and investments		\$ <u>364,684</u>
	<u>Fund Balance</u>	
Restricted for capital projects		\$ <u>364,684</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, 2019

	<u>Capital Projects Fund</u>
<u>Revenues</u>	
Local sources	<u>\$ 2,847</u>
Net change in fund balance	2,847
Fund balance - beginning of year	<u>361,837</u>
Fund balance - end of year	<u><u>\$ 364,684</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

September 25, 2019

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, 2019 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 September 25, 2019.

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
September 25, 2019

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



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

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

September 25, 2019

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, 2019. 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.

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Board of Education
Shiawassee Regional Educational Service District
September 25, 2019

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, 2019.

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, 2019

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, 2019

There were no matters reported in the prior year's audit.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

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, 2018</u>	<u>Adjustments and Transfers</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Current Year Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2019</u>	<u>Payments to Subrecipients</u>
<u>CLUSTERS:</u>									
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 190450-1819		\$ 2,740,304	\$ -	\$ -	\$ -	\$ 2,581,682	\$ 2,740,304	\$ 158,622	\$ -
State Initiated / Department:									
Project 190493-GSG		118,800	-	-	-	97,646	118,800	21,154	-
Subtotal CFDA #84.027		2,859,104	-	-	-	2,679,328	2,859,104	179,776	-
Preschool Grant	84.173								
P.L. 94-142 Preschool Incentive:									
Project 190460-1819		110,815	-	-	-	-	-	-	-
Project 180460-1718		108,403	-	-	-	22,221	78,924	56,703	-
Project 170460-1617		108,854	77,982	36,922	-	67,794	30,872	-	-
Subtotal CFDA #84.173		328,072	77,982	36,922	-	90,015	109,796	56,703	-
Total For IDEA Cluster Programs		3,187,176	77,982	36,922	-	2,769,343	2,968,900	236,479	-

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, 2019

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, 2018</u>	<u>Adjustments and Transfers</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Current Year Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2019</u>	<u>Payments to Subrecipients</u>
<u>OTHER FEDERAL AWARDS:</u>									
U.S. Department of Education:									
Passed through Michigan Department of Education:									
Infants and Toddlers	84.181								
Infants and Toddler Formula Grant:									
Project 191340-1819		\$ 100,823	\$ -	\$ -	\$ -	\$ 95,865	\$ 96,022	\$ 157	\$ -
Project 181340-1718		106,106	105,841	1,262	-	1,262	-	-	-
		<u>206,929</u>	<u>105,841</u>	<u>1,262</u>	<u>-</u>	<u>97,127</u>	<u>96,022</u>	<u>157</u>	<u>-</u>
RTT - Trusted Advisors	84.412								
Project 144740-1718		35,230	7,480	1,026	-	14,310	13,284	-	-
Total non cluster programs passed through MDE		<u>242,159</u>	<u>113,321</u>	<u>2,288</u>	<u>-</u>	<u>111,437</u>	<u>109,306</u>	<u>157</u>	<u>-</u>
Passed through Genesee Intermediate School District:									
Vocational Education - Basic Grants to States	84.048								
Vocational Education Regional Allocation:									
Project 193520-191215		230,593	-	-	-	147,889	221,269	73,380	-
Project 183520-181215		222,839	222,839	179,864	-	179,864	-	-	-
Total non cluster passed through Genesee Intermediate School District		<u>453,432</u>	<u>222,839</u>	<u>179,864</u>	<u>-</u>	<u>327,753</u>	<u>221,269</u>	<u>73,380</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, 2019

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, 2018</u>	Adjustments and <u>Transfers</u>	Current Year Receipts <u>(Cash Basis)</u>	Current Year <u>Expenditures</u>	Accrued (Deferred) Revenue <u>June 30, 2019</u>	Payments to <u>Subrecipients</u>
U.S. Department of Health and Human Services Passed through Michigan Community Health Medicaid Assistance Program Title XIX	93.778								
Medicaid Administrative Outreach		\$ 34,884	\$ -	\$ -	\$ -	\$ 34,884	\$ 34,884	\$ -	\$ -
Medicaid Administrative Outreach		<u>49,982</u>	<u>42,028</u>	<u>11,960</u>	<u>-</u>	<u>11,960</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non cluster programs passed through Michigan Community Health		<u>84,866</u>	<u>42,028</u>	<u>11,960</u>	<u>-</u>	<u>46,844</u>	<u>34,884</u>	<u>-</u>	<u>-</u>
U.S. Employment & Training Administration Passed through GSMW WDASOM WIOA In School Youth Services	17.259								
425-WIA-19		75,000	-	-	-	69,513	74,997	5,484	-
425-WIA-18		<u>100,000</u>	<u>99,996</u>	<u>9,041</u>	<u>-</u>	<u>9,041</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total programs passed through U.S. Employment & Training Administration		<u>175,000</u>	<u>99,996</u>	<u>9,041</u>	<u>-</u>	<u>78,554</u>	<u>74,997</u>	<u>5,484</u>	<u>-</u>
U.S. Department of Education Rural Education Achievement Program	84.358								
S358A181911		27,720	-	-	-	11,454	19,403	7,949	-
S358A170638		<u>27,384</u>	<u>19,555</u>	<u>19,555</u>	<u>-</u>	<u>27,384</u>	<u>7,829</u>	<u>-</u>	<u>-</u>
		<u>55,104</u>	<u>19,555</u>	<u>19,555</u>	<u>-</u>	<u>38,838</u>	<u>27,232</u>	<u>7,949</u>	<u>-</u>
Total Federal Financial Assistance		<u>\$ 4,197,737</u>	<u>\$ 575,721</u>	<u>\$ 259,630</u>	<u>\$ -</u>	<u>\$ 3,372,769</u>	<u>\$ 3,436,588</u>	<u>\$ 323,449</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, 2019

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, 2019. 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.



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

September 25, 2019

Board of Education
Shiawassee Regional Educational Service District
Owosso, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Shiawassee Regional Educational Service District (School District) for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under U.S. generally accepted auditing standards, Government Auditing Standards and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 13, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Shiawassee Regional Educational Service District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2019. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the School District's financial statements were:

Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability.

Management's estimate of depreciation is based on the estimated useful life of fixed assets. We evaluated the key factors and assumptions used to develop the estimated useful life of fixed assets in determining that depreciation is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.



Board of Education
Shiawassee Regional Educational Service District
September 25, 2019
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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 25, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Shiawassee Regional Educational Service District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Shiawassee Regional Educational Service District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management discussion and analysis, budgetary comparison schedules, pension schedules, and OPEB schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.



WEINLANDER FITZHUGH

Board of Education
Shiawassee Regional Educational Service District
September 25, 2019
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We were engaged to report on the non-major financial statements and the schedule of expenditures of federal awards, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

A separate management letter was not issued.

Restriction on Use

This information is intended solely for the information and use of Board of Education and management of Shiawassee Regional Educational Service District and is not intended to be and should not be, used by anyone other than these specified parties.

Very truly yours

Weinlander Fitzhugh