

**CHEBOYGAN-OTSEGO-PRESQUE ISLE
EDUCATIONAL SERVICE DISTRICT**

Audited Financial Statements and
Other Supplementary Financial Information

Year Ended June 30, 2018

STRALEY LAMP & KRAENZLEIN P.C.

**CHEBOYGAN-OTSEGO-PRESQUE ISLE
EDUCATIONAL SERVICE DISTRICT**
6065 Learning Lane
Indian River, Michigan 49749
(231) 238-9394
cop@copesd.org

BOARD OF EDUCATION

Dennis A. Budnick, President
June 2019

Randall E. Powers, Vice-President
June 2021

Henry Axford, Secretary
June 2019

Sherry Huff, Treasurer
June 2019

Cindy Pushman, Trustee
June 2023

Don Bastian, Trustee
June 2021

Amy Brewbaker, Trustee
June 2023

SUPERINTENDENT

Jamie Huber

SPECIALIZED SERVICES AND SUPPORT DIRECTOR

Donna Jones

INSTRUCTIONAL SERVICES DIRECTOR

Rich Marshall

FINANCE MANAGER

Amy Karsten

INDEPENDENT AUDITORS.....Straley Lamp & Kraenzlein P.C.

LEGAL COUNSEL – GENERAL ISSUES.....Thrun Law Firm, P.C.

LEGAL COUNSEL –SPECIAL EDUCATION ISSUES.....Clark Hill, P.L.C

CONTENTS

| | <u>Page</u> |
|--|-------------|
| INDEPENDENT AUDITOR’S REPORT | 1 |
| MANAGEMENT’S DISCUSSION AND ANALYSIS | 3 |
| BASIC FINANCIAL STATEMENTS | |
| Government-wide Financial Statements | |
| Statement of Net Position | 12 |
| Statement of Activities | 13 |
| Fund Financial Statements | |
| Governmental Funds | |
| Balance Sheet | 14 |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position | 15 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances | 16 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 17 |
| Internal Service Funds | |
| Statement of Net Position | 18 |
| Statement of Revenues, Expenses, and Changes in Net Position | 19 |
| Statement of Cash Flows | 20 |
| Notes to financial statements | 21 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Budgetary Comparison Schedules: | |
| General Fund | 46 |
| Special Education Fund | 47 |
| Capital Project Bus Replacement Fund | 48 |
| Pension Plan Schedules: | |
| Schedule of the Proportionate Share of the Net Pension Liability | 49 |
| Schedule of the Contributions | 50 |
| Other Post Employment Benefit Schedules: | |
| Schedule of Proportionate Share of the Net OPEB Liability | 51 |
| Schedule of OPEB Contributions | 52 |

CONTENTS

| | <u>Page</u> |
|---|-------------|
| OTHER SUPPLEMENTAL INFORMATION | |
| FEDERAL FINANCIAL ASSISTANCE | |
| 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 <i>Government Auditing Standards</i> | 55 |
| Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance | 57 |
| Schedule of Expenditures of Federal Awards | 60 |
| Notes to Schedule of Expenditures of Federal Awards | 66 |
| Schedule of Findings and Questioned Costs | 68 |
| Report on Prior Audit Findings | 69 |
| Corrective Action Plan | 70 |



INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Cheboygan-Otsego-Presque Isle Educational Service District
Indian River, 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 the Cheboygan-Otsego-Presque Isle Educational Service District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Cheboygan-Otsego-Presque Isle Educational Service District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Cheboygan-Otsego-Presque Isle Educational Service District, as of June 30, 2018 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards

As described in Note 1 and Note 11 to the financial statements, during the year ended June 30, 2018, the Cheboygan-Otsego-Presque Isle Educational Service District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cheboygan-Otsego-Presque Isle Educational Service District's basic financial statements. The other supplemental information, as identified in the table of contents, is 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 Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was 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 auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2018 on our consideration of the Cheboygan-Otsego-Presque Isle Educational Service District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cheboygan-Otsego-Presque Isle Educational Service District's internal control over financial reporting and compliance.

Straley Kamp & Kraenzlein P.C.

October 16, 2018

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Management's Discussion and Analysis

The following is management's discussion and analysis of the financial position and results of operations for the fiscal year ended June 30, 2018. Please read it in conjunction with the financial statements and related footnotes, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Cheboygan-Otsego-Presque Isle Educational Service District (the Education Service District) financially as a whole. The government-wide financial statements provide information about the activities of the whole Educational Service District, presenting both an aggregate view of the Educational Service 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 Educational Service District's operations in more detail than the government-wide financial statements by providing information about the Educational Service District's most significant funds – the General Fund, Special Education Fund and the Capital Project Bus Replacement Fund. The annual report is arranged as follows:

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

Basic Financial Statements

Government-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for General Fund,
Special Education Fund, and
Capital Project Bus Replacement Fund
Pension Plan Schedules
OPEB Schedules

Other Supplemental Information

Federal Financial Assistance

Reporting the Educational Service District as a Whole – Government-Wide Financial Statements

The statement of net position and the statement of activities, which appear first in the Educational Service District's financial statements, report information about the Educational Service District as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The statement of net position includes all of the Educational Service District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

These two statements report the Educational Service District's net position and how they have changed. Net position – the difference between assets, deferred outflow of resources and liabilities, deferred inflows of resources, as reported in the statement of net position - is one way to measure the Educational Service District's financial health, or position. Over time, increases or decreases in the Educational Service District's net position – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Management's Discussion and Analysis

The relationship between revenues and expenses is the Educational Service District's operating results. However, the Educational Service District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided, condition of school facilities and the safety of the schools, to assess the overall health of the Educational Service District.

The statement of net position and statement of activities report the governmental activities for the Educational Service District, which encompass all of the Educational Service District's services, including instruction, support services, community services, and inter-district transfers. Property taxes, state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the Educational Service District's Most Significant Funds – Fund Financial Statements

The Educational Service District's fund financial statements provide detailed information about the most significant funds – not the Educational Service District as a whole. Some funds are required to be established by state law and by bond covenants. However, the Educational Service District may establish other funds to help it control and manage money for a particular purpose (the Special Education and Bus Replacement funds are examples) or to show that it is meeting its legal responsibilities for using certain taxes, grants, or other money. The governmental funds of the Educational Service District use the following accounting approach:

Governmental Funds – All of the Educational Service District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash.

The governmental fund statements provide a detailed short-term view of the operations of the Educational Service District and the services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Educational Service District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in the reconciliation.

The Educational Service District operates proprietary funds – internal service funds. These funds account for services provided to the District's other funds. The Motor Vehicle and Michigan Unemployment are accounted for as Internal Service Funds.

The Educational Service District as a Whole

Recall that the statement of net position provides the perspective of the Educational Service District as a whole. Table 1 provides a summary of the Educational Service District's net position as of June 30, 2018 and 2017:

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Management's Discussion and Analysis

TABLE 1

| | <u>2018</u> | <u>2017</u> |
|--|---------------------------|---------------------------|
| ASSETS | | |
| Current and other assets | \$ 9,942,853 | \$ 9,576,982 |
| Capital assets - net | <u>1,135,879</u> | <u>1,042,517</u> |
| Total assets | <u>11,078,732</u> | <u>10,619,499</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| | <u>4,306,355</u> | <u>2,526,964</u> |
| LIABILITIES | | |
| Current liabilities | 1,837,727 | 1,564,527 |
| Long-term liabilities | 23,735 | 17,779 |
| Net OPEB liability | 5,158,419 | - |
| Net pension liability | <u>15,094,378</u> | <u>14,018,157</u> |
| Total liabilities | <u>22,114,259</u> | <u>15,600,463</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| | <u>1,587,069</u> | <u>486,764</u> |
| NET POSITION | | |
| Invested in capital assets - net of related debt | 1,135,879 | 1,042,517 |
| Restricted | 6,176,642 | 6,184,220 |
| Unrestricted (deficit) | <u>(15,628,762)</u> | <u>(10,167,501)</u> |
| Total net position | <u>\$ (8,316,241)</u> | <u>\$ (2,940,764)</u> |

The above analysis focuses on the net position. The change in net position (see Table 2) of the Educational Service District's governmental activities is discussed below. The Educational Service District's net position was a deficit of \$(8,316,241) at June 30, 2018, as compared to a deficit of \$(2,940,764) at June 30, 2017. Capital assets, net of related debt totaling \$1,135,879 compares the original cost less depreciation of the Educational Service District's capital assets to long-term debt used to finance the acquisition of those assets. Of the remaining amount of the net position \$(6,176,642) was restricted for special education purposes. The remaining \$(15,628,762) of deficit net position was unrestricted.

The \$(8,316,241) in total available net position of governmental activities represents the *accumulated* results of all past years' operations. The net deficiency position of the Educational Service District has grown significantly compared to a year ago. This is a direct result of the adoption of GASB Statement Number 75 and the recognition of long-term OPEB liability. The adoption of GASB 75 and the impact of the statement are explored in more depth in Note 11. In addition, the pension liability has continued to grow, which is due to the effects of GASB Statement Number 68 and is explored in more depth in Note 10.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Management's Discussion and Analysis

The results of this year's operations for the governmental activities of the Educational Service District are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal year 2018 as compared to 2017.

TABLE 2

| | <u>2018</u> | <u>2017</u> |
|--|-------------------------|-------------------------|
| REVENUE | | |
| Program revenue: | | |
| Charges for services | \$ 1,540,189 | \$ 1,520,087 |
| Operating grants | 2,501,280 | 2,521,377 |
| General revenue: | | |
| Property taxes | 5,863,020 | 5,673,271 |
| State aid | 3,568,510 | 3,623,906 |
| Investment earnings | 27,543 | 26,022 |
| Miscellaneous | <u>15,700</u> | <u>6,540</u> |
| Total revenue | <u>13,516,242</u> | <u>13,371,203</u> |
| FUNCTIONS/PROGRAM EXPENSES | | |
| Instruction | 2,447,543 | 2,462,394 |
| Support services | 7,604,802 | 8,055,733 |
| Community services | 166,251 | 195,091 |
| Inter-district transfers | 3,318,117 | 2,978,887 |
| Depreciation (unallocated) | <u>136,293</u> | <u>131,748</u> |
| Total expenses | <u>13,673,006</u> | <u>13,823,853</u> |
| INCREASE (DECREASE) IN NET POSITION | <u>\$ (156,764)</u> | <u>\$ (452,650)</u> |

As reported in the statement of activities, the cost of all of our governmental activities this year was \$13,673,006. Certain activities were partially funded from those who benefited from the programs as charges for services of \$1,540,189 or by other governments and organizations that subsidized certain programs with grants and contributions \$2,501,280. The Educational Service District paid for the remaining "public benefit" portion of our governmental activities with \$5,863,020 in property taxes, \$3,568,510 in state aid and with our other revenues (i.e., interest and other general revenue) of \$43,243.

The Educational Service District experienced a decrease in net position of \$(156,764) compared to a decrease of \$(452,650) in the prior year. Key reasons for the change in net position included a decrease in state aid of \$(55,396), an increase in property taxes of \$189,749, an increase in inter-district transfers of \$339,230 and a decrease in support services of \$450,931.

As discussed above, the net cost shows the financial burden that was placed on the State and the Educational Service District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the majority of Educational Service District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the Educational Service District and balance those needs with state-prescribed available unrestricted resources.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Management's Discussion and Analysis

The Educational Service District's Funds

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

As the Educational Service District completed this year, the governmental funds reported a combined fund balance of \$7,804,032 which is an increase of \$95,271 from last year. The primary reasons for the increase is the continuing cost control efforts by the administration and careful matching of grant revenues with expenses and the investment of Educational Service District's funds.

The General Fund balance available to operate administrative and support services remains stable at \$1,552,376 which is an increase of \$88,841 from the prior year.

The Special Education Fund which is a restricted fund and exists to support local and state mandated Special Education Programs shows a fund balance of \$6,176,642, a decrease of \$7,578 from the prior year.

The other governmental funds remain stable with fund balances totaling \$75,014, an increase of \$14,008.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2018, the Educational Service District had \$5,085,169 invested in a broad range of capital assets, including land, buildings, furniture and equipment, and vehicles. This amount represents a net increase (including additions, deductions, and depreciation) of approximately \$202,897 from last year.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Management's Discussion and Analysis

TABLE 3

| | <u>2018</u> | <u>2017</u> |
|-------------------------------------|---------------------|---------------------|
| Assets not being depreciated – Land | \$ 41,700 | \$ 41,700 |
| Construction in progress | 1,500 | 29,380 |
| Land improvements | 600,000 | 600,000 |
| Buildings and improvements | 1,001,245 | 787,696 |
| School furnishings and equipment | 35,999 | 35,999 |
| Outside equipment | 70,972 | 70,972 |
| Audio-visual equipment | 2,413,267 | 2,413,267 |
| Computers and related equipment | 422,646 | 422,646 |
| Copy machines | 20,101 | 20,101 |
| Telephone system | 30,205 | 30,205 |
| Vehicles and buses | <u>447,534</u> | <u>430,306</u> |
| Total capital assets | 5,085,169 | 4,882,272 |
| Less accumulated depreciation | <u>(3,949,290)</u> | <u>(3,839,755)</u> |
| Net capital assets | <u>\$ 1,135,879</u> | <u>\$ 1,042,517</u> |

This year's additions totaled \$229,655. No new debt was issued for these additions. Depreciation of \$136,293 was charged against capital assets.

Debt

At the end of this year, the Educational Service District had no outstanding bonded debt.

Other obligations include a special termination benefit of \$23,735. More detailed information about our long-term liabilities is contained in the notes to the financial statements.

Budgetary Highlights

Over the course of the year, the Educational Service District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted June 14, 2018. (A schedule showing the Educational Service District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements).

A large portion of Educational Service District funding is in the form of state and federal grants. It is common to receive notification of grant awards subsequent to the adoption of the original budget. Grant awards can vary significantly from original estimates. All these items necessitated budget amendments periodically during the 2017-18 fiscal year.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

Our Board of Education and administration consider many factors when setting the Educational Service District's 2018-19 fiscal year budget. The 2018-19 fiscal year budget was adopted in June 2018 based on property tax, state and federal revenue estimates available at that time. The Educational Service District reform legislation requires our constituent Boards of Education to adopt a resolution offering support for our opposition to the Educational Service District's proposed General Fund Budget. In addition, local boards could offer specific written suggestions or objections to the budget. These resolutions and suggestions were taken into consideration when adopting the 2018-19 fiscal year budget.

Educational Service Districts rely on local, state, and federal funds for operations. Under state law, the Educational Service District cannot access additional property taxes for operations without a vote by the electorate. As a result, local funding increases are limited. While the Educational Service District does have a Special Education millage that was supported by the electors in May 2016 for 5 years, the revenue received is passed on to local districts and is not used to directly support the Educational Service District's operations.

The Educational Service District's state funding depends on the economic health of the State's School Aid Fund, the actual revenues received depends on the State's ability to collect revenues to fund its appropriations. The State periodically holds a revenue estimating conference to estimate revenues. Based on reports from State sources, the revenue outlook in 2018-19 should remain stable compared to previous years.

The Educational Service District receives federal grant funds to assist in providing services and programs. Based on preliminary reports, it appears as if the federal sources will also be stagnant.

The Educational Service District's fiscal management approach reflects both its mission and long-standing practice of implementing programs and services in collaboration with constituent local Districts and other local and regional partners. Some of these programs include:

Special Education:

Low Incidence Classrooms
Ancillary Services
Diagnostic Services
Preschool Services
Consultant Services for
Trauma & Severe Behavior

General Education:

Professional Development Workshops
Health Related Training
Early Childhood Programs
Technology Support
Curriculum Consultants
REMC

Contacting the Educational Service District's Financial Management

This financial report is designed to provide the Educational Service District's citizens, taxpayers, customers, investors, and creditors with a general overview of the Educational Service District's finances and to demonstrate the Educational Service District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Superintendent or Finance Manager at:

COP-ESD
6065 Learning Lane
Indian River, MI 49749
(231) 238-9394

This page left blank

BASIC FINANCIAL STATEMENTS

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Statement of Net Position

June 30, 2018

ASSETS

| | | |
|--------------------------------------|----|--------------------|
| Cash and cash equivalents | \$ | 5,691,703 |
| Accounts receivable | | 470 |
| Due from other governmental units | | 921,257 |
| Investments | | 3,329,423 |
| Capital assets not being depreciated | | 43,200 |
| Capital assets being depreciated | | 5,041,969 |
| Less: Accumulated depreciation | | <u>(3,949,290)</u> |
| Total Assets | | <u>11,078,732</u> |

DEFERRED OUTFLOWS OF RESOURCES

| | | |
|--------------------------------------|--|------------------|
| Related to OPEB | | 307,137 |
| Related to pensions | | <u>3,999,218</u> |
| Total Deferred Outflows of Resources | | <u>4,306,355</u> |

LIABILITIES

| | | |
|--------------------------------------|--|-------------------|
| Accounts payable | | 108,311 |
| Accrued expenditures | | 357,092 |
| Salaries payable | | 555,211 |
| Payroll liabilities and withholdings | | 20,590 |
| Due to other governmental units | | 545,804 |
| Unearned revenue | | 250,719 |
| Long-term liabilities | | |
| Special termination benefits | | |
| Due within one year | | 23,735 |
| Net OPEB liability | | 5,158,419 |
| Net pension liability | | <u>15,094,378</u> |
| Total Liabilities | | <u>22,114,259</u> |

DEFERRED INFLOWS OF RESOURCES

| | | |
|-------------------------------------|--|------------------|
| Related to OPEB | | 174,392 |
| Related to pensions | | 805,145 |
| State aid funding for pension | | <u>607,532</u> |
| Total Deferred Inflows of Resources | | <u>1,587,069</u> |

NET POSITION

| | | |
|---|----|---------------------|
| Investment in capital assets, net of related debt | | 1,135,879 |
| Restricted | | 6,176,642 |
| Unrestricted | | <u>(15,628,762)</u> |
| Total Net Position | \$ | <u>(8,316,241)</u> |

The accompanying notes to financial statements are an integral part of this statement.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Statement of Activities

For the Year Ended June 30, 2018

| | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|---|-------------------|-------------------------|---------------------|--|
| | | Charges for Services | Operating Grants | |
| FUNCTION / PROGRAMS | | | | |
| Instruction | \$ 2,447,543 | \$ 38,024 | \$ 326,841 | \$ (2,082,678) |
| Supporting services | 7,604,802 | 1,184,673 | 1,992,342 | (4,427,787) |
| Community services | 166,251 | 592 | 60,178 | (105,481) |
| Inter-district transfers | 3,318,117 | 316,900 | - | (3,001,217) |
| Indirect cost recoveries | - | - | 121,919 | 121,919 |
| Depreciation - unallocated | 136,293 | - | - | (136,293) |
| Total Governmental Activities | 13,673,006 | 1,540,189 | 2,501,280 | (9,631,537) |
| General Revenues: | | | | |
| Property taxes, levied for general purposes and special education | | | | 5,863,020 |
| State aid | | | | 3,568,510 |
| Investment earnings | | | | 27,543 |
| Miscellaneous | | | | 15,700 |
| Total General Revenues | | | | 9,474,773 |
| Change in net position | | | | (156,764) |
| Net position, beginning of the year, as previously stated | | | | (2,940,764) |
| Prior period adjustment | | | | (5,218,713) |
| Net position, beginning of the year, as restated | | | | (8,159,477) |
| Net position, end of the year | | | | <u><u>\$ (8,316,241)</u></u> |

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Governmental Funds - Balance Sheet

June 30, 2018

| | General | Special Education | Capital Project Bus Replacement | Total Governmental Funds |
|--|---------------------|----------------------|---------------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,661,285 | \$ 3,654,310 | \$ 75,014 | \$ 5,390,609 |
| Accounts receivable | 470 | - | - | 470 |
| Due from other governmental units | 339,817 | 581,440 | - | 921,257 |
| Investments | 256,361 | 3,073,062 | - | 3,329,423 |
| Total assets | \$ 2,257,933 | \$ 7,308,812 | \$ 75,014 | \$ 9,641,759 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 80,438 | \$ 27,873 | \$ - | \$ 108,311 |
| Accrued expenses | 47,970 | 309,122 | - | 357,092 |
| Salaries payable | 60,651 | 494,560 | - | 555,211 |
| Payroll liabilities and withholdings | 20,590 | - | - | 20,590 |
| Due to other governmental units | 290,796 | 255,008 | - | 545,804 |
| Unearned revenue | 205,112 | 45,607 | - | 250,719 |
| Total liabilities | 705,557 | 1,132,170 | - | 1,837,727 |
| Fund balances | | | | |
| Restricted | - | 6,176,642 | - | 6,176,642 |
| Committed | - | - | 75,014 | 75,014 |
| Assigned | 102,100 | - | - | 102,100 |
| Unassigned | 1,450,276 | - | - | 1,450,276 |
| Total Fund Balances | 1,552,376 | 6,176,642 | 75,014 | 7,804,032 |
| Total Liabilities and Fund Balances | \$ 2,257,933 | \$ 7,308,812 | \$ 75,014 | \$ 9,641,759 |

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Governmental Funds - Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Position

June 30, 2018

| | | | |
|---|----|---------------------|---------------------------|
| Total Governmental Fund Balances | | \$ | 7,804,032 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. | | | |
| Capital assets not being depreciated | \$ | 43,200 | |
| Capital assets being depreciated | | 5,041,969 | |
| Less: accumulated depreciation | | <u>(3,949,290)</u> | |
| | | | 1,135,879 |
| Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities | | | |
| Compensated absences | | (23,735) | |
| Net OPEB liability and related deferred inflows and outflows | | (5,025,674) | |
| Net pension liability and related deferred inflows and outflows | | <u>(11,900,305)</u> | |
| | | | (16,949,714) |
| Revenue in support of pension contributions made subsequent to the measurement date is reported as deferred inflow of resources in the statement of net position and is not reported in the funds. | | | |
| | | | (607,532) |
| The internal service funds are used by management to the charge costs of activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position. | | | |
| | | | <u>301,094</u> |
| Total Net Position - Governmental Activities | | \$ | <u><u>(8,316,241)</u></u> |

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Governmental Funds -
Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2018

| | General | Special Education | Capital Project Bus Replacement | Total Governmental Funds |
|--|------------------|----------------------|---------------------------------------|--------------------------------|
| REVENUES | | | | |
| Local sources | \$ 1,011,896 | \$ 5,580,627 | \$ 68 | \$ 6,592,591 |
| Non-educational sources | 7,537 | 8,130 | - | 15,667 |
| State sources | 1,997,810 | 2,309,783 | - | 4,307,593 |
| Federal sources | 139,090 | 2,307,651 | - | 2,446,741 |
| Inter-district sources | 572,760 | 99,643 | - | 672,403 |
| Total Revenues | 3,729,093 | 10,305,834 | 68 | 14,034,995 |
| EXPENDITURES | | | | |
| Instruction | 302,878 | 2,206,112 | - | 2,508,990 |
| Supporting services | 2,693,103 | 5,253,203 | 60 | 7,946,366 |
| Community services | 108,984 | 57,267 | - | 166,251 |
| Inter-district transfers | 1,091,437 | 2,226,680 | - | 3,318,117 |
| Total Expenditures | 4,196,402 | 9,743,262 | 60 | 13,939,724 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers from other funds | 556,150 | - | 14,000 | 570,150 |
| Transfers to other funds | - | (570,150) | - | (570,150) |
| | 556,150 | (570,150) | 14,000 | - |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | | | | |
| | 88,841 | (7,578) | 14,008 | 95,271 |
| FUND BALANCES, beginning of the year | | | | |
| | 1,463,535 | 6,184,220 | 61,006 | 7,708,761 |
| FUND BALANCES, end of the year | | | | |
| | \$ 1,552,376 | \$ 6,176,642 | \$ 75,014 | \$ 7,804,032 |

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Governmental Funds -
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of the Governmental Funds to the Statement of Activities.

For the Year Ended June 30, 2018

Total Net Change in Fund Balances - Governmental Funds \$ 95,271

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

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

| | | |
|--------------------------------|------------------|--------|
| Capital asset additions | \$ 229,655 | |
| Less current year depreciation | <u>(136,293)</u> | |
| | | 93,362 |

Some employee costs (pension, compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

| | | |
|--|---------------|---------|
| Accrued special termination benefits and compensated absences at June 30, 2018 | (23,735) | |
| Accrued special termination benefits and compensated absences at June 30, 2017 | <u>17,779</u> | |
| | | (5,956) |

Net change in pension expense (529,880)

Net change in OPEB expense 193,039

The internal service funds are used by management to charge the costs of activities to individual funds. The activities of the internal service funds are reported with governmental activities. (2,600)

Change in Net Position of Governmental Activities \$ (156,764)

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Internal Service Funds
Statement of Net Position

June 30, 2018

| | <u>Motor Vehicle</u> | <u>Michigan Unemployment</u> | <u>Total Internal Service Funds</u> |
|--------------------------------------|--------------------------|----------------------------------|---|
| ASSETS | | | |
| Cash and cash equivalents | \$ 210,712 | \$ 90,382 | \$ 301,094 |
| Total Assets | <u>\$ 210,712</u> | <u>\$ 90,382</u> | <u>\$ 301,094</u> |
| LIABILITIES AND NET POSITION | | | |
| Liabilities | | | |
| Due to other governmental units | - | - | - |
| Total Liabilities | - | - | - |
| Net Position | | | |
| Committed to motor vehicle operation | 210,712 | - | 210,712 |
| Committed to unemployment claims | - | 90,382 | 90,382 |
| Total Net Position | <u>\$ 210,712</u> | <u>\$ 90,382</u> | <u>\$ 301,094</u> |

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Internal Service Funds
Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2018

| | Motor Vehicle | Michigan Unemployment | Total Internal Service Funds |
|--|-------------------|--------------------------|------------------------------------|
| OPERATING REVENUES | | | |
| Local sources | | | |
| Charges to other funds | \$ 87,733 | \$ - | \$ 87,733 |
| Miscellaneous | 956 | - | 956 |
| Total Operating Revenues | 88,689 | - | 88,689 |
| OPERATING EXPENSES | | | |
| Insurance | 13,165 | - | 13,165 |
| Licenses | 487 | - | 487 |
| Repairs and maintenance | 7,989 | - | 7,989 |
| Gasoline and oil | 24,907 | - | 24,907 |
| Service fee | - | 59 | 59 |
| Supplies and materials | 786 | - | 786 |
| Vehicle expense | 43,986 | - | 43,986 |
| Total Operating Expenses | 91,320 | 59 | 91,379 |
| OPERATING INCOME (LOSS) | (2,631) | (59) | (2,690) |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Earnings on investments and other deposits | - | 90 | 90 |
| Total Non-Operating Revenues (Expenses) | - | 90 | 90 |
| CHANGES IN NET POSITION | (2,631) | 31 | (2,600) |
| NET POSITION , beginning of the year | 213,343 | 90,351 | 303,694 |
| NET POSITION , end of the year | \$ 210,712 | \$ 90,382 | \$ 301,094 |

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Internal Service Funds
Statement of Cash Flows

For the Year Ended June 30, 2018

| | <u>Motor Vehicle</u> | <u>Michigan Unemployment</u> | <u>Total Internal Service Funds</u> |
|--|--------------------------|----------------------------------|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from inter-fund services provided | \$ 87,733 | \$ - | \$ 87,733 |
| Receipts from customers and users | 956 | - | 956 |
| Payments to suppliers | <u>(91,320)</u> | <u>(59)</u> | <u>(91,379)</u> |
| Cash flows provided by operating activities | <u>(2,631)</u> | <u>(59)</u> | <u>(2,690)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | <u>-</u> | <u>90</u> | <u>90</u> |
| Cash flows provided by investing activities | <u>-</u> | <u>90</u> | <u>90</u> |
| Net increase (decrease) in cash and cash equivalents | (2,631) | 31 | (2,600) |
| CASH AND CASH EQUIVALENTS, beginning of the year | <u>213,343</u> | <u>90,351</u> | <u>303,694</u> |
| CASH AND CASH EQUIVALENTS, end of the year | <u><u>\$ 210,712</u></u> | <u><u>\$ 90,382</u></u> | <u><u>\$ 301,094</u></u> |
| Reconciliation of operating income (loss) to net cash from provided (used) by operating activities: | | | |
| Operating Income (Loss) | \$ (2,631) | \$ (59) | \$ (2,690) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | |
| (Increase) decrease in accounts receivables | - | - | - |
| Increase (decrease) in accounts payable | <u>-</u> | <u>-</u> | <u>-</u> |
| Net cash provided (used) by operating activities | <u><u>\$ (2,631)</u></u> | <u><u>\$ (59)</u></u> | <u><u>\$ (2,690)</u></u> |

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The financial statements of the Cheboygan-Otsego-Presque Isle Educational Service District (the "Educational Service District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the Educational Service District's accounting policies are described below:

A. Description of Operations and Reporting Entity.

Description of Operations. The Educational Service District operates under an appointed Board of Education (seven members) and provides educational and support services as mandated by the State of Michigan and was organized in 1962. The Educational Service District serves as the regional school service agency for twenty-three public and non-public schools in Cheboygan, Otsego, and Presque Isle counties.

Reporting Entity. A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Educational Service District consists of all funds, departments, boards and agencies that are not legally separate from the Educational Service District. For the Educational Service District this includes general operations, special education services, and supportive service activities of the Educational Service District.

Component units are legally separate organizations for which the Educational Service District is financially accountable. Component units may also include organizations that are fiscally dependent on the Educational Service District in that the Educational Service District approves their budget, the issuance of their debt, or the levying of taxes. The Educational Service District has no component units.

B. Fund Accounting.

Fund Accounting. The accounts of the Educational Service District are organized on the basis of funds, each of which is considered a separate accounting entity. Major funds are presented individually in the fund-level financial statements. The Educational Service District's major funds are the General Fund and Special Education Fund. The Capital Project – Bus Replacement Fund is a non-major fund but the Education Service District has chosen to display it in the financial statements as a major fund. The financial activities of the Educational Service District are recorded in the following fund types and individual funds:

Governmental Funds. Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Educational Service District's major governmental funds:

General Fund. This fund is the primary operating fund. It accounts for all financial resources of the Educational Service District, except those required to be accounted for in another fund. Included are all transactions related to the approved current operating budget.

Special Education Fund. The special education fund is used to account for financial resources to be used specifically for providing special education services to students within the Educational Service District.

Capital Project – Bus Replacement Fund. Capital project funds are used to account for the acquisition of fixed assets. The fund maintained by the Educational Service District is for future bus replacement.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

The Educational Service District maintains Proprietary - Internal Service Funds. Internal Service Funds are used to report activities that provide goods or services to other funds, on a cost-reimbursement basis. The Michigan Unemployment Fund and Motor Vehicle Fund are Internal Service Funds.

C. Basis of Presentation.

Government-wide Financial Statements. The statement of net position and the statement of activities display information about the Educational Service District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The financial activities of the Educational Service District are all considered governmental and do not reflect any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Educational Service District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Educational Service District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service District.

Fund Financial Statements. Fund financial statements report detailed information about the Educational Service District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues. Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available; means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service District, available means expected to be received within sixty days of the fiscal year-end.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

Non-exchange transactions, in which the Educational Service District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service District on a reimbursement basis.

On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Unearned Revenue. Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Expenses/Expenditures. On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Cash and Cash Equivalents. Cash equivalents include certificates of deposit and other short-term, highly liquid investments that are readily convertible to known amounts of cash.

Inventories. Inventories are not considered significant and are recorded as expenditures when purchased.

Investments. During the fiscal year ended June 30, 2018, investments were limited to certificates of deposit and cash management funds. The cash management funds are local investment pools held at the Michigan Liquid Asset Fund (MILAF). Local government investment pools allow Educational Service Districts within the State of Michigan to consolidate their funds for investment purposes. Investments in cash management funds are valued at cost which equals market value. Investments are stated at fair value except for the investments in MILAF, which are valued at amortized costs.

Receivables. Amounts due from other governments include State Aid and amounts due from grantors for specific programs. State Aid payments to be received by the Educational Service District in July and August are recorded a receivable and revenue of the previous fiscal year. Program grants are recorded as receivables and revenues at the time reimbursable project costs are incurred.

Prepaid Assets. Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Capital Assets. General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| Description | Governmental Activities Estimated Lives |
|----------------------------|--|
| Site improvements | 20 years |
| Buildings and Improvements | 50 years |
| Office Equipment | 5 – 10 years |
| Audio visual equipment | 10 years |
| Computer equipment | 5 years |
| Vehicles | 8 years |

Deferred Outflows. In addition to assets, this statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Educational Service District has two items that qualify for reporting in this category. They are the deferred charge on refunding and pension and OPEB related items reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is a deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows are recognized for pension and OPEB related items. These amounts are expensed in the plan year in which they apply.

Deferred Inflows. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Educational Service District has three items that qualify for reporting in this category. The first arises only under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental fund balance sheet. The governmental funds report unavailable revenue from receipts that are received after 60 days of year end. These amounts are deferred and recognized as inflow of resources in the period that the amounts become available. The second is future resources yet to be recognized in relation to the pension and OPEB actuarial calculation. These future resources arise from the differences in the estimates used by the actuary to calculate the pension and OPEB liability and the actual results. The amounts are amortized over a period determined by the actuary. The third is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period.

Interfund Balances. On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Compensated Absences. The Educational Service District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation pay has been accrued as a long-term liability. Vacation pay of up to 168 hours annually is earned by school employees (except administrators, teachers, aides and bus drivers).

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources.

Accrued Liabilities and Long-term Obligations. All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Pension. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pension. For purposes of measuring the net OPEB liability, deferred outflow of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

State Categorical Revenue. The Educational Service District also receives revenue from the state to administer certain categorical educational programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred inflows.

Interfund Activity. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements.

Economic Dependency. The Educational Service District received approximately 31% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source, the Educational Service District is considered to be economically dependent.

Fund Equity. The Educational Service District has implemented GASB Statement 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*." The statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe fund balance categories and the relative strength of the spending constraints placed on the purposes for which resources can be used:

- **Nonspendable fund balance**-amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

- **Restricted fund balance**-amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- **Committed fund balance**-amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint,
- **Assigned fund balance**-amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- **Unassigned fund balance**-amounts that are available for any purpose; positive amounts are reported only in the general fund.

The Educational Service District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the Educational Service District through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

The Educational Service District has not established a policy for its use of unrestricted fund balance amounts. Therefore, in accordance with GASB Statement 54, committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net position. Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Encumbrances. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Educational Service District. Commitments outstanding at year end are charged against the subsequent year's appropriation once received and approved.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Reclassification. Certain items reported in the June 30, 2017, financial statements may have been reclassified to conform to the presentation for the current year.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 2 - LEGAL COMPLIANCE.

Budgets and Budgetary Accounting. Prior to adoption of the budgets, the school administration prepares and submits their proposed operating budgets commencing the following July 1. A public hearing is conducted to obtain interested party comments. Prior to July 1 the budget is adopted by the Board of Education. Budgeted amounts are as originally adopted, or as amended by the Board of Education. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30. The Educational Service District does not consider these amendments to be significant. Unused appropriations at June 30 are not carried forward to the following year.

The provisions of the Uniform Budgeting and Account Act, P.A. 621 became effective in July 1981. The Act provides major revenue categories and expenditure functions that constitute minimal levels. The Educational Service Districts budget was legally enacted on a functional level.

During the year ended June 30, 2018, the Educational Service District incurred expenditures in certain budgetary funds which were more than the amounts appropriated. P.A. 621 provides that an Educational Service district shall not incur expenditures in excess of the amounts appropriated. Minor immaterial violations, if any, are noted in the required supplementary information section (RSI).

NOTE 3 - DEPOSITS AND INVESTMENTS.

The components of deposits and investments are reported in the financial statements as follows:

| | |
|-------------------------------|---------------------|
| Cash and cash equivalents: | |
| Cash - Petty cash | \$ 100 |
| Cash - Checking/Savings | 4,317,402 |
| Municipal NOW accounts | 1,110,511 |
| Cash Management Funds - MILAF | <u>263,690</u> |
| | <u>\$ 5,691,703</u> |
| Investments: | |
| Certificate of Deposits | \$ 3,328,406 |
| MILAF Max Plus | <u>1,017</u> |
| | <u>\$ 3,329,423</u> |

As of June 30, 2018, the Educational Service District had the following investments:

| <u>Investment Type</u> | <u>Not Measured at Fair Value</u> | <u>Fair Value</u> | <u>Weighted Average Maturity (Years)</u> | <u>Standard & Poor's Rating</u> | <u>Percentage</u> |
|-------------------------------------|---|---------------------|--|---|-------------------|
| Certificates of Deposit | \$ - | \$ 3,328,406 | 1.0353 | N/A | 99.9% |
| MILAF Max Plus | <u>1,017</u> | <u>-</u> | 0.0000 | AAAm | <u>0.1%</u> |
| Total | <u>\$ 1,017</u> | <u>\$ 3,328,406</u> | | | |
| Portfolio weighted average maturity | | | <u>1.0353</u> | | <u>100%</u> |

1 day maturity equals .0027, 1 year equals 1.0000

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 3 - DEPOSITS AND INVESTMENTS. (continued)

Fair Value Measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which required an entity to maximize the use of observable and minimize the use of unobservable inputs.

There are three (3) levels of inputs that may be used to measure fair value:

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 quoted prices for similar securities, interest rates, prepayment speeds, credit risk, and others.

Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy.

| | | Fair Value Measurements | | | |
|-------------------------|--|-------------------------|---------------------|-------------|---------------------|
| | Investments not measured at fair value | Level | | | Total |
| | | Level 1 | Level 2 | Level 3 | |
| Certificates of Deposit | \$ - | \$ - | \$ 3,328,406 | \$ - | \$ 3,328,406 |
| MILAF Max Plus | 1,017 | - | - | - | 1,017 |
| | <u>\$ 1,017</u> | <u>\$ -</u> | <u>\$ 3,328,406</u> | <u>\$ -</u> | <u>\$ 3,329,423</u> |

Interest Rate Risk. In accordance with its investment policy, the Educational Service 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 the market interest rates by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Educational Service District's cash requirements.

Credit Risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2018, the Educational Service District did not have any investments with ratings below prime.

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

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 3 - DEPOSITS AND INVESTMENTS. (continued)

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2018, \$5,266,022 of the Educational Service District's bank balance of \$6,931,417 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Educational Service District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2018, there was \$560,946 of the Educational Service District's investment balances of \$2,310,946 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the Educational Service District's name.

The Board of Education authorized the following financial institutions for the investment of the Educational Service District's funds for the year ended June 30, 2018: Chemical Bank, Citizens National Bank, First Community Bank, MBank (formerly First Federal of Northern Michigan), Fifth Third Bank, PNC Bank, Huntington Bank, Awakon Federal Credit Union, Calcite Credit Union, Straits Area Federal Credit Union, State Farm Bank and the Michigan Liquid Asset Fund (MILAF).

Foreign Currency Risk. The Educational Service District is not authorized to invest in investments which have this type of risk.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 4 - CAPITAL ASSETS.

| | Balances June 30, 17 | Additions | (Disposals) | Balances June 30, 18 |
|---------------------------------------|-------------------------|-------------------|--------------------|-------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 41,700 | \$ - | \$ - | \$ 41,700 |
| Construction in progress | 29,380 | 1,500 | (29,380) | 1,500 |
| | <u>71,080</u> | <u>1,500</u> | <u>(29,380)</u> | <u>43,200</u> |
| Capital assets being depreciated: | | | | |
| Site improvements | 600,000 | - | - | 600,000 |
| Buildings and improvements | 787,696 | 213,549 | - | 1,001,245 |
| School furnishings and equipment | 35,999 | - | - | 35,999 |
| Outside equipment | 70,972 | - | - | 70,972 |
| Audio visual equipment | 2,413,267 | - | - | 2,413,267 |
| Computers and related equipment | 422,646 | - | - | 422,646 |
| Copy machines | 20,101 | - | - | 20,101 |
| Telephone system | 30,205 | - | - | 30,205 |
| Vehicles and buses | 430,306 | 43,986 | (26,758) | 447,534 |
| | <u>4,811,192</u> | <u>257,535</u> | <u>(26,758)</u> | <u>5,041,969</u> |
| Less - accumulated depreciation: | | | | |
| Site improvements | (600,000) | - | - | (600,000) |
| Buildings and improvements | (338,804) | (21,010) | - | (359,814) |
| School furnishings and equipment | (4,676) | (1,643) | - | (6,319) |
| Outside equipment | (17,743) | (3,549) | - | (21,292) |
| Audio visual equipment | (2,410,371) | (724) | - | (2,411,095) |
| Computers and related equipment | (270,934) | (54,473) | - | (325,407) |
| Copy machines | (9,524) | (3,103) | - | (12,627) |
| Telephone system | (23,108) | (3,021) | - | (26,129) |
| Vehicles and buses | (164,595) | (48,770) | 26,758 | (186,607) |
| | <u>(3,839,755)</u> | <u>(136,293)</u> | <u>26,758</u> | <u>(3,949,290)</u> |
| Net Capital Assets | <u>\$ 1,042,517</u> | <u>\$ 122,742</u> | <u>\$ (29,380)</u> | <u>\$ 1,135,879</u> |

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

Construction Commitments – At year end, the Educational Service District began a project for replacement of cabinets throughout the building. As of June 30, 2018, there has been \$1,500 spent to date and there is \$22,279 in remaining commitments.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 5 - LONG-TERM DEBT (including current portions).

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

| | <u>Balances June 30, 17</u> | <u>Additions</u> | <u>(Reduction)</u> | <u>Balances June 30, 18</u> |
|------------------------------|---------------------------------|------------------|--------------------|---------------------------------|
| Special termination benefits | \$ 17,779 | \$ 23,735 | \$ (17,779) | \$ 23,735 |
| Total | <u>\$ 17,779</u> | <u>\$ 23,735</u> | <u>\$ (17,779)</u> | <u>\$ 23,735</u> |

Special termination benefits attributable to the governmental activities will be liquidated from the funds from which the individual salaries are paid.

NOTE 6 - FUND BALANCE RESERVATIONS AND DESIGNATIONS.

Amounts of the various fund balances restricted or committed at June 30 are as follows:

| | <u>2018</u> | <u>2017</u> |
|---------------------------------------|------------------|------------------|
| General Fund | | |
| Assigned for REMC | \$ 53,150 | \$ 81,393 |
| Assigned for technology | 48,950 | - |
| Assigned for workshops | - | 5,364 |
| Total General Fund | <u>102,100</u> | <u>86,757</u> |
| Special Education Fund | | |
| Restricted for special education | <u>6,176,642</u> | <u>6,184,220</u> |
| Total Special Education Fund | <u>6,176,642</u> | <u>6,184,220</u> |
| Bus Replacement Fund | | |
| Committed for bus replacement | <u>75,014</u> | <u>61,006</u> |
| Motor Vehicle Fund | | |
| Committed for motor vehicle operation | <u>210,712</u> | <u>213,343</u> |
| Michigan Unemployment Fund | | |
| Committed for unemployment claims | <u>90,382</u> | <u>90,351</u> |

NOTE 7- PROPERTY TAXES.

The assessed values of real and personal property situated in the Educational Service District are established annually by local taxing authorities as of December 31 and are equalized by the State at an estimated 50 percent of current market value. The property tax is levied on December 1 and payable by February 14. Uncollected property taxes as of March 1 are added to the County delinquent tax rolls. By agreement with the various counties, the counties purchase at face value the real property taxes receivable returned delinquent each March 1. The property value used for determining the amount of property tax levied is known as the "taxable value" (TV). This differs from the State Equalized Value (SEV) by limiting annual increases to a cost-of-living adjustment or 5 percent, whichever is less. The taxable value for the 2017-18 school year in the Cheboygan-Otsego-Presque Isle Educational Service District was established at \$3,323,364,620. General Education Millage of .2600 mills and Special Education Millage of 1.4876 mills have been approved by voters of the District.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 8 - TAX ABATEMENTS.

The Educational Service District may receive reduced tax revenues as a result of Industrial Facilities Tax exemptions (PA 198 of 14974) or Brownfield Redevelopment Agreements granted by cities within the boundaries of the Educational Service District. 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. Accordingly, such agreements meet the criteria of "tax abatements" under GASB Statement No. 77.

For the fiscal year ended June 30, 2018, the Educational Service District's tax revenues were reduced by approximately \$11,357 under these programs. The Educational Service District is not reimbursed for lost revenue caused by tax abatements. There were no abatements made by the Educational Service District.

NOTE 9 - INTERFUND TRANSFERS.

The Special Education Fund transferred \$556,150 to the General Fund and \$14,000 to the Bus Replacement Fund. The transfers were to reimburse the General Fund for the Special Education Fund portion of fiscal, administration, central office and operations and maintenance. The transfer is determined by state approved calculations. The Educational Service District is not allowed to charge these expenditures directly to the Special Education Fund unless they are a direct expense only of the Fund.

NOTE 10 - DEFINED BENEFIT PENSION PLAN

A. Plan Description.

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

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System. The System's financial statements are available at www.michigan.gov/mpsers-cafr.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan.

Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but as permanently reduced to .5% for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 10 - DEFINED BENEFIT PENSION PLAN. (continued)

Members are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100% of the participant's final average compensation, with an increase of 2% each year thereafter.

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits, but with an actuarial reduction.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3%. For some members who do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by state statute and may be amended only by action of the State Legislature. Under these provisions, each district's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

The Educational Service District's contributions are determined based on employee elections. There are seven 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 are as follows:

| | |
|------------------------------------|-----------------|
| October 1, 2016 – February 1, 2018 | 15.27% - 19.03% |
| February 1, 2018 – August 31, 2018 | 13.54% - 19.74% |

Depending on the plan selected, plan member contributions range from 0% up to 7% of gross wages. Plan members electing into the defined contributions plan are not required to make additional contributions.

Statutorily required contributions to the pension plan from the School District (as computed by the Office of Retirement Services) were \$1,366,211 for the Plan Year Ended September 30, 2017.

These amounts do not include the UAAL (Unfunded Accrued Actuarial Liability) contributions made. The Educational Service District made these contributions (funded from Section 147c restricted state aid specifically provided to pay the UAAL) in the amount of \$607,532 of which 100% was pension.

B. Pension Liabilities.

At June 30, 2018, the Educational Service District reported a liability of \$15,094,378 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The Educational Service District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017 the Educational Service District's proportion was 0.05825%, which was an increase of .0206% from its proportion measured as of September 30, 2016.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 10 - DEFINED BENEFIT PENSION PLAN. (continued)

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

For the year ended June 30, 2018, the Educational Service District recognized pension expense of \$1,904,434. At June 30, 2018, the Educational Service District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|----------------------------------|
| Differences between actual and expected experience | \$ 131,180 | \$ 74,065 |
| Changes of Assumptions | 1,653,709 | - |
| Net difference between projected and actual earnings on OPEB plan investments | - | 721,611 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 905,609 | 9,469 |
| Employer contributions subsequent to the measurement date | <u>1,308,720</u> | <u>607,532</u> |
| Total | <u><u>\$ 3,999,218</u></u> | <u><u>\$ 1,412,677</u></u> |

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

Deferred (Inflow) and Deferred Outflow of Resources by Year
(To be Recognized in Future Pension Expenses)

| <u>Year Ending September 30</u> | <u>Amount</u> |
|---------------------------------|---------------|
| 2018 | \$ 1,316,051 |
| 2019 | \$ 834,467 |
| 2020 | \$ 410,908 |
| 2021 | \$ 25,115 |

Actuarial Assumptions

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

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 10 - DEFINED BENEFIT PENSION PLAN. (continued)

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

| | |
|-------------------------------------|---|
| Valuation Date: | September 30, 2016 |
| Actuarial Cost Method: | Entry Age, Normal |
| Wage Inflation Rate: | 3.5% |
| Investment Rate of Return: | |
| - MIP and Basic Plans (Non-Hybrid): | 7.5% |
| - Pension Plus Plan (Hybrid): | 7.0% |
| Projected Salary Increases: | 3.5 – 12.3%, including wage inflation at 3.5% |
| Cost-of-Living Pension Adjustments: | 3% Annual Non-Compounded for MIP Members |

Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [4.5188 for non-university employers or 1.1222 for university employers].
- Recognition period for assets in years is 5.000.
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report. (www.michigan.gov/mpsers-cafr)

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 10 - DEFINED BENEFIT PENSION PLAN. (continued)

Long-Term Expected Return on Plan Assets

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long Term Expected Real Rate of Return*</u> |
|--------------------------------------|--------------------------|--|
| Domestic Equity Pools | 28.0% | 5.9% |
| % Alternative Investment Pools | 18.0% | 8.7% |
| International Equity | 16.0% | 7.2% |
| Fixed Income Pools | 10.5% | (0.1)% |
| Real Estate and Infrastructure Pools | 10.0% | 4.2% |
| Absolute Return Pools | 15.5% | 5.0% |
| Short Term Investment Pools | 2.0% | (0.9)% |
| | | |
| TOTAL | <u>100.0%</u> | |

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

Rate of Return

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

Discount Rate

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

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 10 - DEFINED BENEFIT PENSION PLAN. (continued)

Sensitivity of the Educational Service District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

| 1% Decrease (Non-Hybrid/Hybrid)* 6.5% / 6.0% | Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 7.5% / 7.0% | 1% Decrease (Non-Hybrid/Hybrid)* 8.5% / 8.0% |
|--|--|--|
| \$ 19,662,953 | \$ 15,094,378 | \$ 11,247,928 |

**University employers provide non-hybrid plans only. For non-university employers, the Basic plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.*

Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR, available on the ORS website at www.michigan.gov/mpsers-cafr

Payable to the Pension Plan. At year end, the Educational Service District is current on all required pension plan payments. Amounts accrued at year end for accounting purposes are reported in the financial statements as accrued expenses. These amounts represent current payments for June paid in July, accruals for summer pay (primarily for teachers) and the contributions due funded from state aid revenue section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization rate contributions.

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB).

Plan Description

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

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

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

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

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB). (continued)

Benefits Provided

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

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

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

Contributions

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

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

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB). (continued)

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

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

Required contributions to the OPEB plan from *the Educational Service District* were \$435,510 for the year ended September 30, 2017.

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

At June 30, 2018, the Educational Service District reported a liability of \$5,158,419 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The Educational Service District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the Educational Service District's proportion was .05825 percent.

For the year ending June 30, 2018, the Educational Service District recognized OPEB expense of \$345,436. At June 30, 2018, the Educational Service 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 |
|---|--------------------------------------|----------------------------------|
| Differences between actual and expected experience | \$ - | \$ 54,922 |
| Changes of Assumptions | - | - |
| Net difference between projected and actual earnings on OPEB plan investments | - | 119,470 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 1,798 | - |
| Employer contributions subsequent to the measurement date | 305,339 | - |
| Total | \$ 307,137 | \$ 174,392 |

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB). (continued)

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

Deferred (Inflow) and Deferred Outflow of Resources by Year
(To be Recognized in Future OPEB Expenses)

| <u>Year Ending September 30</u> | <u>Amount</u> |
|---------------------------------|---------------|
| 2018 | \$ 263,599 |
| 2019 | \$ (41,740) |
| 2020 | \$ (41,740) |
| 2021 | \$ (41,740) |
| 2022 | \$ (5,634) |

Actuarial Assumptions

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

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB). (continued)

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

| | |
|-----------------------------|---|
| Valuation Date: | September 30, 2015 |
| Actuarial Cost Method: | Entry Age, Normal |
| Wage Inflation Rate: | 3.5% |
| Investment Rate of Return: | 7.5% |
| Projected Salary Increases: | 3.5 – 12.3%, including wage inflation at 3.5% |
| Healthcare Cost Trend Rate: | 7.5% Year 1 graded to 3.5% Year 12 |
| Mortality: | RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females. |

Other Assumptions:

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

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [5.4744 for non-university employers or 1.4186 for university employers].
- Recognition period for assets in years is 5.000.
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB). (continued)

Long-Term Expected Return on Plan Assets

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

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return* |
|--------------------------------------|-------------------|---|
| Domestic Equity Pools | 28.0% | 5.6% |
| % Alternative Investment Pools | 18.0% | 8.7% |
| International Equity | 16.0% | 7.2% |
| Fixed Income Pools | 10.5% | (0.1)% |
| Real Estate and Infrastructure Pools | 10.0% | 4.2% |
| Absolute Return Pools | 15.5% | 5.0% |
| Short Term Investment Pools | 2.0% | (0.9)% |
| TOTAL | 100.0% | |

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

Rate of Return

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

Discount Rate

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

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB). (continued)

Sensitivity of Educational Service District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

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

| 1% Decrease 6.5% | Current Discount Rate 7.5% | 1% Increase 8.5% |
|---------------------|-------------------------------|---------------------|
| \$ 6,042,000 | \$ 5,158,419 | \$ 4,408,536 |

Sensitivity of Educational Service District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

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

| 1% Decrease 6.5% | Current Healthcare Cost Trend Rate 7.5% | 1% Increase 8.5% |
|---------------------|---|---------------------|
| \$ 4,368,488 | \$ 5,158,419 | \$ 6,055,331 |

OPEB Plan Fiduciary Net Position

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

NOTE 12 - RISK MANAGEMENT.

The Educational Service District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, and natural disasters. The District manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and excess insurance coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

The Educational Service District has purchased commercial insurance for general liability, property and casualty and health claims. Settled claims have not exceeded the amount of insurance for the past four years. The District also participates in the MASB-SET-SEG (risk pool) for claims relating to the employee injuries/workers compensation. The shared-risk pool program operates as a common risk-sharing management program for Educational Service Districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member premiums in excess of deductible amounts.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

NOTE 13 - CLAIMS AND CONTINGENCIES.

At various times there may be certain claims or lawsuits, either asserted or unasserted, pending against the Educational Service District. It is the policy of the Cheboygan-Otsego-Presque Isle Educational Service District to record a liability for any contingency, claim or lawsuit when the loss is probable and an amount can be reasonably estimated. The Educational Service District is not aware of any loss contingencies that have not been recorded.

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, the Educational Service District management does not believe such disallowances, if any, will be material to the financial position of the Educational Service District.

NOTE 14 – CHANGE IN ACCOUNTING PRINCIPLE.

The financial statements have been restated to incorporate the requirements of Governmental Accounting Standards Board (GASB) Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*– as follows:

| | |
|--|-----------------------|
| Beginning net position as previously reported at July 1, 2017 | \$ (2,940,764) |
| Change in accounting principle: | |
| Net OPEB liability (at measurement date of 10/01/16) | (5,440,989) |
| Deferred outflows between measurement date and reporting date of OPEB plan | <u>222,276</u> |
| Net change in accounting principle | <u>(5,218,713)</u> |
| Net position as restated, July 1, 2017 | <u>\$ (8,159,477)</u> |

NOTE 15 - SUBSEQUENT EVENTS.

Management has evaluated subsequent events through October 16, 2018 the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Required Supplemental Information
Budgetary Comparison Schedule - General Fund

For the Year Ended June 30, 2018

| | Budget Amounts | | Actual | Variance with Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| REVENUES: | | | | |
| Local sources | \$ 979,591 | \$ 1,010,543 | \$ 1,011,896 | \$ 1,353 |
| Non-educational sources | 7,100 | 7,537 | 7,537 | - |
| State sources | 2,175,287 | 2,023,193 | 1,997,810 | (25,383) |
| Federal sources | 116,129 | 222,250 | 139,090 | (83,160) |
| Inter-district sources | 470,602 | 582,795 | 572,760 | (10,035) |
| Other financing sources | 424,275 | 556,100 | 556,150 | 50 |
| Total revenues | <u>4,172,984</u> | <u>4,402,418</u> | <u>4,285,243</u> | <u>(117,175)</u> |
| EXPENDITURES: | | | | |
| Instruction | | | | |
| Basic programs | 230,775 | 307,883 | 302,878 | 5,005 |
| Supporting services | | | | |
| Pupil support | 247,246 | 254,957 | 245,997 | 8,960 |
| Instructional staff support | 968,526 | 976,298 | 910,821 | 65,477 |
| General administration | 400,993 | 399,726 | 394,991 | 4,735 |
| School administration | 100 | 100 | 100 | - |
| Business services | 295,763 | 304,970 | 301,163 | 3,807 |
| Operations and maintenance | 158,714 | 167,799 | 162,946 | 4,853 |
| Transportation | 4,175 | 6,197 | 4,478 | 1,719 |
| Central services | 662,796 | 680,577 | 672,607 | 7,970 |
| Community services | 159,561 | 119,120 | 108,984 | 10,136 |
| Inter-district transfers | 1,167,314 | 1,108,574 | 1,091,437 | 17,137 |
| Total expenditures | <u>4,295,963</u> | <u>4,326,201</u> | <u>4,196,402</u> | <u>129,799</u> |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | (122,979) | 76,217 | 88,841 | 12,624 |
| FUND BALANCES, beginning of the year | <u>1,463,535</u> | <u>1,463,535</u> | <u>1,463,535</u> | <u>-</u> |
| FUND BALANCES, end of the year | <u>\$ 1,340,556</u> | <u>\$ 1,539,752</u> | <u>\$ 1,552,376</u> | <u>\$ 12,624</u> |

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Required Supplemental Information
Budgetary Comparison Schedule - Special Education Fund

For the Year Ended June 30, 2018

| | Budget Amounts | | Actual | Variance with Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| REVENUES: | | | | |
| Local sources | \$ 5,404,307 | \$ 5,569,941 | \$ 5,580,627 | \$ 10,686 |
| Non-educational sources | 14,359 | 8,413 | 8,130 | (283) |
| State sources | 2,173,081 | 2,308,530 | 2,309,783 | 1,253 |
| Federal sources | 2,329,341 | 2,304,080 | 2,307,651 | 3,571 |
| Inter-district sources | 90,560 | 100,804 | 99,643 | (1,161) |
| Total revenues | <u>10,011,648</u> | <u>10,291,768</u> | <u>10,305,834</u> | <u>14,066</u> |
| EXPENDITURES: | | | | |
| Instruction | | | | |
| Added needs | 2,173,983 | 2,203,467 | 2,206,112 | (2,645) |
| Supporting services | | | | |
| Pupil support | 3,990,808 | 4,055,972 | 4,046,904 | 9,068 |
| Instructional staff support | 728,122 | 719,837 | 722,114 | (2,277) |
| General administration | 20,000 | 22,500 | 20,443 | 2,057 |
| School administration | 2,100 | 2,812 | 2,812 | - |
| Business services | 25,370 | 21,010 | 3,392 | 17,618 |
| Operations and maintenance | 41,250 | 41,250 | 40,000 | 1,250 |
| Transportation | 351,330 | 345,835 | 344,491 | 1,344 |
| Central services | 89,851 | 74,132 | 73,047 | 1,085 |
| Community services | 65,806 | 51,711 | 57,267 | (5,556) |
| Inter-district transfers | 2,157,800 | 2,210,251 | 2,226,680 | (16,429) |
| Other financing uses | 438,275 | 570,100 | 570,150 | (50) |
| Total expenditures | <u>10,084,695</u> | <u>10,318,877</u> | <u>10,313,412</u> | <u>5,465</u> |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | (73,047) | (27,109) | (7,578) | 19,531 |
| FUND BALANCES, beginning of the year | <u>6,184,220</u> | <u>6,184,220</u> | <u>6,184,220</u> | <u>-</u> |
| FUND BALANCES, end of the year | <u>\$ 6,111,173</u> | <u>\$ 6,157,111</u> | <u>\$ 6,176,642</u> | <u>\$ 19,531</u> |

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Required Supplemental Information
 Budgetary Comparisons Schedule - Capital Project Bus Replacement Fund

For the Year Ended June 30, 2018

| | Budget Amounts | | Actual | Variance with Final Budget |
|--|----------------|-----------|-----------|-------------------------------|
| | Original | Final | | |
| REVENUES: | | | | |
| Local sources | \$ 65 | \$ 65 | \$ 68 | \$ 3 |
| Other financing sources | 14,000 | 14,000 | 14,000 | - |
| Total revenues | 14,065 | 14,065 | 14,068 | 3 |
| EXPENDITURES: | | | | |
| Supporting services | | | | |
| Business services | 60 | 60 | 60 | - |
| Total expenditures | 60 | 60 | 60 | - |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | | | | |
| | 14,005 | 14,005 | 14,008 | - |
| FUND BALANCES , beginning of the year | 61,006 | 61,006 | 61,006 | - |
| FUND BALANCES , end of the year | \$ 75,011 | \$ 75,011 | \$ 75,014 | \$ - |

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Required Supplemental Information
Schedule of the Proportionate Share of the Net Pension Liability

Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|--------------|--------------|--------------|--------------|
| A. Reporting unit's proportion of net pension liability (%) | 0.05825% | 0.05619% | 0.05386% | 0.05159% |
| B. Reporting unit's proportionate share of net pension liability | \$15,094,378 | \$14,018,157 | \$13,156,460 | \$11,362,995 |
| C. Reporting unit's covered-employee payroll | \$ 4,939,717 | \$ 4,846,941 | \$ 4,650,003 | \$ 4,670,858 |
| D. Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%) | 305.57% | 289.22% | 282.93% | 243.27% |
| E. Plan fiduciary net position as a percentage of total pension liability | 64.21% | 63.27% | 63.17% | 66.20% |

Changes in benefit terms: There were no changes of benefit terms in 2017.

Changes in benefit assumptions: There were no changes of benefit assumptions in 2017.

Changes in size or composition of the covered population: There were not significant changes in size or composition of the covered population in 2017.

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with fiscal year ending June 30, 2014.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Required Supplemental Information
Schedule of the Contributions

Michigan Public School Employees Retirement Plan
Last 10 Reporting Unit Fiscal Years (Amounts determined as of 6/30 of each year)

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|--------------------|--------------------|--------------------|-------------------|
| A. Statutorily required contributions | \$1,366,211 | \$1,261,705 | \$1,039,119 | \$ 962,461 |
| B. Contributions in relation to statutorily required contributions* | <u>\$1,369,993</u> | <u>\$1,261,705</u> | <u>\$1,039,119</u> | <u>\$ 962,461</u> |
| C. Contribution deficiency (excess) | <u>\$ (3,782)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| D. Reporting unit's covered-employee payroll** | \$5,141,382 | \$5,067,346 | \$4,863,760 | \$4,802,306 |
| E. Contributions as a percentage of covered-employee payroll | 26.65% | 24.90% | 21.36% | 20.04% |

*Contributions in relation to statutorily required pension contributions are the contributions an employer 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; and by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For university employers, covered payroll for both pension and OPEB is the greater of 1) university payroll on which contributions to the plan are based or 2) the required minimum payroll amount required by PA 136 of 2016. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

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

Changes in benefit assumptions: There were no changes of benefit assumptions in 2018.

Changes in size or composition of the covered population: There were not significant changes in size or composition of the covered population in 2018.

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with fiscal year ending June 30, 2015.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Required Supplemental Information
Schedule of the Proportionate Share of the Net OPEB Liability

Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

| | <u>2017</u> |
|---|--------------|
| A. Reporting unit's proportion of net OPEB liability (%) | 0.00058% |
| B. Reporting unit's proportionate share of net OPEB liability | \$ 5,158,419 |
| C. Reporting unit's covered-employee payroll (OPEB)* | \$ 5,141,382 |
| D. Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll (%) | 100.33% |
| E. Plan fiduciary net position as a percentage of total OPEB liability | 36.39% |

*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; and by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For university employers, covered payroll for both pension and OPEB is the greater of 1) university payroll on which contributions to the plan are based or 2) the required minimum payroll amount required by PA 136 of 2016. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

Changes in benefit terms: There were no changes of benefit terms in 2017.

Changes in benefit assumptions: There were no changes of benefit assumptions in 2017.

Changes in size or composition of the covered population: There were not significant changes in size or composition of the covered population in 2017.

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with fiscal year ending June 30, 2017.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Required Supplemental Information
Schedule of OPEB Contributions

Michigan Public School Employees Retirement Plan
Last 10 Reporting Unit Fiscal Years (Amounts determined as of 6/30 of each year)

| | <u>2018</u> |
|---|--------------|
| A. Statutorily required OPEB contributions | \$ 536,573 |
| B. OPEB Contributions in relation to statutorily required contributions* | \$ 536,573 |
| C. Contribution deficiency (excess) | <u>\$ -</u> |
| D. Reporting unit's covered-employee payroll (OPEB)** | \$ 5,141,382 |
| E. OPEB contributions as a percentage of covered-employee payroll | 10.44% |

*Contributions in relation to statutorily required OPEB contributions are the contributions an employer actually made to the OPEB Plan, 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; and by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For university employers, covered payroll for both pension and OPEB is the greater of 1) university payroll on which contributions to the plan are based or 2) the required minimum payroll amount required by PA 136 of 2016. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

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

Changes in benefit assumptions: There were no changes of benefit assumptions in 2018.

Changes in size or composition of the covered population: There were not significant changes in size or composition of the covered population in 2018.

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with fiscal year ending June 30, 2018.

OTHER SUPPLEMENTAL INFORMATION

FEDERAL FINANCIAL ASSISTANCE

**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**

To the Board of Education
Cheboygan-Otsego-Presque Isle
Educational Service District
Indian River, Michigan

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cheboygan-Otsego-Presque Isle Educational Service District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Cheboygan-Otsego-Presque Isle Educational Service District's basic financial statements, and have issued our report thereon dated October 16, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cheboygan-Otsego-Presque Isle 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 the Cheboygan-Otsego-Presque Isle Educational Service District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cheboygan-Otsego-Presque Isle 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 entity'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cheboygan-Otsego-Presque Isle 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 Standards*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Straley Lamp & Kraenzlein P.C.

October 16, 2018

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

To the Board of Education
**Cheboygan-Otsego-Presque Isle
Educational Service District**
Indian River, Michigan

Report on Compliance for Each Major Federal Program

We have audited the Cheboygan-Otsego-Presque Isle 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 the Cheboygan-Otsego-Presque Isle Educational Service District's major federal programs for the year ended June 30, 2018. The Cheboygan-Otsego-Presque Isle 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 the Cheboygan-Otsego-Presque Isle 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 auditing standards generally accepted in the United States of America; 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 the Cheboygan-Otsego-Presque Isle 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 the Cheboygan-Otsego-Presque Isle Educational Service District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of the Cheboygan-Otsego-Presque Isle 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 the Cheboygan-Otsego-Presque Isle 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 the Cheboygan-Otsego-Presque Isle 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.

Purpose of the Report

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.

Straley Lamp & Kraenzlein P.C.

October 16, 2018

This page left blank

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2018

| Program Title/Project Number/ Subrecipient Name | Grant/Project Number | Federal CFDA Number | Approved Awards Amount | (Memo Only) Prior Year Expenditure |
|--|-------------------------|---------------------------|------------------------------|--|
| U.S. DEPARTMENT OF EDUCATION | | | | |
| Cluster: | | | | |
| Special Education Cluster : | | | | |
| Passed through State of Michigan Department of Education: | | | | |
| Special Education - Grants to States | | | | |
| | | 84.027 | | |
| Special Education Flow-Through 15/16 | 160450 15-16 | | \$ 1,986,163 | \$ 1,986,163 |
| Special Education Flow-Through 16/17 | 170450 16-17 | | 2,029,526 | 2,018,000 |
| Special Education Flow-Through 17/18 | 180450 17-18 | | 2,052,464 | - |
| State initiated EOSD 16/17 | 170480 16-17 | | 45,000 | 45,000 |
| State initiated EOSD 17/18 | 180480 17-18 | | 45,000 | - |
| Transition Coordinator 16/17 | 170490 16-17 | | 50,000 | 50,000 |
| Transition Coordinator 17/18 | 180490 17-18 | | 50,000 | - |
| | | | <u>6,258,153</u> | <u>4,099,163</u> |
| Special Education - Preschool | | | | |
| | | 84.173 | | |
| Preschool Incentive 17/18 | 180460 17-18 | | 60,585 | - |
| | | | <u>60,585</u> | <u>-</u> |
| Total Special Education Cluster | | | <u>6,318,738</u> | <u>4,099,163</u> |
| Other Federal Awards: | | | | |
| Passed through State of Michigan Department of Education: | | | | |
| Title I Grants to Local Educational Agencies | | | | |
| | | 84.010 | | |
| Title I Regional Assistance Grant 16/17 | 171570 16-17 | | 108,500 | 67,861 |
| Title I Regional Assistance Grant 17/18 | 181570 17-18 | | 112,950 | - |
| | | | <u>221,450</u> | <u>67,861</u> |
| Special Education - Grants for Infants and Families | | | | |
| | | 84.181 | | |
| Infants & Toddlers Formula 16/17 | 171340 16-17 | | 81,347 | 81,347 |
| Infants & Toddlers Formula 17/18 | 181340 17-18 | | 80,867 | - |
| | | | <u>162,214</u> | <u>81,347</u> |

| Revenue Accrued (Unearned) at June 30, 2017 | Current Year | | | Revenue Accrued (Unearned) at June 30, 2018 | Current Year Cash Transferred To Subrecipients |
|---|--------------------------------------|---------------------|------------------|---|--|
| <u>Receipts</u> | <u>Adjustments and Transfers</u> | <u>Expenditures</u> | | | |
| \$ 53,021 | \$ 53,021 | \$ - | \$ - | \$ - | \$ - |
| 42,483 | 42,483 | - | 11,526 | 11,526 | - |
| - | 1,946,502 | - | 2,033,142 | 86,640 | - |
| 9,536 | 9,536 | - | - | - | - |
| - | 43,621 | - | 45,000 | 1,379 | - |
| 4,992 | 4,992 | - | - | - | - |
| - | 49,358 | - | 50,000 | 642 | 1,560 |
| <u>110,032</u> | <u>2,149,513</u> | <u>-</u> | <u>2,139,668</u> | <u>100,187</u> | <u>1,560</u> |
| - | 36,968 | - | 60,585 | 23,617 | - |
| <u>110,032</u> | <u>2,186,481</u> | <u>-</u> | <u>2,200,253</u> | <u>123,804</u> | <u>1,560</u> |
| 8,097 | 17,161 | - | 9,064 | - | - |
| - | 45,187 | - | 57,149 | 11,962 | - |
| <u>8,097</u> | <u>62,348</u> | <u>-</u> | <u>66,213</u> | <u>11,962</u> | <u>-</u> |
| 3,430 | 3,430 | - | - | - | - |
| - | 73,379 | - | 80,867 | 7,488 | - |
| <u>3,430</u> | <u>76,809</u> | <u>-</u> | <u>80,867</u> | <u>7,488</u> | <u>-</u> |

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2018

| Program Title/Project Number/ Subrecipient Name | Grant/Project Number | Federal CFDA Number | Approved Awards Amount | (Memo Only) Prior Year Expenditure |
|---|-------------------------|---------------------------|------------------------------|--|
| U.S. DEPARTMENT OF EDUCATION | | | | |
| McKenney-Vento Homeless Education Assistance Act | | 84.196 | | |
| Homeless Children & Youths 16/17 | 173320 16-17 | | \$ 49,513 | \$ 34,689 |
| Homeless Children & Youths 17/18 | 183320 17-18 | | 64,135 | - |
| | | | <u>113,648</u> | <u>34,689</u> |
| Race to the Top - Early Learning Challenge RTT - Trust Advisors | 144720 16-17 | 84.412 | <u>10,479</u> | <u>-</u> |
| Total noncluster programs passed through Michigan Department of Education | | | <u>507,791</u> | <u>183,897</u> |
| Direct Program: | | | | |
| Small Rural School Achievement Program | | 84.358 | | |
| Small Rural School Achievement | S358A162421 | | 20,815 | 12,266 |
| Small Rural School Achievement | S358A173042 | | 22,164 | - |
| | | | <u>42,979</u> | <u>12,266</u> |
| Total U.S. Department of Education | | | <u>6,869,508</u> | <u>4,295,326</u> |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | |
| Passed through State of Michigan Department of Social Services and Department of Public Health: Medical Assistance Program | | 93.778 | | |
| Medicaid Administrative Outreach | N/A | | 26,531 | - |
| | | | <u>26,531</u> | <u>-</u> |
| TOTAL FEDERAL AWARDS | | | <u>\$ 6,896,039</u> | <u>\$ 4,295,326</u> |

| Revenue Accrued (Unearned) at June 30, 2017 | Receipts | Current Year Adjustments and Transfers | Expenditures | Revenue Accrued (Unearned) at June 30, 2018 | Current Year Cash Transferred To Subrecipients |
|---|---------------------|--|---------------------|---|--|
| \$ 3,007 | \$ 8,274 | \$ - | \$ 5,267 | \$ - | \$ - |
| - | 31,583 | - | 36,504 | 4,921 | 2,412 |
| <u>3,007</u> | <u>39,857</u> | <u>-</u> | <u>41,771</u> | <u>4,921</u> | <u>2,412</u> |
| - | 10,175 | - | 10,175 | - | - |
| 14,534 | 189,189 | - | 199,026 | 24,371 | 2,412 |
| 12,266 | 20,815 | - | 8,549 | - | - |
| - | 12,382 | - | 12,382 | - | - |
| <u>12,266</u> | <u>33,197</u> | <u>-</u> | <u>20,931</u> | <u>-</u> | <u>-</u> |
| 136,832 | 2,408,867 | - | 2,420,210 | 148,175 | 3,972 |
| - | 26,531 | - | 26,531 | - | 10,076 |
| <u>-</u> | <u>26,531</u> | <u>-</u> | <u>26,531</u> | <u>-</u> | <u>10,076</u> |
| <u>\$ 136,832</u> | <u>\$ 2,435,398</u> | <u>\$ -</u> | <u>\$ 2,446,741</u> | <u>\$ 148,175</u> | <u>\$ 14,048</u> |

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Schedule of Federal Financial Assistance Provided to Subrecipients

For the year ended June 30, 2018

| Program Title / Subrecipient | Project Number | C.F.D.A. Number | Amount Awarded |
|--|----------------|-----------------|-------------------------|
| Special Education - Grants to States | | 84.027 | |
| Transition Coordinator - 17/18 | 180490 17-18 | | |
| Gaylord Community Schools | | | \$ 480 |
| Inland Lakes Schools | | | 120 |
| Johannesburg-Lewiston Area Schools | | | 720 |
| Rogers City Area Schools | | | 120 |
| Wolverine Community Schools | | | 120 |
| | | | <u>1,560</u> |
| McKenney-Vento Homeless Education Assistance Act | | 84.027 | |
| Homeless Children & Youths 17/18 | 183320 17-18 | | |
| Gaylord Community Schools | | | \$ 1,153 |
| Onaway Area Community Schools | | | 131 |
| Alanson Public Schools | | | 50 |
| Houghton Lake Community Schools | | | 20 |
| Pellston Public Schools | | | 1,032 |
| Petoskey Public Schools | | | 26 |
| | | | <u>2,412</u> |
| Medical Assistance Programs | N/A | 93.778 | |
| Medicaid Administrative Outreach Claims | | | |
| Cheboygan Area Schools | | | 2,434 |
| Gaylord Community Schools | | | 5,653 |
| Inland Lakes Schools | | | 713 |
| Johannesburg-Lewiston Area Schools | | | 1,158 |
| Vanderbilt Area Schools | | | 118 |
| | | | <u>10,076</u> |
| Totals | | | <u><u>\$ 14,048</u></u> |

| <u>Due to (from) Subrecipient at June 30, 2017</u> | <u>(Memo Only) Prior Year Expenditures</u> | <u>Current Year Cash Transferred (Cash Basis)</u> | <u>Current Year Federal Expenditures</u> | <u>Due to (from) Subrecipient at June 30, 2018</u> |
|--|--|---|--|--|
| - | - | \$ 480 | \$ 480 | - |
| - | - | 120 | 120 | - |
| - | - | 720 | 720 | - |
| - | - | 120 | 120 | - |
| - | - | 120 | 120 | - |
| - | - | <u>1,560</u> | <u>1,560</u> | - |
| - | - | 1,153 | \$ 1,153 | - |
| - | - | 131 | 131 | - |
| - | - | 50 | 50 | - |
| - | - | 20 | 20 | - |
| - | - | 1,032 | 1,032 | - |
| - | - | 26 | 26 | - |
| - | - | <u>2,412</u> | <u>2,412</u> | - |
| - | - | 2,434 | 2,434 | - |
| - | - | 5,653 | 5,653 | - |
| - | - | 713 | 713 | - |
| - | - | 1,158 | 1,158 | - |
| - | - | 118 | 118 | - |
| - | - | <u>10,076</u> | <u>10,076</u> | - |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 14,048</u> | <u>\$ 14,048</u> | <u>\$ -</u> |

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Schedule of Expenditures of Federal Awards

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal award activity of the Cheboygan-Otsego-Presque Isle Educational Service District under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principals, and Audit Requirements* for Federal Awards (Uniform Guidance).

Because the Schedule presents only a selected portion of the operations of the Cheboygan-Otsego-Presque Isle Educational Service District it is not intended to and does not present the financial position, changes in net position, or cash flows of the Cheboygan-Otsego-Presque Isle Educational Service District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principals contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Cheboygan-Otsego-Presque Isle Educational Service District has formatted the Schedule to conform to the recommendations of the Michigan Department of Education. The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

The Cheboygan-Otsego-Presque Isle Educational Service District has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 - RELATIONSHIP TO GOVERNMENTAL FUND FINANCIAL STATEMENTS

Revenues from federal sources are reported in the Educational Service District's financial statements as follows:

| | Federal Revenues |
|---|-------------------------|
| General Fund | \$ 139,090 |
| Special Revenue Funds: | |
| Special Education Fund | 2,307,651 |
| Total Federal Revenues | <u>\$ 2,446,741</u> |
| Total expenditures per the Schedule of Expenditures of Federal Awards (SEFA) | <u>\$ 2,446,741</u> |

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Notes to Schedule of Expenditures of Federal Awards

NOTE 4 - MICHIGAN DEPARTMENT OF EDUCATION DISCLOSURES

Management has utilized the Michigan Department of Education's Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards.

NOTE 5 -RECONCILIATION TO MICHIGAN DEPARTMENT OF EDUCATION'S CASH MANAGEMENT SYSTEM (CMS) GRANT SECTION AUDITOR'S REPORT

The following shows a reconciliation of current year receipts per the schedule of expenditures of federal awards to current payments per Michigan Department of Education Cash Management System (CMS) Grant Auditor Report:

| | |
|--|---------------------|
| Agency total current payments per Michigan Department of Education Grant Auditor Report - (GAR) Cash Management System (CMS) | \$ 2,375,670 |
| Add items not on CMS report: | |
| Amounts received through Michigan Department of Social Services and Michigan Department of Public Health: | |
| Medicaid Outreach | 26,531 |
| Amounts received as a Direct award from the U.S. Department of Education: | |
| Rural Education Achievement Program | <u>33,197</u> |
| Total current year receipts (cash basis) per the Schedule of Expenditures of Federal Awards (SEFA) | <u>\$ 2,435,398</u> |

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Cheboygan-Otsego-Presque Isle Educational Service District were prepared in accordance with GAAP.
2. No material weakness and significant deficiency in internal control relating to the audit of the financial statements is reported in the 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*.
3. No instances of noncompliance material to the financial statements of Cheboygan-Otsego-Presque Isle Educational Service District were disclosed during the audit.
4. No material weakness and significant deficiency relating to the audit of internal control over major federal award programs are reported in the Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for Cheboygan-Otsego-Presque Isle Educational Service District expresses an unmodified opinion.
6. There are no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a).
7. The program tested as a major program was: Special Education Cluster, CFDA 84.027A and 84.173A.
8. The dollar threshold for distinguishing Types A and B programs was \$750,000.
9. Cheboygan-Otsego-Presque Isle Educational Service District qualified as a low-risk auditee.

SECTION II - FINANCIAL STATEMENT FINDINGS

None noted in the current year.

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS

None noted in the current year.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Report on Prior Audit Findings

For the Year Ended June 30, 2018

| <u>Program</u> | <u>Finding</u> | <u>Questioned Costs</u> |
|----------------|----------------|-----------------------------|
|----------------|----------------|-----------------------------|

There were no findings or questioned costs noted in the prior year.

CHEBOYGAN-OTSEGO-PRESQUE ISLE EDUCATIONAL SERVICE DISTRICT

Corrective Action Plan

For the Year Ended June 30, 2018

A corrective action plan is not required since there are no findings or questioned costs noted in the current year.