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IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
TAWAS CITY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED JUNE 30, 2021

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October 15, 2021

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Independent Auditors' Report

Board of Education  
Iosco Regional Educational Service Agency  
Tawas City, 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 Iosco Regional Educational Service Agency, Tawas City, Michigan, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the index.

**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.

**Auditors' 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 auditors' 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 Iosco Regional Educational Service Agency, Tawas City, Michigan, as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and required pension and other postemployment benefit (OPEB) schedules 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 Iosco Regional Educational Service Agency's basic financial statements. The combining nonmajor fund financial statements and individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements and individual fund schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and individual fund schedules are 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 15, 2021, included in the Single Audit Report issued under a separate cover, on our consideration of the Iosco Regional Educational Service Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Iosco Regional Education Service Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Iosco Regional Educational Service Agency's internal control over financial reporting and compliance.

*Stephenson & Company, P.C.*



# IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY

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As management of the Iosco Regional Educational Service Agency, (the Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2021.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the Agency's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the Agency's revenues and expenditures by program for the General Fund, Special Education Fund, Vocational Education Fund, Capital Project Fund, and Food Service Fund.

## FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations.

The overall condition of all funds and governmental activities is positive for the Agency.

The liabilities of the Agency exceeded its assets at the close of the most recent fiscal year by \$3,325,976 (net position). Of this amount, \$(7,462,188) (unrestricted net position) is the result of the Agency's ongoing obligations to taxpayers, employees, students and creditors.

The Agency's total net position decreased by \$32,109. This represents the degree to which ongoing expenses have surpassed ongoing revenues.

As of the close of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of \$6,053,683 an increase of \$440,374 in comparison with the prior year. Of this amount, \$1,376,919 is available for spending at the Agency's discretion (unassigned fund balance). This represents 13.0% of the total expenditures of these funds.

## USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Iosco Regional Educational Service Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private sector business.

The *statement of net position* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The *statement of activities* presents information showing how the Agency's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2021

Both of the government-wide financial statements distinguish functions of the Iosco Regional Educational Service Agency that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Agency include instruction, support services, community services, and transfers to other districts. The Agency does not currently have any business-type activities.

The government-wide financial statements can be found in the Statement of Net Position and Statement of Activities.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of these funds of the Agency can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The Agency does not currently have any proprietary funds or fiduciary funds.

Governmental Funds

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the Agency's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Agency's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Agency maintains five individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, Special Education Fund and Vocational Education Fund which are considered to be major funds.

The Agency adopts annual appropriated budgets for its governmental funds. A budgetary comparison statement has been provided for the General Fund, Special Education Fund and Vocational Education Fund to demonstrate compliance with budgets.

The basic governmental fund financial statements can be found in the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2021

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the Agency's major funds and other information. Required supplementary information can be found in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – for the General Fund, Vocational Education Fund, and the Special Education Fund.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Other Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Agency's net position was \$(3,325,976) at June 30, 2021. Of this amount, \$(7,462,188) was an unrestricted (deficit). Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Agency's ability to use that net position for day-to-day operations. Our analysis below focuses on the net position (Table 1) and the change in net position (Table 2) of the Agency's governmental activities.

TABLE 1  
NET POSITION  
Governmental  
Activities

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Current Assets	\$ 11,183,256	\$ 9,808,429
Capital Assets, Net	<u>4,111,454</u>	<u>3,664,247</u>
Total Assets	<u>15,294,710</u>	<u>13,472,676</u>
Deferred Outflows of Resources	<u>5,035,761</u>	<u>5,044,264</u>
Current Liabilities	5,132,402	4,197,949
Noncurrent Liabilities	<u>16,333,153</u>	<u>15,693,263</u>
Total Liabilities	<u>21,465,555</u>	<u>19,891,212</u>
Deferred Inflows of Resources	<u>2,190,892</u>	<u>1,919,595</u>
<u>Net Position</u>		
Net Investment in Capital Assets	3,346,454	2,899,247
Restricted	789,758	1,079,059
Unrestricted (Deficit)	<u>(7,462,188)</u>	<u>(7,272,173)</u>
Total Net Position	<u>\$ (3,325,976)</u>	<u>\$ (3,293,867)</u>

The \$(7,462,188) in unrestricted (deficit) net position of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities (Net Pension Liability and Net OPEB Liability for example); we would be short \$(7,462,188). This shortfall is a direct result of the implementation of GASB 68 and GASB 75 in the past. See Note 10 and Note 11 of this report.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2021

The Agency's net position was \$(3,325,976) at June 30, 2021. Net investment in capital assets totaled \$3,346,454. The debt of the Agency will be paid for by property taxes collected as the debt service comes due. Day to day operations will be paid for by property taxes, state aid and federal revenues that will be received throughout the year. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Agency's ability to use that net position for day-to-day operations. The remaining amount of net position, \$(7,462,188) is an unrestricted (deficit).

TABLE 2  
CHANGES IN NET POSITION

	<u>Governmental Activities</u>	
	<u>Year Ended June 30, 2021</u>	<u>Year Ended June 30, 2020</u>
Revenue:		
Program Revenue:		
Charges for Services	\$ 2,264,184	\$ 1,999,947
Operating Grants and Contributions	5,563,277	6,262,488
Capital Grants and Contributions	524,098	0
General Revenue:		
Current Property Taxes	2,495,978	2,428,225
State School Aid – Unrestricted	2,351	17,182
Investment Earnings	16,545	109,040
Unrestricted Contributions	13,353	20,815
Miscellaneous	<u>38,421</u>	<u>61,890</u>
Total Revenue	<u>10,918,207</u>	<u>10,899,587</u>
Functions/Program Expenses:		
Instruction	3,924,625	3,722,364
Support Services	3,601,088	3,602,506
Community Services	1,828,860	1,623,626
Food Services	13,178	10,194
Transfers to Other Districts	1,565,588	2,139,628
Interest on Long-Term Debt	<u>16,977</u>	<u>16,977</u>
Total Functions/Program Expenses	<u>10,950,316</u>	<u>11,115,295</u>
Change in Net Position	(32,109)	(215,708)
Net Position – Beginning	<u>(3,293,867)</u>	<u>(3,078,159)</u>
Net Position – Ending	<u>\$ (3,325,976)</u>	<u>\$ (3,293,867)</u>

Governmental activities decreased the Agency's net position by \$32,109.

As reported in our Statement of Activities, the cost of all of our governmental activities this year was \$10,950,316. However, the amount that our taxpayers ultimately financed for these activities through Agency taxes was only \$2,495,978 because some of the cost was paid by those who benefited from the programs (\$2,264,184), by other governments and organizations who subsidized certain programs with grants and contributions (\$6,087,375), through unrestricted state aid (\$2,351), investment earnings (\$16,545), and by miscellaneous sources (\$51,774).

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2021

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The Agency's budgets are prepared according to Michigan law. The most significant budgeted funds are the General Fund, Vocational Education Fund and the Special Education Fund.

During the fiscal year ended June 30, 2021, the Agency amended the budgets of the major governmental funds 2 times. Significant changes to the General Fund budget were due to changes in State Aid, as well as an increase in Local Revenues. Significant changes to the Special Education Fund budget were related to receipts and disbursements to other districts of the Volkswagen State Mitigation Trust Grant. Significant changes to the Vocational Education Fund budget were due to the receipt of awarded 61b funds.

General Fund

The General Fund actual revenue was \$4,316,769. That amount is above both the original budget estimate of \$4,030,303 and the final amended budget of \$4,171,018. The variance between the actual revenues, the original budget, and the final budget was primarily the result of funding changes in State Aid and Local Revenues.

The actual expenditures of the General Fund were \$3,810,273, which is below both the original budget estimate of \$3,976,502 and the final amended budget estimate of \$4,017,928. The variance between the actual expenditures, the original budget, and the final budget was primarily the result of reduced spending in the areas of Support and Community Services.

The General Fund had total revenues of \$4,316,769, and total expenditures of \$3,810,273 with an ending fund balance of \$1,851,187.

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$10,581,040. The governmental funds had a net increase in fund balance of \$440,374. The ending fund balance for all governmental funds was \$6,053,683 which represents 57% of current year expenditures. The ending fund balance percentage for the prior year also represented 57% of last year's expenditures. This fund balance will provide a contingency for unexpected expenditures and revenue cuts.

The General Fund fund balance increased by \$406,496. The increase as related to the prior year's activity is primarily the result of decreased transfers out of \$200,000.

The Vocational Education Fund fund balance increased by \$298,354. This increase is slightly less than the prior year's increase as a result of various fluctuations across the board. The biggest change for the Vocational Education Fund was that the State began only including the CEPD region in the CTE grant, resulting in significant decreases in associated revenues and expenditures.

The Special Education Fund fund balance increased by \$71,860. The decrease as related to the prior year's activity is primarily the result of various fluctuations in both revenues and expenditures.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2021

CAPITAL ASSET AND LONG TERM LIABILITY ADMINISTRATION

Capital Assets

At the end of fiscal year 2021, the Agency had \$7,389,421 invested in land and buildings, furniture and equipment and vehicles and buses. Of this amount, \$3,277,967 in depreciation has been taken over the years. We currently have a net book value of \$4,111,454. Total additions for the year were \$763,580. Current year additions included the following:

Parking Lot Project	\$ 461,965
3 Buses	296,127
Gas Range	<u>5,488</u>
	<u>\$ 763,580</u>

Disposals for the current year consisted of 3 fully depreciated school buses. The above addition for the parking lot project included \$23,015 of construction in progress from the prior year.

Additional information on the Agency's capital assets can be found in Note 5 of this report.

Long-Term Debt

At June 30, 2021, the Agency had \$765,000 in bonds outstanding. In the current year, the Agency did not acquire any new debt.

State statutes limit the amount of general obligation debt that a school district may issue. The current debt limitation for the Agency is significantly greater than the outstanding debt of the Agency.

Additional information on the Agency's long-term debt can be found in Note 7 of this report.

Net Pension Liability

At June 30, 2021, the Agency's Net Pension Liability amounted to \$13,286,331. This constitutes their unfunded pension benefit obligation as of the measurement date of the Michigan Public School Employees Retirement System Plan.

Additional information on the District's Net Pension Liability can be found in Note 10 of this report.

Net OPEB Liability

At June 30, 2021, the Agency's Net OPEB Liability amounted to \$2,152,493. This constitutes their unfunded pension benefit obligation as of the measurement date of the Michigan Public School Employees Retirement System Plan.

Additional information on the District's Net OPEB Liability can be found in Note 11 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Uncertainties in Federal and State funding were factors considered in preparing the Agency's budgets for the 2021-2022 fiscal year, which were built conservatively. The budgets will be revised once actual funding amounts are known. The Agency continues to work hard to keep expenditures down and to maintain revenue levels that are within their control. The 2021/2022 expectations may be adversely affected by the recent COVID-19 pandemic; however, those effects are not known at this time.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2021

REQUESTS FOR INFORMATION

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

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Iosco Regional Educational Service Agency  
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Tawas City, MI 48763  
Office Telephone (989) 362-3006

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

STATEMENT OF NET POSITION  
June 30, 2021

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 9,478,004
Receivables:	
Due from Other Governmental Units	1,071,795
Inventory:	
Building Trades Homes	225,917
Prepaid Items	2,639
Restricted Assets:	
Cash and Cash Equivalents	404,901
Noncurrent Assets:	
Capital Assets Not Being Depreciated	266,900
Capital Assets, Net of Accumulated Depreciation	<u>3,844,554</u>
 Total Assets	 <u>15,294,710</u>
<u>Deferred Outflows of Resources</u>	
Deferred Amount on Pension Expense Related to Net Pension Liability	3,693,251
Deferred Amount on OPEB Expense Related to Net OPEB Liability	<u>1,342,510</u>
 Total Deferred Outflows of Resources	 <u>5,035,761</u>
<u>Liabilities</u>	
Accounts Payable	103,719
Due to Other Governmental Units	1,207,537
Due to Related Parties	686,261
Interest Payable	2,829
Payroll Deductions and Withholdings	227,988
Salaries Payable	346,872
Unearned Revenue	2,557,196
Long-Term Liabilities	
Due in More Than One Year	894,329
Net Pension Liability	13,286,331
Net OPEB Liability	<u>2,152,493</u>
 Total Liabilities	 <u>21,465,555</u>
<u>Deferred Inflows of Resources</u>	
Deferred Amount on Net Pension Liability	577,397
Deferred Amount on Net OPEB Liability	<u>1,613,495</u>
 Total Deferred Inflows of Resources	 <u>2,190,892</u>
<u>Net Position</u>	
Net Investment in Capital Assets	3,346,454
Restricted For:	
Capital Projects	789,758
Unrestricted (Deficit)	<u>(7,462,188)</u>
 Total Net Position	 <u>\$ (3,325,976)</u>

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

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Government Type Activities
Instruction	\$ 3,924,625	\$ 267,529	\$ 4,335,822	\$ 0	\$ 678,726
Support Services	3,601,088	1,991,475	1,080,390	524,098	(5,125)
Community Services	1,828,860	5,180	137,096	0	(1,686,584)
Food Services	13,178	0	9,969	0	(3,209)
Transfers to Other Districts	1,565,588	0	0	0	(1,565,588)
Interest on Long-Term Debt	<u>16,977</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(16,977)</u>
Total	<u>\$ 10,950,316</u>	<u>\$ 2,264,184</u>	<u>\$ 5,563,277</u>	<u>\$ 524,098</u>	<u>(2,598,757)</u>
General Revenues:					
Property Taxes, Levied for General, Special Education and Vocational Education Purposes					2,495,978
State School Aid - Unrestricted					2,351
Investment Earnings					16,545
Unrestricted Contributions					13,353
Miscellaneous					<u>38,421</u>
Total General Revenues					<u>2,566,648</u>
Change in Net Position					(32,109)
Net Position - Beginning					<u>(3,293,867)</u>
Net Position - Ending					<u>\$ (3,325,976)</u>

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

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2021

		<u>Special Revenue Funds</u>			
	<u>General</u>	<u>Vocational</u>	<u>Special</u>	<u>Other</u>	<u>Total</u>
	<u>Fund</u>	<u>Education</u>	<u>Education</u>	<u>Governmental</u>	<u>Governmental</u>
		<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
<u>Assets</u>					
Cash and Cash Equivalents	\$ 4,719,674	\$ 2,320,609	\$ 2,046,653	\$ 391,068	\$ 9,478,004
Receivables:					
Due from Other Governmental Units	626,370	70,912	372,981	1,532	1,071,795
Due from Other Funds	255,044	0	0	0	255,044
Prepaid Items	2,639	0	0	0	2,639
Restricted Cash and Cash Equivalents	<u>404,901</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>404,901</u>
Total Assets	<u>\$ 6,008,628</u>	<u>\$ 2,391,521</u>	<u>\$ 2,419,634</u>	<u>\$ 392,600</u>	<u>\$ 11,212,383</u>
<u>Liabilities</u>					
Accounts Payable	\$ 29,744	\$ 21,090	\$ 52,885	\$ 0	\$ 103,719
Due to Other Governmental Units	1,009,925	2,486	195,126	0	1,207,537
Due to Other Funds	0	0	249,999	5,045	255,044
Due to Related Parties	686,261	0	0	0	686,261
Payroll Deductions and Withholdings	65,653	50,325	112,010	0	227,988
Salaries Payable	102,962	68,843	175,067	0	346,872
Unearned Revenue	<u>2,262,896</u>	<u>0</u>	<u>294,300</u>	<u>0</u>	<u>2,557,196</u>
Total Liabilities	<u>4,157,441</u>	<u>142,744</u>	<u>1,079,387</u>	<u>5,045</u>	<u>5,384,617</u>
<u>Fund Equity</u>					
Fund Balances:					
Nonspendable:					
Inventory	0	225,917	0	0	225,917
Prepaid Items	2,639	0	0	0	2,639
Restricted For:					
Capital Projects	404,901	0	0	384,857	789,758
Assigned To:					
Vocational Education	0	2,170,882	0	0	2,170,882
Special Education	0	0	1,236,847	0	1,236,847
Food Service	0	0	0	2,698	2,698
Next Year's Budgeted Expenditures	66,728	77,895	103,400	0	248,023
Unassigned	<u>1,376,919</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,376,919</u>
Total Fund Equity	<u>1,851,187</u>	<u>2,474,694</u>	<u>1,340,247</u>	<u>387,555</u>	<u>6,053,683</u>
Total Liabilities and Fund Equity	<u>\$ 6,008,628</u>	<u>\$ 2,617,438</u>	<u>\$ 2,419,634</u>	<u>\$ 392,600</u>	<u>\$ 11,438,300</u>

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

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
June 30, 2021

Total Governmental Fund Balances	\$ 6,053,683
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at the year-end consist of:

Capital Asset Cost	\$ 7,389,421	
Capital Asset Accumulated Depreciation	<u>(3,277,967)</u>	
		4,111,454

Certain liabilities are not due and payable in the current period and are not reported in the funds:

Accrued Interest on Long-Term Liabilities	(2,829)
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Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources from pension expenses subsequent to the measurement date of net pension liability	3,693,251	
Deferred inflows of resources resulting from net pension liability	(577,397)	
Deferred outflows of resources from OPEB expenses subsequent to the measurement date of OPEB liability	1,342,510	
Deferred inflows of resources resulting from net OPEB liability	<u>(1,613,495)</u>	
		2,844,869

Long-term liabilities, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

Long-term liabilities at year end consist of:

Bonds Payable	(765,000)	
Compensated Absences Payable	(129,329)	
Net Pension Liability	(13,286,331)	
Net OPEB Liability	<u>(2,152,493)</u>	
		<u>(16,333,153)</u>

Total Net Position - Governmental Activities	\$ <u><u>(3,325,976)</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2021

		Special Revenue Funds			
	General Fund	Vocational Education Fund	Special Education Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenues</u>					
Local Sources	\$ 440,300	\$ 1,099,049	\$ 1,884,119	\$ 399	\$ 3,423,867
State Sources	2,090,628	472,564	1,473,169	203	4,036,564
Federal Sources	179,457	68,112	1,382,952	9,766	1,640,287
Interdistrict Sources	1,606,384	15,481	298,831	0	1,920,696
Total Revenues	<u>4,316,769</u>	<u>1,655,206</u>	<u>5,039,071</u>	<u>10,368</u>	<u>11,021,414</u>
<u>Expenditures</u>					
Current:					
Instruction	515,078	907,299	2,009,517	0	3,431,894
Support Services	967,275	384,233	1,892,157	0	3,243,665
Community Services	1,437,820	0	134,130	0	1,571,950
Food Services	0	0	0	12,754	12,754
Outgoing Transfers to Other Districts	887,255	52,601	625,732	0	1,565,588
Capital Outlay	2,384	9,010	298,032	438,950	748,376
Debt Service:					
Interest and Fees on Long-Term Debt	461	3,709	2,643	0	6,813
Total Expenditures	<u>3,810,273</u>	<u>1,356,852</u>	<u>4,962,211</u>	<u>451,704</u>	<u>10,581,040</u>
Excess of Revenues Over (Under) Expenditures	<u>506,496</u>	<u>298,354</u>	<u>76,860</u>	<u>(441,336)</u>	<u>440,374</u>
<u>Other Financing Sources (Uses)</u>					
Operating Transfers In	0	0	0	105,000	105,000
Operating Transfers Out	(100,000)	0	(5,000)	0	(105,000)
Total Other Financing Sources (Uses)	<u>(100,000)</u>	<u>0</u>	<u>(5,000)</u>	<u>105,000</u>	<u>0</u>
Net Change in Fund Balances	406,496	298,354	71,860	(336,336)	440,374
Fund Balances - Beginning of Year	<u>1,444,691</u>	<u>2,176,340</u>	<u>1,268,387</u>	<u>723,891</u>	<u>5,613,309</u>
Fund Balances - End of Year	<u>\$ 1,851,187</u>	<u>\$ 2,474,694</u>	<u>\$ 1,340,247</u>	<u>\$ 387,555</u>	<u>\$ 6,053,683</u>

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

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2021

Total Net Change in Fund Balances - Governmental Funds	\$ 440,374
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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.

Depreciation Expense	\$ (293,358)	
Capital Outlays Reported in the Governmental Funds	<u>740,565</u>	447,207

Governmental funds report district pension and OPEB contributions as expenditures. However, in the statement of activities, the cost of pension and OPEB benefits earned, net of employee contributions, is reported as pension or OPEB expense. The following amounts represent the current year net changes:

Net Pension Liability	(1,323,979)	
Actual Pension Contributions and the Cost of Benefits Earned, net of Employee Contributions	(294,359)	
Deferred Amount on Net Pension Liability	299,410	
Actual OPEB Contributions and the Cost of Benefits Earned, net of Employee Contributions	285,856	
Net OPEB Liability	528,650	
Deferred Amount on Net OPEB Liability	<u>(570,707)</u>	(1,075,129)

Expenses are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds. The effect of the treatment of these activities is as follows:

Compensated Absences	<u>155,439</u>
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Change in Net Position of Governmental Activities	\$ <u><u>(32,109)</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Iosco Regional Educational Service Agency (Agency) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The Agency is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

Iosco Regional Educational Service Agency provides special education services to students in Iosco County, Michigan and parts of the counties of Alcona, Arenac, and Ogemaw. The Agency operates under an elected Board of Education (five members) represented by members elected by delegates from local agencies in the Iosco Regional Educational Service Agency's service area. The Board is responsible for adopting and amending budgets and for administering the school programs in accordance with governing laws.

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America 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 Agency's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. Iosco Regional Educational Service Agency's Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by the Iosco Regional Educational Service Agency. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The Agency uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Agency functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Agency are grouped into the governmental category.

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 Agency's major governmental funds:

General Fund - The General Fund is the general operating fund of the Agency. It is used to account for all financial resources except those required to be accounted for in another fund.

Vocational Education Fund - The Vocational Education Fund is used to account for all financial resources allocated for vocational education instruction and related supporting services within the Agency.

Special Education Fund - The Special Education Fund is used to account for all financial resources allocated for special education instruction and related supporting services within the Agency.

The other governmental funds of the Agency account for grants and other resources whose use is restricted for a particular purpose, and the acquisition or construction of major capital facilities.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation

**Government-wide Financial Statements:**

The statement of net position and the statement of activities display information about the Agency as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Agency that are governmental and those that are considered business-type activities. The Agency does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations 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 Agency'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 Agency, 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 Agency.

Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes result from special revenue and capital project funds and the restrictions on their net position use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Fund Financial Statements:**

Fund financial statements report detailed information about the Agency. 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 nonmajor funds are aggregated and presented in a single column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the 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 revenue, 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.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

**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 Agency, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the Agency 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 Agency must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Agency on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they 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.

**Deferred Outflows/Inflows of Resources:**

In addition to assets, the statement of financial 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 that time.

In addition to liabilities, the statement of financial 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.

**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.

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2021, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by PFM Asset Management, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Cash Equivalents (Continued)

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Agency are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

The Agency is required, under the 2014 School Improvement Bonds and the 2016 School Improvement Bonds, to maintain certain restricted assets in the General Fund. The Bonds require certain assets be deposited into the separate bank accounts referred to by the Bonds as Sinking Funds. The Agency did meet all of these requirements for the year ended June 30, 2021

F. Receivables

Receivables generally consist of grants, state aid, and other. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectability.

The allowance for doubtful accounts at June 30, 2021 was \$0.

G. Due From Other Governmental Units

This represents amounts receivable from the State of Michigan and other governmental units for federal, state and local reimbursable programs.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

I. Restricted Assets

Restricted assets include assets set aside by the Board of Education to meet the security requirements included in the bonding agreement, as well as bond proceeds not yet spent, for the Qualified Zone Academy Bond.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in 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.

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 Agency 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.

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:

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net position.

L. 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 as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

M. Compensated Absences

The Agency reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the Agency's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements. For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are included in "Salaries Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements.

No liability amounts were recorded in governmental fund statements, in accordance with GASB 33, due to the fact that there was a legally enforceable document that set a date for payment of vested benefits subsequent to June 30, 2021.

N. Net Pension Liability

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.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Postemployment Benefits Other Than Pensions

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (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.

P. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The Agency reports three categories of net position as follows:

Net investment in capital assets - consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position - net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the Agency's bonds. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position - consists of all other net position that does not meet the definition of the above two components and is available for general use by the Agency.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies restricted net position first, unless a determination is made to use unrestricted net position. The Agency's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expense.

Q. Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal school board action—the Agency's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Balances (Continued)

Assigned fund balance. This classification reflects the amounts constrained by the Agency's "intent" to be used for specific purposes, but are neither restricted nor committed. The school board or personnel authorized by the school board have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

R. Property Taxes

The Agency levies its property taxes on December 1, and various municipalities collect its property taxes and remit them to the Agency through February. The delinquent real property taxes of the Agency are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the Agency for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

S. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the Agency. For the year ended June 30, 2021, the foundation allowance was based on a super blend of the 2019-2020 (weighted 75%; based on the October 2019 (weighted 90%) and February 2019 (weighted 10%) pupil membership counts) and 2020-2021 (weighted 25%; based on the October 2020 (weighted 90%) and February 2020 (weighted 10%) pupil membership counts) FTE blends.

The state portion of the foundation allowance is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation allowance is funded primarily by non-prequalified property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2020 - August 2021. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

T. State Categorical Revenue

The Agency also receives revenue from the state to administer certain categorical education 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 unearned revenue.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. 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 on the financial statements.

V. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2021.

W. Economic Dependency

The Agency received approximately 37% of their revenue from the State of Michigan. Due to the significance of this revenue source to the Agency, the Agency is considered to be economically dependent.

X. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Y. Budgetary Policies and Data

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

Iosco Regional Educational Service Agency follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Agency's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

Z. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

For 2022, the Agency will be required to implement GASB Statement No. 87 "Leases". The objective of this statement is to increase the usefulness of the government's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the government's leasing activities.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

Cash and Cash Equivalents	\$ 9,478,004
Restricted Cash and Cash Equivalents	<u>404,901</u>
Total	<u><u>\$ 9,882,905</u></u>

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking and Savings Accounts and Certificates of Deposit)	\$ 1,320,158
Investments in Pooled Funds	8,562,591
Petty Cash and Cash on Hand	<u>156</u>
Total	<u><u>\$ 9,882,905</u></u>

As of June 30, 2021, the Agency had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	<u><u>\$ 8,562,591</u></u>	Daily

Interest Rate Risk

In accordance with its investment policy, the Agency will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools, and limiting the average maturity in accordance with the Agency's cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district. As of June 30, 2021, the Agency's investment in the MILAF investment pool was rated AAAM by Standard & Poor's.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The Agency will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Agency'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. Investments in U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest may be purchased in any dollar amount or up to 100% of the available reserve.

Investments in other types of authorized securities may be made with the provision that no more than fifty percent of the total current investment portfolio consists of one type of security.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. As of June 30, 2021, \$1,055,854 of the Agency's bank balance of \$1,555,854 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 Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Agency will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the District's Investment policy which is in accordance with State law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Agency will do business.

Foreign Currency Risk

The Agency is not authorized to invest in investments which have this type of risk.

Fair Value Measurements

The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Agency has the following recurring fair value measurements as of June 30, 2021:

- Amounts invested in MILAF+ Portfolio of \$8,562,591. The MILAF+ Portfolio is not registered under Rule 2a-7 under the Investment Company Act of 1940. The money market securities are valued using amortized cost, which generally approximates the current fair value of the security. However, the value is not obtained from a quoted price in an active market. (Level 2 inputs)

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 4 - RECEIVABLES

Receivables at June 30, 2021, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amount</u>
Federal Sources	\$ 151,219
State Sources	887,503
Interdistrict	<u>33,073</u>
Total Governmental Activities	<u>\$ 1,071,795</u>

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of June 30, 2021 were as follows:

<u>DUE TO</u>	<u>DUE FROM</u>		<u>Total</u>
	Special Education Fund	Other Governmental Funds	
General Fund	\$ <u>249,999</u>	\$ <u>5,045</u>	\$ <u>255,044</u>

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2021, was as follows:

	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 266,900	\$ 0	\$ 0	\$ 266,900
Construction in Progress	<u>23,015</u>	<u>0</u>	<u>(23,015)</u>	<u>0</u>
Subtotal	<u>289,915</u>	<u>0</u>	<u>(23,015)</u>	<u>266,900</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	4,407,012	461,965	0	4,868,977
Furniture, Fixtures and Equipment	883,523	5,488	0	889,011
Vehicles and Buses	<u>1,167,561</u>	<u>296,127</u>	<u>(99,155)</u>	<u>1,364,533</u>
Subtotal	<u>6,458,096</u>	<u>763,580</u>	<u>(99,155)</u>	<u>7,122,521</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(1,464,933)	(153,395)	0	(1,618,328)
Furniture, Fixtures and Equipment	(861,313)	(11,840)	0	(873,153)
Vehicles and Buses	<u>(757,518)</u>	<u>(128,123)</u>	<u>99,155</u>	<u>(786,486)</u>
Subtotal	<u>(3,083,764)</u>	<u>(293,358)</u>	<u>99,155</u>	<u>(3,277,967)</u>
Capital Assets Being Depreciated	<u>3,374,332</u>	<u>470,222</u>	<u>0</u>	<u>3,844,554</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	\$ <u>3,664,247</u>	\$ <u>470,222</u>	\$ <u>(23,015)</u>	\$ <u>4,111,454</u>

Depreciation expense was charged to activities of the Agency as follows:

Governmental Activities

Instruction	\$ 122,901
Support Services	112,772
Community Services	57,272
Food Services	<u>413</u>
	<u>\$ 293,358</u>

NOTE 7 - SHORT-TERM DEBT

The Agency has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

The Agency did not enter into any short-term financing arrangements during the fiscal year ending June 30, 2021.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

**NOTE 8 - LONG-TERM LIABILITIES**

Primary Government

A. Bonds Payable

	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest</u>	<u>Total Obligation</u>
2014 QZAB School Improvement Bond	2014	\$ 220,000	\$ 30,492	\$ 250,492
2016 QZAB School Improvement Bond	2016	<u>545,000</u>	<u>102,188</u>	<u>647,188</u>
Total Bonds Payable		<u>\$ 765,000</u>	<u>\$ 132,680</u>	<u>\$ 897,680</u>

B. Detailed Long-Term Debt Disclosures

**Direct Borrowing**

2014 QZAB School Improvement Bonds

The bonds dated May 1, 2014, are due in full on May 1, 2024. The bonds are issued under the Qualified Zone Academy Bond program. Interest is eliminated through a tax credit. A set-aside amount of \$22,000 is required each year. Interest of 4.62% will be earned on the required deposits and will be used to reduce the final set-aside payment. If necessary, the District will levy taxes upon all taxable property in the District necessary to pay such debt service.

2016 QZAB School Improvement Bonds

The bonds dated May 11, 2016, are due in full on May 1, 2036. The bonds are issued under the Qualified Zone Academy Bond program. The bonds bear interest at the rate of 1.25%. Interest is reduced through a tax credit. In addition to biannual interest payments, a set-aside amount of \$27,250 is required each year. If necessary, the District will levy taxes upon all taxable property in the District necessary to pay such debt service.

C. Compensated Absences Payable

The Agency has an employee benefit plan that allows employees to accumulate sick and vacation pay days. As of June 30, 2021, the amount of accumulated sick and vacation pay liability for Iosco Regional Educational Service Agency was as follows:

	<u>Current Liability</u>	<u>Long-Term Liability</u>	<u>Total Balance</u>
<u>Primary Government</u>			
Governmental Activities	\$ <u>0</u>	\$ <u>129,329</u>	\$ <u>129,329</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

**NOTE 8 - LONG-TERM LIABILITIES (CONTINUED)**

**D. Changes in Long-Term Liabilities**

The following is a summary of long-term debt transactions of the Agency for the year ended June 30, 2021:

	Balance July 1, 2020	Increase	Decrease	Balance June 30, 2021	Amount Due in One Year
<u>Governmental Activities</u>					
<b>Direct Borrowing:</b>					
Bonds	\$ 765,000	\$ 0	\$ 0	\$ 765,000	\$ 0
Compensated Absences Payable	<u>284,768</u>	<u>0</u>	<u>(155,439) *</u>	<u>129,329</u>	<u>0</u>
Total Long-Term Liabilities	<u>\$ 1,049,768</u>	<u>\$ 0</u>	<u>\$ (155,439)</u>	<u>\$ 894,329</u>	<u>\$ 0</u>

\*Represents net of additions and retirements for the year.

The interest expenses on long-term obligations for the year were \$16,977.

Compensated absences for the governmental funds are generally liquidated by the General, Vocational Education and Special Education funds.

The annual principal and interest requirements for long-term debt for the years after June 30, 2021 are as follows:

Primary Government

**Direct Borrowing:**

*Bonds Payable*

	Government Activities		
	Principal	Interest	Total
2022	\$ 0	\$ 16,977	\$ 16,977
2023	0	16,976	16,976
2024	220,000	16,977	236,977
2025	0	6,812	6,812
2026	0	6,813	6,813
2027 - 2031	0	34,063	34,063
2032 - 2036	<u>545,000</u>	<u>34,062</u>	<u>579,062</u>
Total	<u>\$ 765,000</u>	<u>\$ 132,680</u>	<u>\$ 897,680</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

**NOTE 9 - UNEARNED REVENUE**

Governmental Funds/Activities unearned revenue recognition is in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue are as follows:

General Fund:	
Great Start Readiness	\$ 280,945
Adult Education	115,532
Early Literacy Teacher Coaches	299,175
Behavioral Health Team Pilot	61,286
Mental Health and Support Services	<u>1,505,958</u>
Total General Fund	2,262,896
Special Education Fund:	
Medicaid Revenue	<u>294,300</u>
Total	<u>\$ 2,557,196</u>

**NOTE 10 - OPERATING TRANSFERS**

During the year ended June 30, 2021, the following transfers were made:

<u>Transfer To:</u>	<u>Transfer From:</u>		
	<u>General Fund</u>	<u>Special Education Fund</u>	<u>Total</u>
Non-Major Governmental Funds	\$ <u>100,000</u>	\$ <u>5,000</u>	\$ <u>105,000</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 11 - DEFINED BENEFIT PLAN**

Plan Description

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

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

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 11 - DEFINED BENEFIT PLAN (CONTINUED)

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

The System's financial statements are available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

Benefits Provided

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

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

Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2019 valuation will be amortized over a 19-year period beginning October 1, 2019 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2020.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	19.41%
Member Investment Plan	3.0 - 7.0	19.41
Pension Plus	3.0 - 6.4	16.46
Pension Plus 2	6.2	19.59
Defined Contribution	0.0	13.39

Required contributions to the pension plan from the Agency were \$1,062,923 for the year ended September 30, 2020.

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 11 - DEFINED BENEFIT PLAN (CONTINUED)

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

At June 30, 2021, the Agency reported a liability of \$13,286,331 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2019. The Agency's proportionate share 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, 2020, the Agency's proportionate share percent was 0.03868%, which was an increase of 0.00256% from its proportion measured as of September 30, 2019.

For the year ended June 30, 2021, the Agency recognized pension expense of \$2,415,828. At June 30, 2021, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ 203,004	\$ 28,358
Change of assumptions	1,472,254	0
Net difference between projected and actual earnings on pension plan investments	55,823	0
Changes in proportion and differences between Agency contributions and proportionate share of contributions	922,879	23,543
Agency contributions subsequent to the measurement date	<u>1,039,291</u>	<u>0</u>
Total	<u>\$ 3,693,251</u>	<u>\$ 51,901</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 11 - DEFINED BENEFIT PLAN (CONTINUED)

In addition to the deferred inflows of resources noted above, the District also has \$525,496 in deferred inflows related to the 147(C) UAAL Stabilization allocation from the State of Michigan at year end.

\$513,795 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, 2022. 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 (Inflows) and Deferred Outflows of Resources by Year (To  
Be Recognized in Future Pension Expenses)

	Amount
2021	\$ 1,627,275
2022	826,798
2023	495,488
2024	<u>166,293</u>
	<u>\$ 3,115,854</u>

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

*Summary of Actuarial Assumptions:*

- λ Valuation Date: September 30, 2019
- λ Actuarial Cost Method: Entry Age, Normal
- λ Wage Inflation Rate: 2.75%
- λ Investment Rate of Return:
  - MIP and Basic Plans: 6.80%
  - Pension Plus Plan: 6.80%
  - Pension Plus 2 Plan: 6.00%
- λ Projected Salary Increases: 2.75 - 11.55%, including wage inflation at 2.75%
- λ Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 11 - DEFINED BENEFIT PLAN (CONTINUED)

Mortality: For retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006. For active members: RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

*Notes:*

- Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2020 is based on the results of an actuarial valuation date of September 30, 2019, 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: 4.4892
- λ Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2020 MPSERS Comprehensive Annual Financial Report found on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

Long-Term Expected Rate of 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, 2020, are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	25.0%	5.6%
Private Equity Pools	16.0	9.3
International Equity Pools	15.0	7.4
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	4.9
Absolute Return Pools	9.0	3.2
Real Return/Opportunistic Pools	12.5	6.6
Short-Term Investment Pools	2.0	0.1
	<u>100.0%</u>	

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

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 11 - DEFINED BENEFIT PLAN (CONTINUED)

Rate of Return

For the fiscal year ended September 30, 2020, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 5.37%. 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 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). This discount rate was based on the long term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Agency's proportionate share of the net pension liability, calculated using a discount rate of 6.80% (6.80% for the Pension Plus Plan, 6.0% for the Pension Plus 2 plan), as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1% Decrease 5.8% / 5.8% / 5.0%	Current Single Discount Rate Assumption 6.8% / 6.8% / 6.0%	1% Increase 7.8% / 7.8% / 7.0%
\$ 17,196,902	\$ 13,286,331	\$ 10,045,340

\* Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2.

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR, available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

Payables to the Michigan Public School Employees' Retirement System (MPERS)

At June 30, 2021, there were reported payables to MPERS of \$195,114 which accounts for the total outstanding contributions for all retirement plans, including the 147(C) UAAL Stabilization dollars.

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (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 & 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](http://www.michigan.gov/orsschools).

Benefits Provided

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

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

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

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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, 2019 valuation will be amortized over a 19-year period beginning October 1, 2019 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year ended September 30, 2020.

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.00%	8.09%
Personal Healthcare Fund (PHF)	0.00	7.57

Required contributions to the OPEB plan from the Agency were \$283,874 for the year ended September 30, 2020.

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

At June 30, 2021, the Agency reported a liability of \$2,152,493 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2019. The Agency'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, 2020, the Agency's proportion was 0.04018%, which was an increase of 0.00283% from its proportion measured as of October 1, 2019.

For the year ended June 30, 2021, the Agency recognized OPEB expense of \$40,590. At June 30, 2021, the Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 0	\$ 1,603,809
Changes of assumptions	709,720	0
Net difference between projected and actual earnings on OPEB plan investments	17,965	0
Changes in proportion and differences between Agency contributions and proportionate share of contributions	405,928	9,686
Agency contributions subsequent to the measurement date	<u>208,897</u>	<u>0</u>
Total	<u>\$ 1,342,510</u>	<u>\$ 1,613,495</u>

\$208,897 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

	Deferred (Inflows) and Deferred Outflows of Resources by Year (To Be Recognized in Future OPEB Expenses)
	Amount
2021	\$ 71,084
2022	(112,894)
2023	(83,382)
2024	(72,977)
2025	<u>(72,816)</u>
	<u>\$ (270,985)</u>

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.

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Additional information as of the latest actuarial valuation follows:

*Summary of Actuarial Assumptions:*

- λ Valuation Date: September 30, 2019
- λ Actuarial Cost Method: Entry Age, Normal
- λ Wage Inflation Rate: 2.75%
- λ Investment Rate of Return: 6.95%
- λ Projected Salary Increases: 2.75 - 11.55%, including wage inflation at 2.75%
- λ Healthcare Cost Trend Rate: 7.0% Year 1 graded to 3.5% Year 15; 3.0% Year 120

Mortality: For Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006. For Active Members: RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

λ Other Assumptions:

- Opt-Out Assumption: 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
- Survivor Coverage: 80% of male retirees and 67% of female retirees are assumed to have 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 periods 2012 through 2017 have been adopted by the System for use in the annual OPEB valuations beginning with the September 30, 2017 valuation. The total OPEB liability as of September 30, 2020 is based on the results of an actuarial valuation date of September 30, 2019, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.6018
- λ Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2020 MPSERS Comprehensive Annual Financial Report found on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Long-Term Expected Rate of 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, 2019, 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	25.0%	5.6%
Private Equity Pools	16.0	9.3
International Equity Pools	15.0	7.4
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	4.9
Absolute Return Pools	9.0	3.2
Real Return/Opportunistic Pools	12.5	6.6
Short-Term Investment Pools	2.0	(0.1)
	<u>100.0%</u>	

\*Long-term rates of return are net of administrative expenses and 2.1% inflation.

Rate of Return

For the fiscal year ended September 30, 2020, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 5.24%. 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 6.95% 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 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Agency's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Agency's proportionate share of the net OPEB liability, calculated using a discount rate of 6.95%, as well as what the Agency's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

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NOTES TO FINANCIAL STATEMENTS  
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NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

1% Decrease 5.95%	Current Discount Rate 6.95%	1% Increase 7.95%
\$ 2,765,122	\$ 2,152,493	\$ 1,636,711

Sensitivity of the Agency's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

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

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 1,616,963	\$ 2,152,493	\$ 2,761,593

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2020 MPSERS CAFR, available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

NOTE 13 - DEFERRED COMPENSATION PLANS

The Agency offers its employees participation in the Tax-Deferred Payments (TDP) program through MPSERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program, they must continue until completion of the purchase of the service credit or termination of employment from Iosco Regional Educational Service Agency. Payments into the program are vested once 10 years of service credit have been earned through the MPSERS. Employee contributions to the TDP program totaled \$5,219 for the year ended June 30, 2021.

The Agency also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$87,647 for the year ended June 30, 2021. The assets of the plan are administered and held by 403(b) ASP, a third party administrator.

NOTE 14 - DEFINED CONTRIBUTION PLAN

Plan Description

The Agency's defined contribution pension plan (DC) provides retirement benefits to plan members and beneficiaries. The plan covers employees hired on or after July 1, 2010. The plan is affiliated with the Michigan Public School Employee's Retirement System (MPSERS) Pension Plus Plan of Michigan. Also effective February 2013, former Basic/MIP members could elect to participate in the defined benefit contribution pension plan. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPSERS Board. The plan services are provided by The Office of Retirement Services, exclusively through ING as the plan administrator. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. The report may be obtained by writing to MPSERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 14 - DEFINED CONTRIBUTION PLAN (CONTINUED)

Funding Policy

Prior to February 2013, the Agency employees who were part of the PPP were required to contribute 2% of their earnings for the plan year, unless they elected out of the plan, subject to the limitations of sections 457 of the Internal Revenue Code. Employees could elect to contribute more than 2% in full percent increments. For employees that elected to participate, the employer would match 50% of the contribution up to 1%. Employer contributions were considered a section 401(a) contribution.

Beginning February 2013 and after, the rates vary depending on which plan the active member is a participant of. The School District employees that are part of the PPP with Premium Subsidy or a Personal Healthcare Fund (PHF) are not required to contribute. If they do contribute they can contribute in full percent increments and the employer will match 50% of the contribution up to 1%. For the PPP with PHF the employee and employer contribution is 2% for the PHF.

The following are the DC pension and PHF contribution requirements for each applicable plan option:

- For any new employees hired after September 3, 2012 that elect DC with PHF, the employer pension contribution is 3% and the employee contribution is 6%. For the PHF, both the employee and employer contribution is 2%.
- For Basic, Basic 4%, MIP-Fixed, MIP-Graded and MIP 7% plan members that elect the PHF, the employee and employer contributions are 2% for the PHF only.
- For former Basic/MIP members that elected DC with Premium Subsidy the employer contribution is 4% for the pension only. Employees are not required to contribute, but may, in 1% increments.
- For former Basic/MIP members that elected DC with a PHF, the employer contribution is 4% for the pension. Employees are not required to contribute for pension, but may, in 1% increments. Employee and employer contributions are 2% for the PHF.

Vesting

Employees become 100% vested after four years of service.

Plan Contributions

During the year ended June 30, 2021, the Agency contributed \$52,814 on behalf of eligible employees. Employee contributions amounted to \$103,063 for eligible employees.

NOTE 15 - UNEMPLOYMENT COMPENSATION

The Agency is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Agency must reimburse the Employment Agency for all benefits charged against the Agency. Accrued unemployment compensation was \$0 as of June 30, 2021.

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 16 - RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Agency participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property, casualty and workers' disability compensation. The pools are considered public entity risk pools. The Agency pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The Agency has not been informed of any special assessments being required.

The Agency continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 17 - GOVERNMENTAL REGULATION

Substantially all of the Agency's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the Agency expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the Agency. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

NOTE 18 - CONTINGENCIES

The Agency participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2021, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the Agency expects such amounts, if any, to be immaterial.

NOTE 19 - COMMITMENTS

During the 2020-21 fiscal year, the Board of Education approved various contracts that were not complete at year end, resulting in remaining commitments of \$148,851 at June 30, 2021.

	<u>Total Contract</u>	<u>Remaining Commitment at June 30, 2021</u>
MidWest Transit Equipment - Bus	\$ 113,814	\$ 113,814
Fred Stauer Contracting - Foundation and Cut and Fill for Building Trades House	<u>35,037</u>	<u>35,037</u>
	<u>\$ 148,851</u>	<u>\$ 148,851</u>

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Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2021

NOTE 20 - RELATED PARTY TRANSACTIONS

Iosco Regional Educational Service Agency entered into a contract with the Alternative Educational Academy of Iosco County on August 8, 2012 to oversee the operation of the public school academy. The contract was renewed for the 2020-2021 school year and may be renewed at the end of the term by sole direction of the Iosco Regional Educational Services Agency's Board if it determined that the Academy satisfies the following criteria:

1. The Academy demonstrates improved pupil academic achievement for all groups of pupils and meets the educational goals set forth in the Contract.
2. The Academy complies with the Contract and all applicable law.
3. The Academy meets generally accepted public sector accounting principles and demonstrates sound fiscal stewardship.
4. The Academy maintains adequate student enrollment sufficient to justify continued operation.

Iosco Regional Educational Service Agency received a total of \$100,000 for Administrative Services for the fiscal year ended June 30, 2021, as well as \$44,169 in Authorizer Fees and \$830,281 for Instructional and Support Services. There was an amount due to the Academy at June 30, 2021 of \$686,261, for the money that Iosco Regional Educational Service Agency is holding for the Academy at year end, and an amount due from the Academy of \$1,714 for unpaid services rendered and operating expenses at year end.

NOTE 21 - SUBSEQUENT EVENTS

On September 15, 2021, the Board of Education approved to purchase a new school bus bid from Midwest Transit Equipment for a total cost of \$113,814.

On October 10, 2021, the Agency entered into a purchase agreement to sell the building trades home located at 1612 W. M-55, for \$264,900.

REQUIRED SUPPLEMENTARY INFORMATION

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
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SCHEDULE OF THE AGENCY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN  
(Amounts were determined as of 9/30 of the fiscal year)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Agency's proportion of net pension liability (%)	0.03868 %	0.03612 %	0.03419 %	0.03336 %	0.03210 %	0.02870 %	0.02753 %
Agency's proportionate share of net pension liability	\$ 13,286,331	\$ 11,962,352	\$ 10,279,117	\$ 8,646,165	\$ 8,007,452	\$ 7,010,713	\$ 6,064,213
Agency's covered payroll	\$ 3,583,995	\$ 3,273,525	\$ 2,972,915	\$ 2,787,642	\$ 2,848,258	\$ 2,395,239	\$ 2,365,975
Agency's proportionate share of net pension liability as a percentage of its covered payroll	370.71 %	365.43 %	345.76 %	310.16 %	281.14 %	292.69 %	256.31 %
Plan fiduciary net position as a percentage of pension liability	59.72 %	60.31 %	62.36 %	64.21 %	63.27 %	63.17 %	66.20 %

Notes to the Schedule of the Agency's Proportionate Share of the Net Pension Liability:

**Changes of benefit terms:** There were no changes of benefit terms in 2020.

**Changes of assumptions:** There were no changes of benefit assumptions in 2020.

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

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

SCHEDULE OF THE AGENCY'S PENSION CONTRIBUTIONS  
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN  
(Amounts determined as of 6/30 of each year)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,202,380	\$ 1,038,259	\$ 944,512	\$ 867,134	\$ 788,911	\$ 712,684	\$ 535,732
Contributions in relation to statutorily required contributions*	<u>1,202,380</u>	<u>1,038,259</u>	<u>944,512</u>	<u>867,134</u>	<u>788,911</u>	<u>712,684</u>	<u>535,732</u>
Contribution deficiency (excess)	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Agency's covered payroll	\$ 3,661,206	\$ 3,512,463	\$ 3,183,895	\$ 2,935,074	\$ 2,800,892	\$ 2,641,667	\$ 2,410,269
Contributions as a percentage of covered payroll	32.84 %	29.56 %	29.67 %	29.54 %	28.17 %	26.98 %	22.23 %

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

Notes to the Schedule of the Agency's Contributions:

**Changes of benefit terms:** There were no changes of benefit terms in 2020.

**Changes of assumptions:** There were no changes of benefit assumptions in 2020.

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

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

SCHEDULE OF THE AGENCY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN  
(Amounts were determined as of 9/30 of the fiscal year)

	<u>2021</u>		<u>2020</u>		<u>2019</u>		<u>2018</u>
Agency's proportion of net OPEB liability (%)	0.04018 %		0.03735 %		0.03486 %		0.03342 %
Agency's proportionate share of net OPEB liability	\$ 2,152,493	\$	2,681,143	\$	2,771,146	\$	2,959,939
Agency's covered payroll (OPEB)	\$ 3,583,995	\$	3,273,525	\$	2,972,915	\$	2,787,642
Agency's proportionate share of net OPEB liability as a percentage of its covered payroll	60.06 %		81.90 %		93.21 %		106.18 %
Plan fiduciary net position as a percentage of total OPEB liability	59.44 %		48.46 %		42.95 %		36.39 %

Notes to the Schedule of the Agency's Proportionate Share of the Net OPEB Liability:

**Changes of benefit terms:** There were no changes of benefit terms in 2020.

**Changes of assumptions:** There were no changes of benefit assumptions in 2020.

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

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Tawas City, Michigan

SCHEDULE OF THE AGENCY'S OPEB CONTRIBUTIONS  
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN  
(Amounts determined as of 6/30 of each year)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required OPEB contributions	\$ 343,754	\$ 274,132	\$ 226,474	\$ 210,204
OPEB contributions in relation to statutorily required contributions*	<u>343,754</u>	<u>274,132</u>	<u>226,474</u>	<u>210,204</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Agency's covered payroll (OPEB)	\$ 3,661,206	\$ 3,512,463	\$ 3,183,895	\$ 2,935,074
OPEB contributions as a percentage of covered payroll	9.39 %	7.80 %	7.11 %	7.16 %

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

Notes to the Schedule of the Agency's OPEB Contributions:

**Changes of benefit terms:** There were no changes of benefit terms in 2020.

**Changes of assumptions:** There were no changes of benefit assumptions in 2020.

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

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
GENERAL FUND  
For the Year Ended June 30, 2021

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenues</u>				
Local Sources	\$ 456,984	\$ 431,810	\$ 440,300	\$ 8,490
State Sources	2,066,601	1,961,208	2,090,628	129,420
Federal Sources	130,718	177,564	179,457	1,893
Interdistrict Sources	<u>1,376,000</u>	<u>1,600,436</u>	<u>1,606,384</u>	<u>5,948</u>
Total Revenues	<u>4,030,303</u>	<u>4,171,018</u>	<u>4,316,769</u>	<u>145,751</u>
<u>Expenditures</u>				
Current:				
Instruction	458,281	521,641	515,078	6,563
Support Services	1,392,194	1,123,542	967,275	156,267
Community Services	1,249,625	1,455,944	1,437,820	18,124
Outgoing Transfers to Other Districts	863,941	913,511	887,255	26,256
Capital Outlay	12,000	2,829	2,384	445
Debt Service:				
Interest and Fees on Long-Term Debt	<u>461</u>	<u>461</u>	<u>461</u>	<u>0</u>
Total Expenditures	<u>3,976,502</u>	<u>4,017,928</u>	<u>3,810,273</u>	<u>207,655</u>
Excess of Revenues Over (Under) Expenditures	53,801	153,090	506,496	353,406
<u>Other Financing Sources (Uses)</u>				
Operating Transfers Out	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>0</u>
Net Change in Fund Balances	(46,199)	53,090	406,496	353,406
Fund Balances - Beginning of Year	<u>1,444,691</u>	<u>1,444,691</u>	<u>1,444,691</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 1,398,492</u>	<u>\$ 1,497,781</u>	<u>\$ 1,851,187</u>	<u>\$ 353,406</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
VOCATIONAL EDUCATION FUND  
For the Year Ended June 30, 2021

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenues</u>				
Local Sources	\$ 1,098,059	\$ 1,094,194	\$ 1,099,049	\$ 4,855
State Sources	150,752	462,640	472,564	9,924
Federal Sources	68,224	68,112	68,112	0
Interdistrict Sources	0	15,481	15,481	0
Total Revenues	<u>1,317,035</u>	<u>1,640,427</u>	<u>1,655,206</u>	<u>14,779</u>
<u>Expenditures</u>				
Current:				
Instruction	889,943	925,952	907,299	18,653
Support Services	386,227	392,379	384,233	8,146
Outgoing Transfers to Other Districts	25,500	54,820	52,601	2,219
Capital Outlay	20,000	10,488	9,010	1,478
Debt Service:				
Interest and Fees on Long-Term Debt	3,709	3,709	3,709	0
Total Expenditures	<u>1,325,379</u>	<u>1,387,348</u>	<u>1,356,852</u>	<u>30,496</u>
Net Change in Fund Balances	(8,344)	253,079	298,354	45,275
Fund Balances - Beginning of Year	<u>2,176,340</u>	<u>2,176,340</u>	<u>2,176,340</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 2,167,996</u>	<u>\$ 2,429,419</u>	<u>\$ 2,474,694</u>	<u>\$ 45,275</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
SPECIAL EDUCATION FUND  
For the Year Ended June 30, 2021

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenues</u>				
Local Sources	\$ 2,107,769	\$ 1,882,076	\$ 1,884,119	\$ 2,043
State Sources	1,171,918	1,462,583	1,473,169	10,586
Federal Sources	1,375,670	1,381,732	1,382,952	1,220
Interdistrict Sources	306,090	287,297	298,831	11,534
Total Revenues	<u>4,961,447</u>	<u>5,013,688</u>	<u>5,039,071</u>	<u>25,383</u>
<u>Expenditures</u>				
Current:				
Instruction	1,846,640	2,042,263	2,009,517	32,746
Support Services	2,247,453	1,924,097	1,892,157	31,940
Community Services	161,473	149,088	134,130	14,958
Outgoing Transfers to Other Districts	838,566	633,743	625,732	8,011
Capital Outlay	301,596	296,127	298,032	(1,905)
Debt Service:				
Interest and Fees on Long-Term Debt	<u>2,643</u>	<u>2,643</u>	<u>2,643</u>	<u>0</u>
Total Expenditures	<u>5,398,371</u>	<u>5,047,961</u>	<u>4,962,211</u>	<u>85,750</u>
Excess of Revenues Over (Under) Expenditures	(436,924)	(34,273)	76,860	111,133
<u>Other Financing Sources (Uses)</u>				
Operating Transfers Out	<u>0</u>	<u>0</u>	<u>(5,000)</u>	<u>(5,000)</u>
Net Change in Fund Balances	(436,924)	(34,273)	71,860	106,133
Fund Balances - Beginning of Year	<u>1,268,387</u>	<u>1,268,387</u>	<u>1,268,387</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 831,463</u>	<u>\$ 1,234,114</u>	<u>\$ 1,340,247</u>	<u>\$ 106,133</u>

## OTHER INFORMATION

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
June 30, 2021

	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	
	<u>Food Service Fund</u>	<u>Durant Capital Project Fund</u>	<u>Total Other Governmental Funds</u>
<u>Assets</u>			
Cash and Cash Equivalents	\$ 5,000	\$ 386,068	\$ 391,068
Receivables:			
Due from Other Governmental Units	<u>1,532</u>	<u>0</u>	<u>1,532</u>
Total Assets	<u>\$ 6,532</u>	<u>\$ 386,068</u>	<u>\$ 392,600</u>
 <u>Liabilities</u>			
Due to Other Funds	\$ <u>3,834</u>	\$ <u>1,211</u>	\$ <u>5,045</u>
 <u>Fund Equity</u>			
Fund Balances:			
Restricted For:			
Capital Projects	0	384,857	384,857
Assigned To:			
Food Service	<u>2,698</u>	<u>0</u>	<u>2,698</u>
Total Fund Equity	<u>2,698</u>	<u>384,857</u>	<u>387,555</u>
Total Liabilities and Fund Equity	<u>\$ 6,532</u>	<u>\$ 386,068</u>	<u>\$ 392,600</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2021

	Special Revenue Fund	Capital Projects Fund	
	Food Service Fund	Durant Capital Project Fund	Total Other Governmental Funds
<u>Revenues</u>			
Local Sources	\$ 0	\$ 399	\$ 399
State Sources	203	0	203
Federal Sources	9,766	0	9,766
Total Revenues	<u>9,969</u>	<u>399</u>	<u>10,368</u>
<u>Expenditures</u>			
Current:			
Food Services	12,754	0	12,754
Capital Outlay	0	438,950	438,950
Total Expenditures	<u>12,754</u>	<u>438,950</u>	<u>451,704</u>
Excess of Revenues Over (Under) Expenditures	(2,785)	(438,551)	(441,336)
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In	<u>5,000</u>	<u>100,000</u>	<u>105,000</u>
Net Change in Fund Balances	2,215	(338,551)	(336,336)
Fund Balances - Beginning of Year	<u>483</u>	<u>723,408</u>	<u>723,891</u>
Fund balances - End of Year	<u>\$ 2,698</u>	<u>\$ 384,857</u>	<u>\$ 387,555</u>

INDIVIDUAL FUND SCHEDULES

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

GENERAL FUND  
DETAILS OF REVENUES COMPARED TO BUDGET  
For the Year Ended June 30, 2021  
With Comparative Totals for the Year Ended June 30, 2020

	2021 Amended Budget	2021 Actual	2020 Actual
<u>Local Sources</u>			
Current Property Taxes	\$ 353,129	\$ 353,181	\$ 343,916
Drivers Education Tuition	37,280	41,950	36,725
Interest on Investments	3,000	3,178	51,228
Miscellaneous Local Sources	<u>38,401</u>	<u>41,991</u>	<u>65,638</u>
	<u>431,810</u>	<u>440,300</u>	<u>497,507</u>
<u>State Sources</u>			
State Aid Foundation Allowance	318,594	318,594	361,778
Great Start Readiness	741,355	830,642	725,587
Adult Education	552,496	552,084	503,487
Mental Health & Support	50,265	50,880	74,519
Motorcycle Safety Grant	38,167	37,611	25,181
MPERS Cost Offset and Reforms	16,318	29,427	21,339
MPERS UAAL Rate Stabilization	146,028	172,968	118,474
Other State Revenue	<u>97,985</u>	<u>98,422</u>	<u>112,449</u>
	<u>1,961,208</u>	<u>2,090,628</u>	<u>1,942,814</u>
<u>Federal Sources</u>			
Adult Education	94,976	94,976	90,718
Eisenhower Professional Development Grant	26,519	26,519	17,534
Positive Youth Development Grant	31,594	33,487	24,451
GEER Funds	7,891	7,891	0
MiConnect Grant	<u>16,584</u>	<u>16,584</u>	<u>0</u>
	<u>177,564</u>	<u>179,457</u>	<u>132,703</u>
<u>Interdistrict Sources</u>			
Improvement of Instruction	<u>1,600,436</u>	<u>1,606,384</u>	<u>1,365,179</u>
Total Revenues and Other Financing Sources	\$ <u>4,171,018</u>	\$ <u>4,316,769</u>	\$ <u>3,938,203</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2021  
With Comparative Totals for the Year Ended June 30, 2020

	2021 Amended Budget	2021 Actual	2020 Actual
<u>Instruction</u>			
Added Needs:			
Vocational Education			
Supplies, Materials and Other	\$ 8,752	\$ 8,752	\$ 0
Adult Education			
Basic:			
Salaries	279,732	278,839	276,762
Employee Benefits	108,481	107,188	104,420
Purchased Services	49,910	49,158	65,494
Supplies, Materials and Other	74,766	71,141	49,734
	<u>512,889</u>	<u>506,326</u>	<u>496,410</u>
Total Instruction	<u>521,641</u>	<u>515,078</u>	<u>496,410</u>
<u>Support Services</u>			
Pupil Services:			
Attendance Services			
Salaries	7,050	7,050	0
Employee Benefits	18,216	17,216	0
Purchased Services	0	0	18,488
Supplies, Materials and Other	15	15	0
	<u>25,281</u>	<u>24,281</u>	<u>18,488</u>
Health Services			
Employee Benefits	2,037	2,037	0
Supplies, Materials and Other	500	70	0
	<u>2,537</u>	<u>2,107</u>	<u>0</u>
Pupil Support Services			
Purchased Services	152,016	48,628	88,115
Supplies, Materials and Other	6,393	6,131	4,463
	<u>158,409</u>	<u>54,759</u>	<u>92,578</u>
Total Pupil Services	<u>186,227</u>	<u>81,147</u>	<u>111,066</u>
Instructional Staff:			
Instructional Improvement			
Salaries	82,225	81,461	77,418
Employee Benefits	16,962	16,961	20,199
Purchased Services	94,519	94,171	115,234
	<u>193,706</u>	<u>192,593</u>	<u>212,851</u>
Computer Assisted Instruction			
Supplies, Materials and Other	<u>9,035</u>	<u>9,035</u>	<u>0</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2021  
With Comparative Totals for the Year Ended June 30, 2020

	2021 Amended Budget	2021 Actual	2020 Actual
<u>Support Services</u> (Continued)			
Instructional Staff: (Continued)			
Supervision and Direction of Instructional Staff			
Salaries	\$ 15,000	\$ 15,000	\$ 0
Employee Benefits	8,075	8,075	0
Supplies, Materials and Other	288	571	0
	<u>23,363</u>	<u>23,646</u>	<u>0</u>
Total Instructional Staff	<u>226,104</u>	<u>225,274</u>	<u>212,851</u>
General Administration:			
Board of Education			
Salaries	3,600	2,760	2,340
Purchased Services	21,660	19,838	33,020
Supplies, Materials and Other	6,661	6,934	6,188
	<u>31,921</u>	<u>29,532</u>	<u>41,548</u>
Executive Administration			
Salaries	214,954	214,954	158,588
Employee Benefits	121,072	98,235	90,536
Purchased Services	12,093	11,088	8,337
Supplies, Materials and Other	4,000	3,715	1,375
	<u>352,119</u>	<u>327,992</u>	<u>258,836</u>
Total General Administration	<u>384,040</u>	<u>357,524</u>	<u>300,384</u>
School Administration:			
Special Education			
Salaries	8,810	8,656	17,110
Employee Benefits	23,488	21,908	37,843
Purchased Services	20,170	17,412	14,950
Supplies, Materials and Other	27,732	25,078	22,463
	<u>80,200</u>	<u>73,054</u>	<u>92,366</u>
Business:			
Fiscal Services			
Salaries	11,557	11,557	1,361
Employee Benefits	15,774	12,808	7,137
Purchased Services	4,500	3,300	8,525
Supplies, Materials and Other	8,200	6,876	4,859
Other Expenditures	822	882	1,084
	<u>40,853</u>	<u>35,423</u>	<u>22,966</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

GENERAL FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2021  
With Comparative Totals for the Year Ended June 30, 2020

	2021 Amended Budget	2021 Actual	2020 Actual
<u>Support Services</u> (Continued)			
Operations and Maintenance:			
Salaries	\$ 11,898	\$ 11,898	\$ 15,006
Employee Benefits	12,558	9,411	12,596
Purchased Services	25,761	22,358	6,400
Supplies, Materials and Other	6,443	7,003	0
	<u>56,660</u>	<u>50,670</u>	<u>34,002</u>
Transportation:			
Purchased Services	8,960	7,555	12,949
Supplies, Materials and Other	3,500	2,449	452
	<u>12,460</u>	<u>10,004</u>	<u>13,401</u>
Central Services:			
Staff and Personnel Services			
Salaries	62,111	62,111	61,011
Employee Benefits	31,416	25,009	27,002
	<u>93,527</u>	<u>87,120</u>	<u>88,013</u>
Technology			
Salaries	15,516	15,517	15,251
Employee Benefits	8,358	5,649	7,731
Purchased Services	10,850	19,884	0
Supplies, Materials and Other	8,747	6,009	6,568
	<u>43,471</u>	<u>47,059</u>	<u>29,550</u>
Total Central Services	<u>136,998</u>	<u>134,179</u>	<u>117,563</u>
Total Support Services	<u>1,123,542</u>	<u>967,275</u>	<u>904,599</u>
<u>Community Services</u>			
Other Community Services:			
Salaries	806,223	795,845	678,967
Employee Benefits	596,968	591,185	468,738
Purchased Services	5,500	5,514	814
Supplies, Materials and Other	47,253	45,276	31,467
	<u>1,455,944</u>	<u>1,437,820</u>	<u>1,179,986</u>
Total Community Services	<u>1,455,944</u>	<u>1,437,820</u>	<u>1,179,986</u>
<u>Outgoing Transfers to Other Districts</u>			
Adult Education	173,515	147,905	115,656
Great Start Readiness Transfers	739,996	739,350	712,910
	<u>913,511</u>	<u>887,255</u>	<u>828,566</u>
Total Outgoing Transfers to Other Districts	<u>913,511</u>	<u>887,255</u>	<u>828,566</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
 For the Year Ended June 30, 2021  
With Comparative Totals for the Year Ended June 30, 2020

	2021 Amended Budget	2021 Actual	2020 Actual
<u>Capital Outlay</u>			
Support Services	\$ 329	\$ 329	\$ 21,542
Community Services	<u>2,500</u>	<u>2,055</u>	<u>1,552</u>
Total Capital Outlay	<u>2,829</u>	<u>2,384</u>	<u>23,094</u>
<u>Debt Service</u>			
Interest and Fees on Long-Term Debt	<u>461</u>	<u>461</u>	<u>461</u>
<u>Other Financing Uses</u>			
Operating Transfers Out	<u>100,000</u>	<u>100,000</u>	<u>300,000</u>
Total Expenditures	<u>\$ 4,117,928</u>	<u>\$ 3,910,273</u>	<u>\$ 3,733,116</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

VOCATIONAL EDUCATION FUND  
DETAILS OF REVENUES COMPARED TO BUDGET  
For the Year Ended June 30, 2021  
With Comparative Totals for the Year Ended June 30, 2020

	2021 Amended Budget	2021 Actual	2020 Actual
<u>Local Sources</u>			
Current Property Taxes	\$ 1,082,007	\$ 1,082,007	\$ 1,051,344
Interest on Investments	1,508	1,794	25,861
Contributions	6,000	6,000	18,435
Miscellaneous Local Sources	4,679	9,248	10,427
	<u>1,094,194</u>	<u>1,099,049</u>	<u>1,106,067</u>
<u>State Sources</u>			
Vocational Education	368,095	368,095	1,431,865
Michigan Rehab Services	0	0	6,252
MPSERS Cost Offset and Reforms	8,717	14,168	11,839
MPSERS UAAL Rate Stabilization	78,817	83,290	65,734
Other State Revenue	7,011	7,011	7,559
	<u>462,640</u>	<u>472,564</u>	<u>1,523,249</u>
<u>Federal Sources</u>			
Career and Technical Education	<u>68,112</u>	<u>68,112</u>	<u>71,895</u>
<u>Interdistrict Sources</u>			
Improvement of Instruction	<u>15,481</u>	<u>15,481</u>	<u>573</u>
Total Revenues	<u>\$ 1,640,427</u>	<u>\$ 1,655,206</u>	<u>\$ 2,701,784</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

VOCATIONAL EDUCATION FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2021  
With Comparative Totals for the Year Ended June 30, 2020

	2021 Amended Budget	2021 Actual	2020 Actual
<u>Instruction</u>			
Added Needs:			
Special Education			
Supplies, Materials and Other	\$ 3,000	\$ 3,746	\$ 2,979
 Vocational Education			
Salaries	424,344	422,268	384,304
Employee Benefits	348,996	347,355	276,717
Purchased Services	21,673	20,806	26,705
Supplies, Materials and Other	126,779	112,114	81,910
Other Expenses	260	110	989
	<u>922,052</u>	<u>902,653</u>	<u>770,625</u>
 At Risk			
Employee Benefits	900	900	1,230
 Total Instruction	<u>925,952</u>	<u>907,299</u>	<u>774,834</u>
<u>Support Services</u>			
Pupil Services:			
Guidance Services			
Salaries	8,645	8,645	9,078
 Health Services			
Supplies, Materials and Other	3,600	3,072	2,754
 Total Pupil Services	<u>12,245</u>	<u>11,717</u>	<u>11,832</u>
 Instructional Staff:			
Computer Assisted Instruction			
Supplies, Materials and Other	0	481	0
 Supervision and Direction of Instructional Staff			
Salaries	2,500	2,500	2,500
 Total Instructional Staff:	<u>2,500</u>	<u>2,981</u>	<u>2,500</u>
 School Administration:			
Office of the Principal			
Salaries	90,516	90,517	86,922
Employee Benefits	76,307	75,458	69,012
Purchased Services	25,080	20,948	22,623
Supplies, Materials and Other	6,100	5,904	6,514
	<u>198,003</u>	<u>192,827</u>	<u>185,071</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

VOCATIONAL EDUCATION FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2021  
With Comparative Totals for the Year Ended June 30, 2020

Support Services (Continued)

School Administration: (Continued)			
Central Office			
Supplies, Materials and Other	\$ 150	\$ 104	\$ 169
Total School Administration	198,153	192,931	185,240
Business:			
Fiscal Services			
Salaries	8,776	8,776	8,605
Employee Benefits	7,385	7,585	6,243
	16,161	16,361	14,848
Operations and Maintenance:			
Salaries	28,000	27,497	16,790
Employee Benefits	23,287	22,223	13,155
Purchased Services	61,900	61,946	51,427
Supplies, Materials and Other	3,500	3,124	0
	116,687	114,790	81,372
Transportation:			
Other Expenses	5,063	4,860	5,958
Central Services:			
Technology			
Salaries	15,516	15,516	15,251
Employee Benefits	8,335	7,358	6,933
Supplies, Materials and Other	64	64	0
	23,915	22,938	22,184
Academic Student Assessment			
Purchased Services	720	720	0
Planning, Research, Development, and Evaluation			
Salaries	16,935	16,935	18,234
Total Central Services	41,570	40,593	40,418
Total Support Services	392,379	384,233	342,168
<u>Outgoing Transfers to Other Districts</u>			
Adult Education	3,767	3,767	3,767
Early/Middle College	51,053	48,834	1,150,503
Total Outgoing Transfers to Other Districts	54,820	52,601	1,154,270

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

VOCATIONAL EDUCATION FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2021  
With Comparative Totals for the Year Ended June 30, 2020

Capital Outlay

Instruction	\$ 5,000	\$ 3,522	\$ 15,712
Community Services	<u>5,488</u>	<u>5,488</u>	<u>42,258</u>
Total Capital Outlay	<u>10,488</u>	<u>9,010</u>	<u>57,970</u>

Debt Service

Interest and Fees on Long-Term Debt	<u>3,709</u>	<u>3,709</u>	<u>3,709</u>
Total Expenditures	<u>\$ 1,387,348</u>	<u>\$ 1,356,852</u>	<u>\$ 2,332,951</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

SPECIAL EDUCATION FUND  
DETAILS OF REVENUES COMPARED TO BUDGET  
For the Year Ended June 30, 2021  
With Comparative Totals for the Year Ended June 30, 2020

	2021 Amended Budget	2021 Actual	2020 Actual
<u>Local Sources</u>			
Current Property Taxes	\$ 1,063,793	\$ 1,060,790	\$ 1,032,965
Interest on Investments	950	1,010	14,904
Contributions	0	0	100
Medicaid Fee for Service	283,965	283,965	299,491
Volkswagon Bus Grant	524,098	524,098	0
Miscellaneous Local Sources	<u>9,270</u>	<u>14,256</u>	<u>8,885</u>
	<u>1,882,076</u>	<u>1,884,119</u>	<u>1,356,345</u>
<u>State Sources</u>			
Special Education	1,144,531	1,144,531	1,033,003
MPERS Cost Offset and Reforms	32,157	45,795	39,425
MPERS UAAL Rate Stabilization	280,652	269,239	227,917
Other State Revenue	<u>5,243</u>	<u>13,604</u>	<u>0</u>
	<u>1,462,583</u>	<u>1,473,169</u>	<u>1,300,345</u>
<u>Federal Sources</u>			
Medicaid Outreach	6,700	7,920	9,209
Special Education	1,369,562	1,369,562	1,317,087
GEER Funds	<u>5,470</u>	<u>5,470</u>	<u>0</u>
	<u>1,381,732</u>	<u>1,382,952</u>	<u>1,326,296</u>
<u>Interdistrict Sources</u>			
Special Education and Other Programs	284,712	296,246	277,195
Improvement of Instruction	<u>2,585</u>	<u>2,585</u>	<u>0</u>
	<u>287,297</u>	<u>298,831</u>	<u>277,195</u>
Total Revenues	<u>\$ 5,013,688</u>	<u>\$ 5,039,071</u>	<u>\$ 4,260,181</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

SPECIAL EDUCATION FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2021  
With Comparative Totals for the Year Ended June 30, 2020

	2021 Amended Budget	2021 Actual	2020 Actual
<u>Instruction</u>			
Basic Programs:			
Preschool			
Supplies, Materials and Other	\$ 4,200	\$ 2,905	\$ 2,770
Added Needs:			
Special Education			
Salaries	549,339	546,140	558,722
Employee Benefits	397,105	408,145	365,783
Supplies, Materials and Other	0	3,954	167
	<u>946,444</u>	<u>958,239</u>	<u>924,672</u>
Trainable Mentally Impaired			
Salaries	241,902	230,784	230,502
Employee Benefits	219,045	194,166	167,989
Purchased Services	1,519	1,239	3,129
Supplies, Materials and Other	12,300	11,679	13,296
	<u>474,766</u>	<u>437,868</u>	<u>414,916</u>
Severely Mentally Impaired			
Salaries	60,957	59,070	57,395
Employee Benefits	40,496	40,481	35,969
Purchased Services	217,727	226,929	129,343
Supplies, Materials and Other	5,070	4,590	7,501
	<u>324,250</u>	<u>331,070</u>	<u>230,208</u>
Preschool Health			
Salaries	77,952	77,362	81,995
Employee Benefits	18,090	15,038	18,285
	<u>96,042</u>	<u>92,400</u>	<u>100,280</u>
Hearing Impaired			
Salaries	57,571	57,666	31,302
Employee Benefits	21,836	21,889	11,135
Purchased Services	100,000	92,691	80,013
Supplies, Materials and Other	1,100	1,044	963
	<u>180,507</u>	<u>173,290</u>	<u>123,413</u>
Visually Impaired			
Salaries	12,591	11,489	1,138
Employee Benefits	963	879	87
Purchased Services	1,300	1,088	448
Supplies, Materials and Other	1,000	181	17
	<u>15,854</u>	<u>13,637</u>	<u>1,690</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

SPECIAL EDUCATION FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2021  
With Comparative Totals for the Year Ended June 30, 2020

	2021 Amended Budget	2021 Actual	2020 Actual
<u>Instruction (Continued)</u>			
Added Needs: (Continued)			
Resource Room			
Purchased Services	\$ 200	\$ 108	\$ 213
Supplies, Materials and Other	<u>0</u>	<u>0</u>	<u>231</u>
	<u>200</u>	<u>108</u>	<u>444</u>
 Total Added Needs	 <u>2,038,063</u>	 <u>2,006,612</u>	 <u>1,795,623</u>
 Total Instruction	 <u>2,042,263</u>	 <u>2,009,517</u>	 <u>1,798,393</u>
<u>Support Services</u>			
Pupil Services:			
Attendance Services			
Supplies, Materials and Other	<u>0</u>	<u>0</u>	<u>3,256</u>
 Guidance Services			
Purchased Services	<u>200</u>	<u>243</u>	<u>0</u>
 Health Services			
Salaries	174,901	167,137	156,107
Employee Benefits	109,823	105,041	98,349
Purchased Services	1,395	1,334	1,067
Supplies, Materials and Other	<u>5,500</u>	<u>4,399</u>	<u>3,866</u>
	<u>291,619</u>	<u>277,911</u>	<u>259,389</u>
 Speech			
Salaries	79,506	80,004	81,016
Employee Benefits	70,242	66,928	40,489
Purchased Services	<u>11,200</u>	<u>10,982</u>	<u>2,065</u>
	<u>160,948</u>	<u>157,914</u>	<u>123,570</u>
 Special Education Teacher Consultant			
Salaries	0	0	2,161
Employee Benefits	<u>466</u>	<u>466</u>	<u>694</u>
	<u>466</u>	<u>466</u>	<u>2,855</u>
 Pupil Support Services			
Supplies, Materials and Other	<u>0</u>	<u>0</u>	<u>594</u>
 Total Pupil Services	 <u>453,233</u>	 <u>436,534</u>	 <u>389,664</u>
 Instructional Staff:			
Instructional Improvement			
Supplies, Materials and Other	<u>0</u>	<u>0</u>	<u>13,000</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

SPECIAL EDUCATION FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2021  
With Comparative Totals for the Year Ended June 30, 2020

	2021 Amended Budget	2021 Actual	2020 Actual
<u>Support Services</u> (Continued)			
Instructional Staff: (Continued)			
Computer Assisted Instruction			
Supplies, Materials and Other	\$ 0	\$ 200	\$ 0
Supervision and Direction of Instructional Staff			
Employee Benefits	57,730	65,245	0
Purchased Services	3,060	3,060	0
	<u>60,790</u>	<u>68,305</u>	<u>0</u>
Director of Special Education			
Salaries	101,211	101,861	90,144
Employee Benefits	25,622	25,147	55,130
Purchased Services	61,012	55,387	118,214
Supplies, Materials and Other	5,000	3,474	5,065
	<u>192,845</u>	<u>185,869</u>	<u>268,553</u>
Total Instructional Staff	<u>253,635</u>	<u>254,374</u>	<u>281,553</u>
School Administration:			
Central Office			
Purchased Services	68,746	67,494	70,220
Supplies, Materials and Other	12,037	11,417	10,564
	<u>80,783</u>	<u>78,911</u>	<u>80,784</u>
Business:			
Fiscal Services			
Salaries	39,938	39,938	45,371
Employee Benefits	29,958	30,209	32,855
Purchased Services	3,291	2,300	2,085
Supplies, Materials and Other	4,500	3,813	2,626
	<u>77,687</u>	<u>76,260</u>	<u>82,937</u>
Staff Secretary			
Salaries	13,261	13,107	13,015
Employee Benefits	15,327	16,372	13,428
	<u>28,588</u>	<u>29,479</u>	<u>26,443</u>
Total Business	<u>106,275</u>	<u>105,739</u>	<u>109,380</u>
Operations and Maintenance:			
Salaries	19,830	19,830	15,006
Employee Benefits	18,292	19,792	12,153
Purchased Services	54,269	52,874	38,982
Supplies, Materials and Other	4,845	4,271	0
	<u>97,236</u>	<u>96,767</u>	<u>66,141</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

SPECIAL EDUCATION FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2021  
With Comparative Totals for the Year Ended June 30, 2020

	2021 Amended Budget	2021 Actual	2020 Actual
<u>Support Services</u> (Continued)			
Transportation:			
Salaries	\$ 280,897	\$ 280,204	\$ 335,816
Employee Benefits	237,849	225,869	248,952
Purchased Services	104,018	107,144	82,553
Supplies, Materials and Other	<u>78,825</u>	<u>72,602</u>	<u>70,090</u>
	<u>701,589</u>	<u>685,819</u>	<u>737,411</u>
Central Services:			
ISD Planner/Monitor			
Salaries	79,275	79,275	68,998
Employee Benefits	35,851	35,851	25,389
Purchased Services	<u>8,375</u>	<u>8,375</u>	<u>8,213</u>
	<u>123,501</u>	<u>123,501</u>	<u>102,600</u>
Technology			
Salaries	61,369	61,839	59,540
Employee Benefits	46,276	48,498	43,563
Supplies, Materials and Other	<u>200</u>	<u>175</u>	<u>0</u>
	<u>107,845</u>	<u>110,512</u>	<u>103,103</u>
Total Central Services	<u>231,346</u>	<u>234,013</u>	<u>205,703</u>
Total Support Services	<u>1,924,097</u>	<u>1,892,157</u>	<u>1,870,636</u>
<u>Community Services</u>			
Early Intervention			
Salaries	86,573	76,048	102,713
Employee Benefits	55,475	49,603	71,024
Purchased Services	622	622	2,364
Supplies, Materials and Other	<u>6,418</u>	<u>7,857</u>	<u>4,618</u>
Total Community Services	<u>149,088</u>	<u>134,130</u>	<u>180,719</u>
<u>Outgoing Transfers to Other Districts</u>			
Medicaid Transfers	158,000	149,988	156,792
Volkswagen Grant Transfers	<u>475,743</u>	<u>475,744</u>	<u>0</u>
Total Outgoing Transfers to Other Districts	<u>633,743</u>	<u>625,732</u>	<u>156,792</u>
<u>Capital Outlay</u>			
Instruction	0	1,905	30,312
Support Services	<u>296,127</u>	<u>296,127</u>	<u>95,532</u>
Total Capital Outlay	<u>296,127</u>	<u>298,032</u>	<u>125,844</u>
<u>Debt Service</u>			
Interest and Fees on Long-Term Debt	<u>2,643</u>	<u>2,643</u>	<u>2,643</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

SPECIAL EDUCATION FUND  
DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2021  
With Comparative Totals for the Year Ended June 30, 2020

	<u>2021 Amended Budget</u>	<u>2021 Actual</u>	<u>2020 Actual</u>
<u>Operating Transfers Out</u>			
Operating Transfers Out	\$ <u>0</u>	\$ <u>5,000</u>	\$ <u>0</u>
Total Expenditures	\$ <u><u>5,047,961</u></u>	\$ <u><u>4,967,211</u></u>	\$ <u><u>4,135,027</u></u>



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IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
TAWAS CITY, MICHIGAN

SINGLE AUDIT REPORTS  
YEAR ENDED JUNE 30, 2021

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October 15, 2021

**INDEPENDENT AUDITORS' 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**

Board of Education  
Iosco Regional Educational Service Agency  
Tawas City, Michigan

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 Iosco Regional Educational Service Agency as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Iosco Regional Educational Service Agency's basic financial statements and have issued our report thereon dated October 15, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Iosco Regional Educational Service Agency's internal control over financial reporting (internal control) as a basis for designing 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 Iosco Regional Educational Service Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Iosco Regional Educational Service Agency'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 Iosco Regional Educational Service Agency'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*.

Board of Education  
losco Regional Educational Service Agency  
October 15, 2021  
Page Two

**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.

*Stephenson & Company, P.C.*



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October 15, 2021

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

Board of Education  
Iosco Regional Educational Service Agency  
Tawas City, Michigan

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

We have audited Iosco Regional Educational Service Agency'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 Iosco Regional Educational Service Agency's major federal programs for the year ended June 30, 2021. Iosco Regional Educational Service Agency's major federal programs are identified in the summary of auditors' 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.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Iosco Regional Educational Service Agency'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 Iosco Regional Educational Service Agency'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 Iosco Regional Educational Service Agency's compliance.

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

In our opinion, Iosco Regional Educational Service Agency 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, 2021.

*Report on Internal Control Over Compliance*

Management of Iosco Regional Educational Service Agency 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 Iosco Regional Educational Service Agency'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 Iosco Regional Educational Service Agency's internal control over compliance.

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

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

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

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Iosco Regional Educational Service Agency as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Iosco Regional Educational Service Agency's basic financial statements. We issued our report thereon dated October 15, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Stephenson & Company, P.C.*

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2021

Summary of Auditors' Results

1. The auditors' report expresses unmodified opinions on the financial statements of Iosco Regional Educational Service Agency.
2. No material weaknesses in internal control relating to the audit of the financial statements are reported in the Independent Auditors' 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 Iosco Regional Educational Service Agency, which are required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses relating to the audit of internal control over major federal award programs are reported in the Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditors' report on compliance for the major federal award programs for Iosco Regional Educational Service Agency expresses an unmodified opinion.
6. No audit findings relative to the major federal award programs for Iosco Regional Educational Service Agency are reported in this schedule.
7. The programs tested as major programs included: Special Education Cluster, CFDA 84.027A and 84.173A.
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Iosco Regional Educational Service Agency does not qualify as a low-risk auditee.

Findings - Financial Statement Audit

There were no findings related to the financial statements which were required to be reported in accordance with generally accepted government auditing standards for the year ended June 30, 2021.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ended June 30, 2021.

IOSCO REGIONAL EDUCATION SERVICE AGENCY  
Tawas City, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2021

Federal Grantor or Pass Through Grantor <u>Program Title/Grantor's Number</u>	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2020	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2021	Current Year Cash Transferred to Subrecipients
<u>U.S. Department of Agriculture</u>								
Child Nutrition Cluster:								
Passed through Michigan Department of Education:								
Cash Assistance:								
School Breakfast Program:								
201970	10.553	\$ 3,846	\$ 3,172	\$ 0	\$ 674	\$ 674	0	\$ 0
211970		4,195	0	0	4,195	3,429	766	0
		8,041	3,172	0	4,869	4,103	766	0
National School Lunch Program:								
201960	10.555	4,197	3,473	0	724	724	0	0
211960		4,173	0	0	4,173	3,416	757	0
		8,370	3,473	0	4,897	4,140	757	0
Total U.S. Department of Agriculture		16,411	6,645	0	9,766	8,243	1,523	0
<u>U.S. Department of Treasury</u>								
Passed through Copper Country ISD:								
Coronavirus Relief Funds (COVID-19)	21.019							
MAISA Device Purchasing Program/Distance Learning Grant		16,584	0	0	16,584	16,584	0	0
<u>U.S. Department of Education</u>								
Passed through Michigan Department of Education:	84.002							
Federal Adult Education 201130 201710		80,000	80,000	80,000	0	80,000	0	0
Federal Adult Education 201190 201710		10,718	10,718	10,718	0	10,718	0	0
Federal Adult Education 211130 211710		84,000	0	0	84,000	84,000	0	0
Federal Adult Education 211190 211710		10,976	0	0	10,976	10,976	0	0
		185,694	90,718	90,718	94,976	185,694	0	0
Special Education Cluster:								
Handicapped and Preschool Programs:								
Passed through Michigan Department of Education:								
Special Education - General Supervision 210493 - GSG	84.027A	125,400	0	0	125,400	125,400	0	0
Handicapped and Preschool Programs:								
Passed through Michigan Department of Education:								
Special Education Flow Through 200450 1920	84.027A	1,124,360	1,115,557	302,518	0	302,518	0	0
Special Education Flow Through 210450 2021		1,151,334	0	0	1,143,226	1,002,132	141,094	0
		2,275,694	1,115,557	302,518	1,143,226	1,304,650	141,094	0

The accompanying notes are an integral part of this schedule.

IOSCO REGIONAL EDUCATION SERVICE AGENCY  
Tawas City, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2021

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2020	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2021	Current Year Cash Transferred to Subrecipients
<u>U.S. Department of Education (Continued)</u>								
Special Education Cluster (Continued):								
Special Education - Preschool Grants:								
Passed through Michigan Department of Education:								
Special Education Preschool 210460 2021	84.173A	\$ 41,995	\$ 0	\$ 0	\$ 41,995	\$ 41,995	\$ 0	\$ 0
Total Special Education Cluster		<u>2,443,089</u>	<u>1,115,557</u>	<u>302,518</u>	<u>1,310,621</u>	<u>1,472,045</u>	<u>141,094</u>	<u>0</u>
Passed through Clare Gladwin Educational Service District:								
Secondary CTE Perkins 203520	84.048A	71,895	71,895	19,442	0	19,442	0	0
Secondary CTE Perkins 213520		<u>68,112</u>	<u>0</u>	<u>0</u>	<u>68,112</u>	<u>64,182</u>	<u>3,930</u>	<u>0</u>
		<u>140,007</u>	<u>71,895</u>	<u>19,442</u>	<u>68,112</u>	<u>83,624</u>	<u>3,930</u>	<u>0</u>
Passed through Michigan Department of Education:								
Special Education - Grants for Infants and Families:								
Early On Michigan 201340 1920	84.181	55,598	55,598	55,598	0	55,598	0	0
Early On Michigan 211340 2021		<u>58,941</u>	<u>0</u>	<u>0</u>	<u>58,941</u>	<u>58,941</u>	<u>0</u>	<u>0</u>
		<u>114,539</u>	<u>55,598</u>	<u>55,598</u>	<u>58,941</u>	<u>114,539</u>	<u>0</u>	<u>0</u>
Passed through Michigan Department of Education:								
McKinney-Vento Homeless Education Assistance Act								
Homeless Students' Assistance Grants 202320	84.196	39,980	18,521	0	5,312	5,312	0	0
Homeless Students' Assistance Grants 212320		<u>43,810</u>	<u>0</u>	<u>0</u>	<u>28,175</u>	<u>26,282</u>	<u>1,893</u>	<u>0</u>
		<u>83,790</u>	<u>18,521</u>	<u>0</u>	<u>33,487</u>	<u>31,594</u>	<u>1,893</u>	<u>0</u>
Passed through Michigan Department of Education:								
Small Rural School Achievement Program:								
S358A192395	84.358A	21,413	17,534	0	3,879	3,879	0	0
S358A203636		<u>22,640</u>	<u>0</u>	<u>0</u>	<u>22,640</u>	<u>22,640</u>	<u>0</u>	<u>0</u>
		<u>44,053</u>	<u>17,534</u>	<u>0</u>	<u>26,519</u>	<u>26,519</u>	<u>0</u>	<u>0</u>
Passed through Michigan Department of Education:								
GEER Funding (COVID-19)								
201200 2021	84.425C	7,891	0	0	7,891	7,891	0	0
201230 2021		<u>5,470</u>	<u>0</u>	<u>0</u>	<u>5,470</u>	<u>5,470</u>	<u>0</u>	<u>0</u>
		<u>13,361</u>	<u>0</u>	<u>0</u>	<u>13,361</u>	<u>13,361</u>	<u>0</u>	<u>0</u>
Total U.S. Department of Education		<u>3,024,533</u>	<u>1,369,823</u>	<u>468,276</u>	<u>1,606,017</u>	<u>1,927,376</u>	<u>146,917</u>	<u>0</u>

The accompanying notes are an integral part of this schedule.

IOSCO REGIONAL EDUCATION SERVICE AGENCY  
Tawas City, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2021

Federal Grantor or Pass Through Grantor <u>Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2020</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2021</u>	<u>Current Year Cash Transferred to Subrecipients</u>
<u>U.S. Department of Health and Human Services</u>								
Passed through Michigan Department of Community Health:								
Title XIX Medical Assistance Program:								
Medicaid Outreach Claims 19-20	93.778	\$ 9,209	\$ 9,209	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,894
Medicaid Outreach Claims 20-21		<u>7,920</u>	<u>0</u>	<u>0</u>	<u>7,920</u>	<u>5,141</u>	<u>2,779</u>	<u>0</u>
		<u>17,129</u>	<u>9,209</u>	<u>0</u>	<u>7,920</u>	<u>5,141</u>	<u>2,779</u>	<u>4,894</u>
Total Federal Financial Awards		<u>\$ 3,074,657</u>	<u>\$ 1,385,677</u>	<u>\$ 468,276</u>	<u>\$ 1,640,287</u>	<u>\$ 1,957,344</u>	<u>\$ 151,219</u>	<u>\$ 4,894</u>

The accompanying notes are an integral part of this schedule.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2021

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Iosco Regional Education Service Agency under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Iosco Regional Education Service Agency, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Iosco Regional Education Service Agency.

Note 2 - Summary of Significant Accounting Policies

- A. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
- B. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
- C. The amounts reported on the R7120, Grants Section Auditors' Report, reconcile with this schedule.
- D. Iosco Regional Education Service Agency did not elect to use a flat de minimus rate of 10% of modified total direct costs for their indirect cost rate.

Note 3 - Reconciliation to Financial Statements:

General Fund	\$ 179,457
Vocational Education	68,112
Special Education	1,382,952
Food Service Fund	<u>9,766</u>
 Federal Revenue on the Schedule of Expenditures of Federal Awards	 <u>\$ 1,640,287</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY  
Tawas City, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 PROVIDED TO SUBRECIPIENTS  
For the Year Ended June 30, 2021

<u>Federal Program Title/Subrecipient</u>	<u>Project Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>Due to Subrecipient July 1, 2020</u>	<u>Current Year Transfer to Subrecipient</u>	<u>Current Year Subrecipient Federal Expenditures</u>	<u>Adjustments</u>	<u>Due to Subrecipient June 30, 2021</u>
Title XIX Medical Assistance Program: Medicaid Outreach Claims:		93.778	N/A					
2019-2020								
Hale Area Schools				\$ 454	\$ 454	\$ 0	\$ 0	\$ 0
Oscoda Area Schools				2,049	2,049	0	0	0
Tawas Area Schools				1,476	1,476	0	0	0
Whittemore-Prescott Area Schools				915	915	0	0	0
Total Federal Awards Provided to Subrecipients				4,894	4,894	0	0	0
2020-2021								
Hale Area Schools				0	0	524	0	524
Oscoda Area Schools				0	0	2,117	0	2,117
Tawas Area Schools				0	0	1,201	0	1,201
Whittemore-Prescott Area Schools				0	0	137	0	137
				0	0	3,979	0	3,979
Total Federal Awards Provided to Subrecipients				\$ 4,894	\$ 4,894	\$ 3,979	\$ 0	\$ 3,979



# IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY

27 NORTH REMPERT ROAD, TAWAS CITY, MI 48763

PHONE: (989) 362-3006 • FAX: (989) 362-9076

## **Summary Schedule of Prior Year Audit Findings:**

### **Findings – Financial Statements Audit**

There were no findings related to the financial statements which were required to be reported in accordance with generally accepted government auditing standards for the year ended June 30, 2020.

### **Findings and Questioned Costs – Major Federal Award Programs Audit**

There were no findings related to major federal award programs which were required to be reported in accordance with generally accepted government auditing standards for the year ended June 30, 2020.



*Stephenson & Company, P.C.*  
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA  
Robert J. Morand, CPA  
Brenden A. Stephenson, CPA/PFS, CFP®  
Cynthia R. Scott, CPA, CFE

October 15, 2021

Management and the Board  
Iosco Regional Education Service Agency  
27 N. Rempert Road  
Tawas City, MI 48763

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Iosco Regional Education Service Agency for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 29, 2021. Professional standards also require that we communicate to you the following information related to our audit. The appendices to this letter set forth those communications as follows:

I Communication with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the Agency during the audit and met with management on September 24, 2021. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, others within the Agency and the Michigan Department of Education and are not intended to be, and should not be, used by anyone other than those specified parties.

Very truly yours,

*Stephenson & Company, P.C.*

## **APPENDIX I**

### **COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE**

#### **Significant Audit Matters**

##### **Qualitative Aspects of Accounting Practices**

- Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Iosco Regional Education Service Agency are described in Note 1 to the financial statements. We noted no transactions entered into by the Iosco Regional Education Service Agency during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.
- Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the Iosco Regional Education Service Agency's financial statements were:

Management's estimate of the net pension liability and the net OPEB liability are based on the actuarial valuations audited by the Auditor General. We evaluated the key factors and assumptions used to develop the net pension liability and net OPEB liability in determining that They are reasonable in relation to the financial statements taken as a whole.

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

##### **Difficulties Encountered in Performing the Audit**

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

##### **Corrected and Uncorrected Misstatement**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The adjustments identified during the audit have been communicated to management. A summary of audit differences, both adjusted and unadjusted was provided to and accepted by management on October 15, 2021. Management has determined that the effects of the unadjusted audit differences are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

##### **Disagreements with Management**

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

##### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated October 15, 2021.

##### **Management Consultations with Other Independent Accountants**

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

##### **Other Audit Findings or Issues**

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

## **APPENDIX I**

### **COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE**

#### **Other Matters**

We applied certain limited procedures to the Management Discussion and Analysis, the Budgetary Comparison Information, and the Required Pension and OPEB Schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Combining Nonmajor Funds and Individual Fund Financial Statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

## **APPENDIX II MANAGEMENT COMMENTS**

In planning and performing our audit of the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the losco Regional Education Service Agency as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the losco Regional Education Service Agency's internal control over financial reporting (internal control) as a basis for designing 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 losco Regional Education Service Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the losco Regional Education Service Agency'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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

During our audit, we did however become aware of the following deficiencies in internal control other than significant deficiencies or material weaknesses, or other matters that are opportunities for strengthening internal controls and operating efficiency.

### **FINANCIAL STATEMENT PREPARATION CONTROLS**

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the Agency's financial statements. However, if at any point in the audit we as auditors are part of the Agency's control system for producing reliable financial statements, auditing standards indicate that the Agency has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. The effect of this deficiency is that reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles (GAAP) and the Agency would not be in a position to detect the errors or omissions. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

### **TIMELINESS OF THIRD-PARTY DRIVER TESTING DEPOSITS**

During our audit, it was noted that third-party driver testing deposits were not always deposited in a timely manner. Although management currently has good controls in place to ensure that all earned revenues are received and deposited, the deposits for some drivers were not consistently brought to the Agency office within one week of the event. This delay makes it difficult for any potential issues uncovered by the control process to be followed up on. We recommend that the Agency strive to ensure that the driver testing deposits are made in a timely fashion within one week of the test taking place.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various governmental unit personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

**APPENDIX II**  
**MANAGEMENT COMMENTS**

**STATUS OF PRIOR YEAR COMMENTS:**

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Financial Statement Preparation Controls				X