EATON REGIONAL EDUCATION SERVICE AGENCY

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional supplementary information)

YEAR ENDED JUNE 30, 2019

Maner Costerisan
Certified Public Accountants
Business & Technology Advisors

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Eaton Regional Education Service Agency

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 Eaton Regional Education Service Agency, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Eaton Regional Education Service Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management discussion and analysis and 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 Eaton Regional Education Service Agency's basic financial statements. The additional supplementary information, as identified in the table of contents, including the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The additional supplementary information including the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audits 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the 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 8, 2019 on our consideration of Eaton Regional Education 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 Eaton 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 Eaton Regional Education Service Agency's internal control over financial reporting and compliance.

Maney Costerisan PC

October 8, 2019

EATON REGIONAL EDUCATION SERVICE AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

As management of the Eaton Regional Education Service 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, 2019.

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 supplementary and additional information that presents all the Agency's revenue and expenditures by program.

Financial Highlights

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

Governmental-wide statements:

- The liabilities and deferred inflows of resources of the Agency exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by ($21,962,611) (*net position*).

Fund level statements:

- As of the close of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of $7,736,990, a decrease of $835,082 in comparison with the prior year.

- At the end of the current fiscal year, the aggregated fund balances for the Agency's operating funds (general fund, special education fund, and career and technical education fund) was $5,863,236 or 14% of the total expenditures of these operating funds. On pages 20 and 21 you will find a breakdown of the fund balance of the three operating funds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of the Agency's basic financial statements. The Agency's basic financial statements comprise 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, deferred outflows of resources, liabilities, and deferred inflows of resources, and with the difference between these reported as net position. Over time, increases and 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. earned but unused vacation leave).

Both of the government-wide financial statements display functions of the Agency that are principally supported by taxes and intergovernmental revenues (governmental activities). The activities of the Agency include instruction, support services, community service and transfers to locals and other services. The Agency has no business-type activities as of and for the year ended June 30, 2019.

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 the funds of the Agency fall within the governmental fund type category.

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 the 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 government 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 fund balance sheet and the governmental fund 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 numerous governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special education fund, career and technical education fund, and the 2018 capital projects fund, each of which are considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Agency adopts annual appropriated budgets for its general, special education and career and technical education budgets. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

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.

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 pension and OPEB related information.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Our auditor has provided assurance in their independent auditor's 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 Additional Information identified above. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each of the other parts in the financial section.

Government-wide Financial Analysis

The following table shows the Agency's net position as of June 30, 2019 and 2018.

Eaton Regional Education Service Agency
District's Net Position

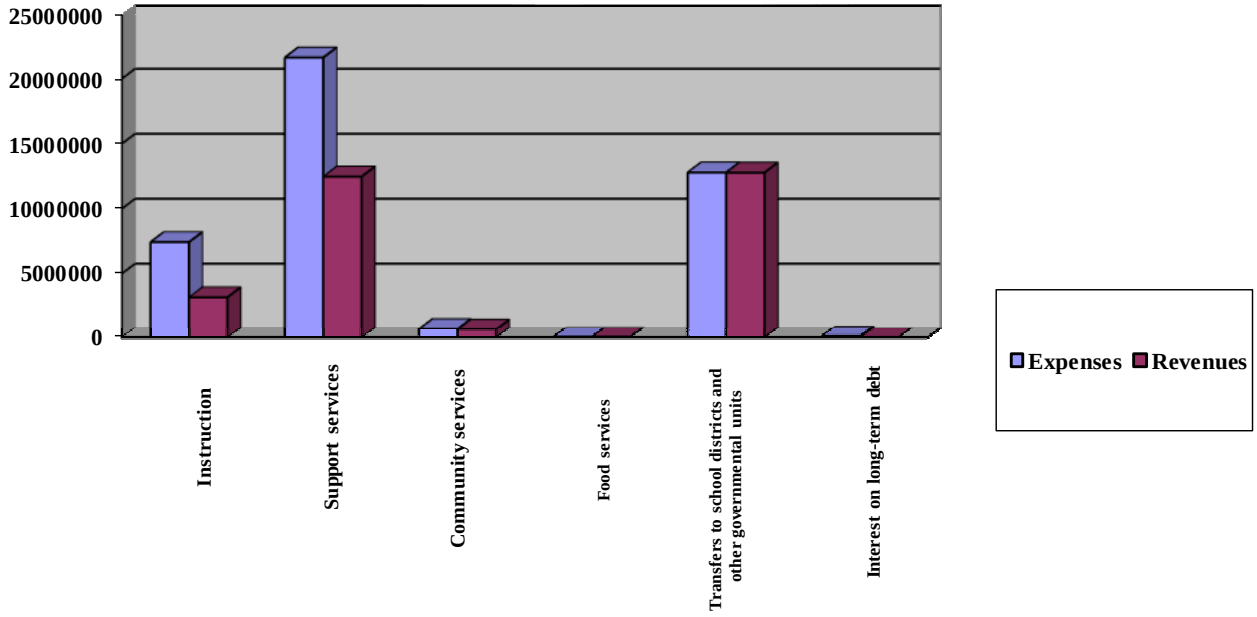
	2019	2018
Assets:		
Current assets	$ 13,177,352	$ 12,538,249
Capital assets	6,022,742	4,806,493
Total assets	19,200,094	17,344,742
Deferred outflows of resources	14,597,484	8,069,043
Liabilities:		
Current liabilities	5,459,050	3,983,959
Noncurrent liabilities	3,379,709	3,576,993
Net pension liability	32,123,687	26,440,435
Net other postemployment benefit liability	8,858,127	9,069,524
Total liabilities	49,820,573	43,070,911
Deferred inflows of resources	5,939,616	3,215,112
Net position:		
Net investment in capital assets	3,780,667	3,781,687
Unrestricted	(25,743,278)	(24,653,925)
Total net position	$ (21,962,611)	$ (20,872,238)

Eaton Regional Education Service Agency
Changes in Net Position

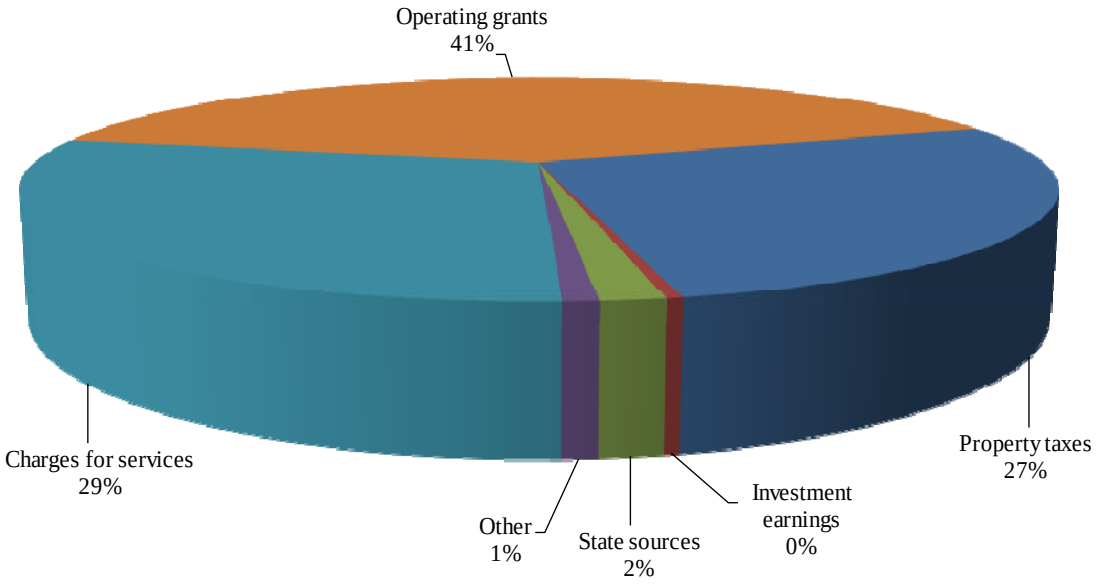
	Governmental Activities	
	2019	**2018**
Revenue:		
Program revenue:		
Charges for services	$ 12,099,949	$ 12,391,823
Operating grants	17,042,973	15,169,784
General revenue:		
Property taxes, levied for general purposes	535,296	509,558
Property taxes, levied for special education	8,051,342	7,659,250
Property taxes, levied for career and technical education	2,676,175	2,512,831
Investment earnings	170,084	53,800
State sources	681,583	694,248
Other	375,901	394,305
Total revenue	41,633,303	39,385,599
Expenses:		
Instruction	7,426,911	6,547,096
Supporting services	21,632,265	19,823,656
Community services	726,654	216,503
Food Services	34,473	-
Transfers to school districts and other governmental units	12,792,428	12,551,941
Interest on long-term debt	110,945	29,824
Total expenses	42,723,676	39,169,020
Change in net position	(1,090,373)	216,579
Net position, beginning of year	(20,872,238)	(21,088,817)
Net position, end of year	$ (21,962,611)	$ (20,872,238)

Governmental Activities. Net position decreased by $1,090,373.

Expenses and Program Revenues - Governmental Activities
Year ended June 30, 2019



Revenues by Source - Agency Activities
Year ended June 30, 2019



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, special education fund, and career and technical education fund.

During the fiscal year ended June 30, 2019, the Agency amended the budgets of these major governmental funds two times.

General Fund - The general fund actual revenue was $9.14 million. That amount is above the original budget estimate of $7.54 million and below the final budget amendment of $9.78 million.

The actual expenditures of the general fund were $10.99 million, which is above the original budget of $9.71 million and below the final amendment of $11.65 million. The variance can be attributed to state grant expenditures.

General fund had total revenues of $9.14 million plus transfers in of $1.94 million and total expenditures of $10.99 million plus transfers out of $0.07 million resulting in a net increase of $0.02 million and an ending fund balance of $1.81 million.

Special Education Fund - The special education fund actual revenue was $28.03 million. That amount is above the original budget of $27.25 million and above the final amendment of $28.01 million.

The actual expenditures of the special education fund were $25.58 million, which is above the original budget of $25.08 million and below the final amendment of $26.03 million. The variance was the result of containing expenditures throughout the special education fund.

Special education fund had total revenue of $28.03 million and total expenditures of $25.58 million plus transfers out of $2.07 million resulting in a net increase of $0.39 million and an ending fund balance of $1.09 million.

Career and Technical Education Fund - The career and technical education fund actual revenue was $4.56 million. That amount is above the original budget of $4.42 million and above the final amendment of $4.48 million.

The actual expenditures were $4.24 million, which is below the original budget of $4.27 million and below the final amendment of $4.47 million. The variance was the result of lower than expected tuition costs.

Career and technical education fund had total revenue of $4.56 million and total expenditures of $4.24 million plus transfers out of $0.24 million resulting in a net increase of $0.08 million and an ending fund balance of $2.96 million.

Governmental Funds - The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, unassigned fund balance may serve as a useful measure of an agency's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Agency. At the end of the current fiscal year, unassigned fund balance was $1,441,978, while total fund balance of the general fund was $1,806,687. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 13% of total general fund expenditures and operating transfers out, while total fund balance represents 16%.

The fund balance of the Agency's general fund increased by $16,349 during the current fiscal year. The largest revenue source in this fund is state revenue which includes state aid. Expenditures consist primarily of costs associated with supporting early education, learning resources, executive administration and fiscal services of the Agency.

The special education fund at year end had restricted fund balance of $1,087,527, while total fund balance of the special education fund was $1,094,552. Restricted fund balance represents approximately 4% of total special education fund expenditures and operating transfers out, while total fund balance also represents approximately 4%.

The fund balance of the Agency's special education fund increased by $389,732 from the prior year. These resources are restricted for special education programs administered by the Agency and transfers to local districts for special education programs. The largest portion of this fund's revenues come from local revenue which includes property taxes while the largest expenditures are for the center and categorical programs and pupil support services to the local districts which include a large number of itinerant staff.

The career and technical education fund at year end had restricted fund balance of $2,137,530, while total fund balance of the career and technical education fund was $2,961,997, which includes the commitment of $816,308 for early technical college purposes. Restricted fund balance represents approximately 48% of total career and technical education fund expenditures and operating transfers out, while total fund balance represents approximately 66%.

The fund balance of the Agency's career and technical education fund increased by $75,468 from the prior year. These resources are restricted for career and technical education purposes. The largest portion of this fund's revenues comes from property taxes while the expenditures are for the programs at the Technical Center.

Capital Assets and Debt Administration

Capital Assets - At the end of fiscal year 2019, the Agency had $9.47 million invested in land, buildings, and office and instructional equipment. Of this amount, $3.44 million in depreciation has been taken over the years. The Agency has net capital assets of $6.02 million.

Eaton Regional Education Service Agency's
Capital Assets (Net of Depreciation)
June 30,

	2019	2018
Construction in process	$ 519,851	$ 648,759
Buildings and improvements	7,920,668	6,699,957
Furniture, fixtures, and equipment	972,097	637,007
Vehicles and buses	54,458	55,566
Subtotal	9,467,074	8,041,289
Accumulated depreciation	3,444,332	3,234,796
Total	$ 6,022,742	$ 4,806,493

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

The Agency's long-term obligations at June 30, 2019 is $3,379,709, additional information can be found in Note 7 of this report.

Economic Factors and Next Year's Budget

At the time these financial statements were prepared and audited, the Agency was aware of existing circumstances that could affect its financial health in the future.

The Agency receives a substantial amount of its operating funds from local property taxes. An increase in property tax revenues is expected in 2019-20 due to an increase in property values and additions to the tax rolls. These funds will increase revenues in all three of the Agency's major funds.

The Agency is continuing efforts to improve the collection and use of instructional data and has committed to provide supports to build the capacity in constituent school districts over the next three years. Resources for this work will come from the General Fund. Management will continue efforts to ensure that an adequate fund balance is maintained in this fund.

The Agency is committed to provide special education programs including center based classrooms based on the needs of its constituent districts. If a need for additional classrooms is identified, costs for expanded services will be factored into the Special Education Funding system which was successfully implemented in 2016-17. Under this system, constituent school districts purchase staff and student program services from the agency under a bill back system. Thus, as services expand, bill backs are adjusted. In this manner, the Agency will be able to maintain a healthy Special Education Fund in which revenues and expenditures remain steady.

Career and Technical Education funds from the State of Michigan for Early Technical College programs decreased in 2018-19. However, the Agency's fund balance will allow programming to continue.

The Agency successfully negotiated a successor contract with its professional personnel bargaining unit prior to the June 30, 2018 expiration date. Management and union personnel reached a four year agreement which includes new pay scales that are within current market comparable salaries. This contract covers about sixty percent of the Agency's personnel. Additionally, the Agency settled a contract with its support personnel group prior to the close of the 2018-19 fiscal year. Both contracts will provide the Agency with much needed budgeting and forecasting information.

Finally, the Agency sold $3.3 million in general non-voted obligation bonds during the 2017-18 fiscal year and is currently in the process of renovating its facilities. The renovations include a major overhaul of the heating and cooling systems, building improvements, and technology upgrades. Projects are scheduled to be completed in 2020.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional information, contact Tina Monroe, Executive Director of Finance & Operations, Eaton Regional Education Service Agency, 1790 E. Packard Highway, Charlotte, MI 48813.

BASIC FINANCIAL STATEMENTS

EATON REGIONAL EDUCATION SERVICE AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental activities
ASSETS:	
Cash and cash equivalents	$ 5,052,182
Investments	3,544,562
Receivables:	
Accounts receivable	1,764
Taxes receivable	494
Intergovernmental	4,388,471
Prepaids	189,879
Capital assets, not being depreciated	519,851
Capital assets, net of accumulated depreciation	5,502,891
TOTAL ASSETS	19,200,094
DEFERRED OUTFLOWS OF RESOURCES:	
Related to pension	12,303,046
Related to other postemployment benefit	2,294,438
	14,597,484
LIABILITIES:	
Accounts payable	1,062,832
Accrued salaries and related items	911,326
Accrued retirement	466,544
Accrued expenditures	216,972
Retainage payable	29,939
Accrued interest	18,688
Intergovernmental payable	1,142,279
Unearned revenue	1,610,470
Noncurrent liabilities:	
Due within one year	125,000
Due in more than one year	3,254,709
Net pension liability	32,123,687
Net other postemployment benefit liability	8,858,127
TOTAL LIABILITIES	49,820,573
DEFERRED INFLOWS OF RESOURCES:	
Related to pension	2,690,527
Related to other postemployment benefit	2,015,402
Related to state funding for pension	1,233,687
TOTAL DEFERRED INFLOWS OF RESOURCES	5,939,616
NET POSITION:	
Net investment in capital assets	3,780,667
Unrestricted	(25,743,278)
TOTAL NET POSITION	$ (21,962,611)

See notes to financial statements.

EATON REGIONAL EDUCATION SERVICE AGENCY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

Functions/programs	Expenses	Program revenues: Charges for services	Program revenues: Operating grants	Governmental activities: Net (expense) revenue and changes in net position
Governmental activities:				
Instruction	$ 7,426,911	$ 30,862	$ 3,146,778	$ (4,249,271)
Support services	21,632,265	2,369,465	10,102,072	(9,160,728)
Community services	726,654	237,650	443,013	(45,991)
Food services	34,473	-	34,473	-
Transfers to school districts and other governmental units	12,792,428	9,461,972	3,316,637	(13,819)
Interest on long-term debt	110,945	-	-	(110,945)
Total governmental activities	$ 42,723,676	$ 12,099,949	$ 17,042,973	(13,580,754)
General revenues:				
Property taxes, levied for general purposes				535,296
Property taxes, levied for special education				8,051,342
Property taxes, levied for career and technical education				2,676,175
Investment earnings				170,084
State sources not restricted to specific purposes				681,583
Other				375,901
Total general revenues				12,490,381
CHANGE IN NET POSITION				(1,090,373)
NET POSITION, beginning of year				(20,872,238)
NET POSITION, end of year				$ (21,962,611)

See notes to financial statements.

EATON REGIONAL EDUCATION SERVICE AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	General fund	Special revenue: Special education fund	Special revenue: Career and technical education fund	2018 capital projects fund	Total nonmajor funds	Total governmental funds
ASSETS						
ASSETS:						
Cash and cash equivalents	$ 1,898,608	$ 1,008,294	$ 1,381,023	$ -	$ 764,257	$ 5,052,182
Investments	282,896	150,982	1,680,265	1,430,419	-	3,544,562
Receivables:						
Accounts receivable	238	39	1,487	-	-	1,764
Property taxes receivable	23	353	118	-	-	494
Intergovernmental	1,479,865	2,541,737	366,869	-	-	4,388,471
Due from other funds	17,234	-	-	-	-	17,234
Prepaids	174,695	7,025	8,159	-	-	189,879
TOTAL ASSETS	$ 3,853,559	$ 3,708,430	$ 3,437,921	$ 1,430,419	$ 764,257	$ 13,194,586
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	$ 269,253	$ 504,807	$ 15,023	$ 264,624	$ 9,125	$ 1,062,832
Accrued salaries and related items	160,800	668,390	82,136	-	-	911,326
Accrued retirement	103,299	322,482	40,763	-	-	466,544
Accrued expenditures	26,934	174,377	15,661	-	-	216,972
Retainage payable	-	-	-	29,939	-	29,939
Intergovernmental payable	390,899	429,039	322,341	-	-	1,142,279
Due to other funds	-	-	-	17,234	-	17,234
Unearned revenue	1,095,687	514,783	-	-	-	1,610,470
TOTAL LIABILITIES	2,046,872	2,613,878	475,924	311,797	9,125	5,457,596
FUND BALANCES:						
Nonspendable:						
Prepaids	174,695	7,025	8,159	-	-	189,879

See notes to financial statements.

	General fund	Special revenue: Special education fund	Special revenue: Career and technical education fund	2018 capital projects fund	Total nonmajor funds	Total governmental funds
FUND BALANCES (Concluded):						
Restricted:						
Capital projects	$ -	$ -	$ -	$ 1,118,622	$ -	$ 1,118,622
Special education	-	1,087,527	-	-	-	1,087,527
Career and technical education	-	-	2,953,838	-	-	2,953,838
Assigned:						
Debt service	-	-	-	-	28,491	28,491
Capital projects	-	-	-	-	726,641	726,641
Subsequent year expenditures	190,014	-	-	-	-	190,014
Unassigned	1,441,978	-	-	-	-	1,441,978
TOTAL FUND BALANCES	1,806,687	1,094,552	2,961,997	1,118,622	755,132	7,736,990
TOTAL LIABILITIES AND FUND BALANCES	$ 3,853,559	$ 3,708,430	$ 3,437,921	$ 1,430,419	$ 764,257	$ 13,194,586
Total governmental fund balances						$ 7,736,990
Amounts reported for governmental activities in the statement of net position are different because:						
Deferred outflows of resources - related to pension						12,303,046
Deferred inflows of resources - related to pension						(2,690,527)
Deferred outflows of resources - related to other postemployment benefit						2,294,438
Deferred inflows of resources - related to other postemployment benefit						(2,015,402)
Deferred inflows of resources - related to state funding for pension						(1,233,687)
Capital assets used in governmental activities are not financial resources and are not reported in the funds:						
The cost of the capital assets is					$ 9,467,074	
Accumulated depreciation is					(3,444,332)	
						6,022,742
Long-term obligations are not due and payable in the current period and are not reported in the funds:						
General obligation bonds payable						(3,360,697)
Compensated absences						(19,012)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid						(18,688)
Net pension liability						(32,123,687)
Net other postemployment benefit liability						(8,858,127)
Net position of governmental activities						$ (21,962,611)

See notes to financial statements.

EATON REGIONAL EDUCATION SERVICE AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019

		Special revenue				
	General fund	Special education fund	Career and technical education fund	2018 Capital projects fund	Total nonmajor funds	Total governmental funds
REVENUES:						
Local sources:						
Property taxes	$ 535,296	$ 8,051,342	$ 2,676,175	$ -	$ -	$ 11,262,813
Investment earnings	27,648	86,832	11,184	44,420	-	170,084
Other	319,771	1,305,157	1,171	-	9,705	1,635,804
Total local sources	882,715	9,443,331	2,688,530	44,420	9,705	13,068,701
State sources	4,679,629	7,099,969	1,252,322	-	-	13,031,920
Federal sources	856,893	3,643,203	352,311	-	34,473	4,886,880
Interdistrict sources and other	2,725,702	7,851,519	262,825	-	-	10,840,046
Total revenues	9,144,939	28,038,022	4,555,988	44,420	44,178	41,827,547
EXPENDITURES:						
Current:						
Instruction	2,020,317	2,344,849	2,523,829	-	-	6,888,995
Supporting services	6,454,909	12,250,655	1,686,273	-	-	20,391,837
Community service activities	649,416	56,188	6,038	-	-	711,642
Outgoing transfers to other districts	1,866,297	10,931,061	22,550	-	-	12,819,908
Food service	-	-	-	-	35,129	35,129
Capital outlay	-	-	-	1,444,884	77,000	1,521,884
Debt service:						
Principal repayment	-	-	-	-	180,000	180,000
Interest expense	-	-	-	-	113,234	113,234
Total expenditures	10,990,939	25,582,753	4,238,690	1,444,884	405,363	42,662,629

See notes to financial statements.

	General fund	Special revenue: Special education fund	Special revenue: Career and technical education fund	2018 Capital projects fund	Total nonmajor funds	Total governmental funds
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ (1,846,000)	$ 2,455,269	$ 317,298	$ (1,400,464)	$ (361,185)	$ (835,082)
OTHER FINANCING SOURCES (USES):						
Transfers in	1,937,037	-	-	-	445,018	2,382,055
Transfers out	(74,688)	(2,065,537)	(241,830)	-	-	(2,382,055)
Total other financing sources (uses)	1,862,349	(2,065,537)	(241,830)	-	445,018	-
NET CHANGE IN FUND BALANCES	16,349	389,732	75,468	(1,400,464)	83,833	(835,082)
FUND BALANCES:						
Beginning of year	1,790,338	704,820	2,886,529	2,519,086	671,299	8,572,072
End of year	$ 1,806,687	$ 1,094,552	$ 2,961,997	$ 1,118,622	$ 755,132	$ 7,736,990

See notes to financial statements.

EATON REGIONAL EDUCATION SERVICE AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

Net change in fund balances total governmental funds	$	(835,082)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense		(291,704)
Capital outlay		1,507,953
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:		
Accrued interest payable, beginning of the year		17,782
Accrued interest payable, end of the year		(18,688)
The issuance of long term obligations (e.g. bonds) provides current financial resources to governmental funds, while repayment of principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term and related items are as follows:		
Payments on obligations		180,000
Amortization of premium on bond issuance		3,195
Compensated absences 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:		
Accrued compensated absences, beginning of the year		33,101
Accrued compensated absences, end of the year		(19,012)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:		
Pension related items		(1,618,164)
Other postemployment benefit related items		117,010
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows to section 147c pension contributions subsequent to the measurement period:		
State aid funding for pension, beginning of the year		1,066,923
State aid funding for pension, end of the year		(1,233,687)
Change in net position of governmental activities	$	(1,090,373)

See notes to financial statements.

EATON REGIONAL EDUCATION SERVICE AGENCY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2019

	Agency fund
ASSETS:	
Cash and cash equivalents	$ 16,247
LIABILITIES:	
Accounts payable	$ 757
Due to student groups	15,490
Total liabilities	$ 16,247

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Agency. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

B. Reporting Entity

The Eaton Regional Education Service Agency (the "Agency") is governed by the Eaton Regional Education Service Agency Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the Agency. The Agency receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the Agency is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the Agency's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

C. Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the Agency's funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Continued)

The Agency reports the following major governmental funds:

The *general fund* is the Agency's primary operating fund. It accounts for all financial resources of the Agency, except those required to be accounted for in another fund.

Special revenue funds:

The *special education fund* accounts for revenue sources that are legally restricted to expenditures for special education programs.

The *career and technical education fund* accounts for revenue sources that are legally restricted to expenditures for career and technical education.

The *2018 capital projects fund* accounts for the receipt of debt proceeds and the acquisition or construction of capital facilities or equipment held by the Agency.

The capital projects fund include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the Agency has complied with the applicable provisions of §1351a of the Revised School Code. The cumulative revenues and expenditures recognized for the construction period were as follows:

	2019
Revenue, not including proceeds	$ 48,608
Expenditures and transfers	$ 2,293,878

The above revenue figure does not include 2018 bond proceeds and premium of $3,363,892.

Other Nonmajor Funds

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *food service fund* accounts for revenue sources that are legally restricted to expenditures for food service programs.

The *general, special education, and career and technical education capital projects funds* account for the accumulation of resources for the construction/purchase of construction/capital assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Concluded)

Fiduciary Funds

Fiduciary funds account for assets held by the Agency in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the Agency holds for others in an agency capacity. These funds are not reported on the Agency's financial statements.

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

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources.* The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the current year ended, the foundation allowance was based on pupil membership counts.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes which may be levied at a rate up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

The Agency also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the Agency.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue funds. Other funds do not have appropriated budgets.

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

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

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

2. Public hearings are conducted to obtain taxpayer comments.

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund and the major special revenue funds are noted in the required supplementary information section.

4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

5. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2019. The Agency does not consider these amendments to be significant.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Cash and cash equivalents

   The Agency's cash and cash equivalents are considered to be cash on hand and demand deposits.

2. Investments

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

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

3. Inventories and prepaid items

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

   Inventories of the career and technical education fund are comprised principally of land held for a future building site, including property taxes.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

4. Capital assets

Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of 2 years. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Land and construction in progress are not depreciated. The other property, plant, and equipment of the Agency are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Lives
Buildings and improvements	20 - 50 years
Furniture, fixtures and equipment	5 - 20 years
Vehicles and buses	8 years

5. Defined benefit plans

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

6. Deferred outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Agency has two items that qualify for reporting in this category. They are pension and other postemployment benefit related items reported in the government-wide statement of net position. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

7. Deferred inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Agency has three items that qualify for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period. The second and third items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

8. Net position flow assumption

Sometimes the Agency will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Agency's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Concluded)

9. Fund balance flow assumptions

Sometimes the Agency will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Agency's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Agency itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Agency's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the Agency that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Agency for specific purposes but do not meet the criteria to be classified as committed. The Board of Education has by resolution authorized the superintendent or their designee to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenues and Expenditures/Expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

Property taxes levied by the Agency are collected by various municipalities and periodically remitted to the Agency. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

Property taxes receivable are recorded net of allowances for uncollectible taxes.

For the year ended June 30, 2019, the Agency levied the following amounts per $1,000 of assessed valuation:

Fund	Mills
General fund	0.1843
Special revenue funds:	
Special education fund	2.7704
Career and technical education fund	0.9231

3. Compensated absences

Support staff personnel hired before July 1, 2000 are eligible for a maximum sick leave payment of $3,000. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee retirements. The liability for compensated absences includes salary-related benefits, where applicable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses (Concluded)

4. Long-term obligations

In the government-wide financial statements, long-term bonds and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2019, the Agency had the following investments:

Investment type	Fair value	Weighted average maturity (years)	Standard & Poor's rating	%
MILAF External Investment Pool - CMC	$ 513,299	0.0027	AAAm	14.48%
MILAF Term	603,000	0.1260	AAAm	17.01%
MILAF External Investment Pool - MAX Class	314,120	0.0027	AAAm	8.86%
MBIA External Investment Pool - MICLASS	2,114,143	0.0027	AAAm	59.64%
Total fair value	$ 3,544,562			100.00%
Portfolio weighted average maturity		0.0237		

1 day maturity equals 0.0027, one year equals 1.00

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

The Agency voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the Agency is the MBIA Class fund (MICLASS). MICLASS is an external pooled investment fund of "qualified" investments for Michigan school districts. MICLASS is not regulated nor is it registered with the SEC. MICLASS reports as of June 30, 2019, the fair value of the Agency's investments is the same as the value of the pool shares. MICLASS funds are considered local government investment pools as defined by the GASB and as such are recorded at fair value. One of the other pooled investment funds utilized by the Agency is the Michigan Investment Liquid Asset Fund (MILAF). MILAF Cash Management Class (CMC) and MILAF MAX Class funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. These funds are not subject to the fair value disclosures. MILAF Term investments are reported at net asset value (NAV), which approximates fair value.

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 limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The 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.

Custodial credit risk - deposits. In the case of deposits, there 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, 2019, $5,114,308 of the Agency's bank balance of $5,364,308 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is $5,068,240.

Custodial credit risk - investments. 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.

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 allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Agency will do business.

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

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

Fair value measurement. The Agency is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the Agency's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

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

The following is a market value summary by the level of the inputs used, as of June 30, 2019, in evaluating the Agency's assets carried at fair value. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities.

Description	Level 1: Quoted prices in active markets for identical assets	Level 2: Significant other observable inputs	Level 3: Significant unobservable inputs	Total
MILAF Term	$ -	$ 603,000	$ -	$ 603,000
MBIA MICLASS	-	2,114,143	-	2,114,143
	$ -	$ 2,717,143	$ -	$ 2,717,143

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

The above amounts as previously reported in Note 2:

Deposits - including fiduciary funds of $16,247	$ 5,068,240
Investment in pooled funds	3,544,562
Petty cash and cash on hand	189
	$ 8,612,991

The amounts are reported in the financial statements as follows:

Cash and cash equivalents - Agency-wide	$ 5,052,182
Cash and cash equivalents - fiduciary funds	16,247
Investments	3,544,562
	$ 8,612,991

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2019 consist of the following:

	Government wide
Federal sources	$ 1,763,800
State aid	2,231,207
Interdistrict	142,935
Other sources	250,529
	$ 4,388,471

No allowance for doubtful accounts is considered necessary based on previous experience.

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES

Receivable fund		Payable fund	
General fund	$ 17,234	2018 Capital projects fund	$ 17,234

The outstanding balances between funds result mainly from time lag between the dates that (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2018	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2019
Assets not being depreciated:				
Construction in process	$ 648,759	$ 519,851	$ (648,759)	$ 519,851
Other capital assets:				
Buildings and improvements	6,699,957	1,220,711	-	7,920,668
Furniture, fixtures, and equipment	637,007	404,350	(69,260)	972,097
Vehicles and buses	55,566	11,800	(12,908)	54,458
Subtotal	7,392,530	1,636,861	(82,168)	8,947,223
Accumulated depreciation:				
Buildings and improvements	3,014,219	212,863	-	3,227,082
Furniture, fixtures, and equipment	199,670	72,157	(69,260)	202,567
Vehicles and buses	20,907	6,684	(12,908)	14,683
Subtotal	3,234,796	291,704	(82,168)	3,444,332
Net capital assets being depreciated	4,157,734	1,345,157	-	5,502,891
Net governmental capital assets	$ 4,806,493	$ 1,865,008	$ (648,759)	$ 6,022,742

Depreciation for the fiscal year ended June 30, 2019 amounted to $291,704. The Agency allocated depreciation to the various activities as follows:

Governmental activities:	
Instruction	$ 285,020
Support services	6,684
Total governmental activities	$ 291,704

NOTE 6 - INTERGOVERNMENTAL PAYABLES

Intergovernmental payables as of June 30, 2019 consisted of the following:

Governmental Activities	Amount
Interdistrict payables	$ 1,036,411
Other governmental payables	105,868
Total governmental activities	$ 1,142,279

NOTE 7 - LONG-TERM OBLIGATIONS

The following is a summary of the changes in long-term obligations of the Agency for the year ended June 30, 2019:

	General obligation bonds	Compensated absences	Total
Balance, July 1, 2018	$ 3,543,892	$ 33,101	$ 3,576,993
Additions	-	-	-
Deletions	(183,195)	(14,089)	(197,284)
Balance, June 30, 2019	3,360,697	19,012	3,379,709
Due within one year	125,000	-	125,000
Due in more than one year	$ 3,235,697	$ 19,012	$ 3,254,709

The Agency issues general and limited obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Agency. Other long-term obligations include employee compensated absences.

Long-term obligations currently outstanding are as follows:

General obligation bonds:	
2018 Building & site bonds dated May 22, 2018 which bear interest at 3.00% to 3.50% are due in annual installments of $125,000 to $375,000 each May 1st through 2038. Payments are made from the Debt Service Fund.	$ 3,300,000
Plus premium on bond issuance	60,697
Total general obligation bonds	3,360,697
Compensated absences	19,012
Total general long-term obligations	$ 3,379,709

NOTE 7 - LONG-TERM OBLIGATIONS (Concluded)

The annual payments to amortize the general obligation bonds are as follows:

Year ending June 30,	General obligation bonds Principal	General obligation bonds Interest	Compensated absences	Total
2020	$ 125,000	$ 112,126	$ -	$ 237,126
2021	130,000	108,376	-	238,376
2022	135,000	104,476	-	239,476
2023	140,000	100,426	-	240,426
2024	145,000	96,226	-	241,226
2025 - 2029	630,000	405,128	-	1,035,128
2030 - 2034	1,115,000	255,328	-	1,370,328
2035 - 2038	880,000	78,226	-	958,226
	3,300,000	1,260,312	-	4,560,312
Premium on bond issuance	60,697	-	-	60,697
Compensated absences	-	-	19,012	19,012
	$ 3,360,697	$ 1,260,312	$ 19,012	$ 4,640,021

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Plan Description

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

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

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

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Benefits Provided - Overall

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

Plan name	Plan type	Plan status
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefits Provided - Pension

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

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

Pension Reform 2010

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

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Pension Reform 2012

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

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

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

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

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

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

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

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Pension Reform 2012 (Concluded)

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

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

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

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

Pension Reform of 2017

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

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Benefits Provided - Other Postemployment Benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

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

Regular Retirement (no reduction factor for age)

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

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

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Member Contributions

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

Employer Contributions

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

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

For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of September 30, 2017 valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

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

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

The Agency's pension contributions for the year ended June 30, 2019 were equal to the required contribution total. Pension contributions were approximately $3,011,000, with approximately $2,924,000 specifically for the Defined Benefit Plan.

The Agency's OPEB contributions for the year ended June 30, 2019 were equal to the required contribution total. OPEB benefits were approximately $859,000, with approximately $807,000 specifically for the Defined Benefit Plan.

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Employer Contributions (Concluded)

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

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

Pension Liabilities

At June 30, 2019, the Agency reported a liability of $32,123,687 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2017 and rolled-forward using generally accepted actuarial procedures. The Agency's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2018 and 2017, the Agency's proportion was 0.10686% and 0.10203%.

MPSERS (Plan) Non-university employers	September 30, 2018	September 30, 2017
Total pension liability	$ 79,863,694,444	$ 72,407,218,688
Plan fiduciary net position	$ 49,801,889,205	$ 42,492,767,573
Net pension liability	$ 30,061,805,239	$ 25,914,251,115
Proportionate share	0.10686%	0.10203%
Net pension liability for the Agency	$ 32,123,687	$ 26,440,435

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

For the year ended June 30, 2019, the Agency recognized pension expense of $4,375,707.

At June 30, 2019, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred (inflows) of resources
Differences between expected and actual experience	$ 149,060	$ (233,437)
Net differences between projected and actual plan investment earnings	-	(2,196,444)
Changes of assumptions	7,439,820	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,077,933	(260,646)
Reporting Unit's contributions subsequent to the measurement date	2,636,233	-
	$ 12,303,046	$ (2,690,527)

$2,636,233, reported as deferred outflows of resources related to pensions resulting from agency employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Year ended September 30,	Amount
2019	$ 2,723,341
2020	2,245,917
2021	1,445,798
2022	561,230

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

OPEB Liabilities

At June 30, 2019, the Agency reported a liability of $8,858,127 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2017 and rolled-forward using generally accepted actuarial procedures. The Agency's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2018 and 2017, the Agency's proportion was 0.11144% and 0.10242%.

MPSERS (Plan) Non-university employers	September 30, 2018	September 30, 2017
Total other postemployment benefit liability	$ 13,932,170,264	$ 13,920,945,991
Plan fiduciary net position	$ 5,983,218,473	$ 5,065,474,948
Net other postemployment benefit liability	$ 7,948,951,791	$ 8,855,471,043
Proportionate share	0.11144%	0.10242%
Net other postemployment benefit liability for the Agency	$ 8,858,127	$ 9,069,524

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

For the year ended June 30, 2019, the Agency recognized OPEB expense of $689,692.

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

	Deferred outflows of resources	Deferred (inflows) of resources
Differences between expected and actual experience	$ -	$ (1,648,725)
Net differences between projected and actual plan investment earnings	-	(340,439)
Changes of assumptions	938,080	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	678,843	(26,238)
Reporting Unit's contributions subsequent to the measurement date	677,515	-
	$ 2,294,438	$ (2,015,402)

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Concluded)

$677,515, reported as deferred outflows of resources related to OPEB resulting from Agency employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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

Year ended September 30,	Amount
2019	$ (117,729)
2020	(117,729)
2021	(117,729)
2022	(48,314)
2023	3,022

Actuarial Assumptions

Investment rate of return for pension - 7.05% a year, compounded annually net of investment and administrative expenses for the non-hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the hybrid group (Pension Plus Plan).

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

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

Inflation - 3.0%.

Mortality assumptions:

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

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

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

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Assumptions (Continued)

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

The long-term expected rate of return on pension and other postemployment benefit plan investments - The pension rate was 7.05% (7% Pension Plus Plan), and the other postemployment benefit rate was 7.15%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Cost of living pension adjustments - 3.0% annual non-compounded for MIP members.

Healthcare cost trend rate for other postemployment benefit - 7.5% for year one and graded to 3.0% in year twelve.

Additional assumptions for other postemployment benefit only - applies to individuals hired before September 4, 2012:

Opt Out Assumption - 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.

Survivor Coverage - 80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree's death.

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

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Assumptions (Continued)

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

Investment category	Target allocation	Long-term expected real rate of return*
Domestic Equity Pools	28.00%	5.70%
Alternate Investment Pools	18.00%	9.20%
International Equity Pools	16.00%	7.20%
Fixed Income Pools	10.50%	0.50%
Real Estate and Infrastructure Pools	10.00%	3.90%
Absolute Return Pools	15.50%	5.20%
Short Term Investment Pools	2.00%	0.00%
	100.00%	

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

Pension discount rate - A single discount rate of 7.05% was used to measure the total pension liability (7.00% for the Pension Plus Plan and 6.00% for the Pension Plus 2 Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.05% (7.00% for the Pension Plus Plan and 6.00% for the Pension Plus 2 Plan). The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OPEB discount rate - A single discount rate of 7.15% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.15%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school districts contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Assumptions (Concluded)

Sensitivity of the net pension liability to changes in the discount rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using a single discount rate of 7.05% (7.00% for the Pension Plus Plan and 6.00% for the Pension Plus 2 Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Pension		
	1% Decrease	Discount rate	1% Increase
Reporting Unit's proportionate share of the net pension liability	$ 42,175,920	$ 32,123,687	$ 23,771,916

Sensitivity of the net OPEB liability to changes in the discount rate - The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using a single discount rate of 7.15%, as well as what the Reporting Unit's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other postemployment benefit		
	1% Decrease	Discount rate	1% Increase
Reporting Unit's proportionate share of the net other postemployment benefit liability	$ 10,634,001	$ 8,858,127	$ 7,364,399

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

	Other postemployment benefit		
	1% Decrease	Healthcare cost trend rates	1% Increase
Reporting Unit's proportionate share of the net other postemployment benefit liability	$ 7,285,712	$ 8,858,127	$ 10,662,008

NOTE 8 PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Concluded)

Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB's fiduciary net position is available in the separately issued Michigan Public School Employees' Retirement System 2018 Comprehensive Annual Financial Report.

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

NOTE 9 - GRANTS

The Agency receives numerous grants in furtherance of its educational purposes. Sources of grants for the year ended June 30, 2019 are as follows:

Source	General education	Special education	Career and technical education	Food service	Total
Local	$ 281,444	$ -	$ -	$ -	$ 281,444
State	3,721,801	31,208	-	-	3,753,009
Federal	856,893	3,604,877	352,311	34,473	4,848,554
	$ 4,860,138	$ 3,636,085	$ 352,311	$ 34,473	$ 8,883,007

Local sources include local governments, private industries, foundations, and other charitable organizations.

Federal grant sources do not include Medicaid funds and certain adjustments which are included in the supplemental Schedule of Expenditures of Federal Awards.

NOTE 10 - INTERFUND TRANSFERS

The composition of interfund transfers at June 30, 2019 is as follows:

	Transfers out			
	General fund	Special education fund	Career and technical education fund	Total
Transfers in:				
General fund	$ -	$ 1,742,218	$ 194,819	$ 1,937,037
Nonmajor governmental funds	74,688	323,319	47,011	445,018
Total	$ 74,688	$ 2,065,537	$ 241,830	$ 2,382,055

Transfers provided funding for the general fund as a result of shared costs in the special education and career and technical education funds. Transfers also provided funding for debt service and capital projects.

NOTE 11 - TAX ABATEMENTS

The Agency is required to disclose significant tax abatements as required by GASB Statement No. 77, *Tax Abatements.*

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

Municipality	Taxes abated
City of Eaton Rapids	$ 8,616
City of Grand Ledge	2,271
City of Potterville	3,491
Delta Township	13,716
City of Lansing	54,995
	$ 83,089

There are no abatements made by the Agency.

NOTE 12 - COMMITMENTS

The Agency has active capital projects outstanding at June 30, 2019. Approximately $1,149,000 is restricted and recorded as fund balance in the 2018 capital projects fund.

The Agency has approximately $816,000 recorded as committed fund balance in the career and technical education fund at June 30, 2019. These funds are committed to early technical college purposes.

NOTE 13 - CONTINGENT LIABILITIES

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

NOTE 14 - UPCOMING ACCOUNTING PRONOUNCEMENTS

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

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the Agency's 2021 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are 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 governments' leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

EATON REGIONAL EDUCATION SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2019

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	$ 770,629	$ 857,645	$ 882,715	$ 25,070
State sources	4,105,168	5,226,146	4,679,629	(546,517)
Federal sources	434,800	1,107,934	856,893	(251,041)
Interdistrict sources and other	2,232,160	2,591,044	2,725,702	134,658
Total revenues	7,542,757	9,782,769	9,144,939	(637,830)
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	1,996,214	1,866,389	2,020,317	(153,928)
Total instruction	1,996,214	1,866,389	2,020,317	(153,928)
Supporting services:				
Pupil	124,624	196,205	253,917	(57,712)
Instructional staff	2,876,403	3,642,301	3,306,791	335,510
General administration	508,283	506,005	467,485	38,520
School administration	37,817	55,945	50,258	5,687
Business	651,673	667,555	638,399	29,156
Operation/maintenance	582,310	600,463	616,732	(16,269)
Pupil transportation	57,310	66,021	40,655	25,366
Central	1,097,376	1,128,509	1,080,672	47,837
Total supporting services	5,935,796	6,863,004	6,454,909	408,095
Community services	146,175	610,170	649,416	(39,246)
Transfer to school districts and other governmental units	1,627,302	2,313,058	1,866,297	446,761
Total expenditures	9,705,487	11,652,621	10,990,939	661,682
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,162,730)	(1,869,852)	(1,846,000)	23,852
OTHER FINANCING SOURCES (USES):				
Transfers in	1,842,127	1,925,077	1,937,037	11,960
Transfers out	(81,069)	(80,981)	(74,688)	6,293
Total other financing sources (uses)	1,761,058	1,844,096	1,862,349	18,253
NET CHANGE IN FUND BALANCE	$ (401,672)	$ (25,756)	16,349	$ 42,105
FUND BALANCE:				
Beginning of year			1,790,338	
End of year			$ 1,806,687	

EATON REGIONAL EDUCATION SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
YEAR ENDED JUNE 30, 2019

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	$ 8,858,801	$ 9,317,677	$ 9,443,331	$ 125,654
State sources	6,829,774	7,119,285	7,099,969	(19,316)
Federal sources	3,534,579	3,652,241	3,643,203	(9,038)
Interdistrict sources and other	8,022,432	7,921,458	7,851,519	(69,939)
Total revenues	27,245,586	28,010,661	28,038,022	27,361
EXPENDITURES:				
Instruction:				
Added needs	2,426,585	2,461,770	2,344,849	116,921
Supporting services:				
Pupil	8,073,233	8,353,922	8,043,362	310,560
Instructional staff	887,035	927,724	889,464	38,260
School administration	190,745	204,827	205,751	(924)
Business	134,104	101,107	100,559	548
Operation/maintenance	62,500	67,065	59,196	7,869
Pupil transportation	2,916,171	2,831,100	2,894,280	(63,180)
Central	67,420	57,820	58,043	(223)
Total supporting services	12,331,208	12,543,565	12,250,655	292,910
Community services	59,135	75,408	56,188	19,220
Transfer to school districts and other governmental units	10,264,029	10,952,355	10,931,061	21,294
Total expenditures	25,080,957	26,033,098	25,582,753	450,345
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,164,629	1,977,563	2,455,269	477,706
OTHER FINANCING SOURCES (USES):				
Transfers out	(2,132,138)	(2,120,050)	(2,065,537)	54,513
NET CHANGE IN FUND BALANCE	$ 32,491	$ (142,487)	389,732	$ 532,219
FUND BALANCE:				
Beginning of year			704,820	
End of year			$ 1,094,552	

EATON REGIONAL EDUCATION SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
CAREER AND TECHNICAL EDUCATION FUND
YEAR ENDED JUNE 30, 2019

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	$ 2,555,000	$ 2,618,748	$ 2,688,530	$ 69,782
State sources	1,317,004	1,246,106	1,252,322	6,216
Federal sources	302,235	352,311	352,311	-
Intermediate district and other	245,000	260,194	262,825	2,631
Total revenues	4,419,239	4,477,359	4,555,988	78,629
EXPENDITURES:				
Instruction:				
Added needs	2,269,450	2,698,383	2,523,829	174,554
Supporting services:				
Pupil	947,879	802,061	784,918	17,143
Instructional staff	506,662	491,994	460,880	31,114
General administration	-	-	1,100	(1,100)
School administration	230,505	234,823	222,959	11,864
Business	2,515	1,500	481	1,019
Operation/maintenance	-	-	171	(171)
Pupil transportation	188,100	205,202	203,069	2,133
Central	15,911	11,000	12,695	(1,695)
Total supporting services	1,891,572	1,746,580	1,686,273	60,307
Community services	5,000	6,500	6,038	462
Transfer to school districts and other governmental units	100,000	22,550	22,550	-
Total expenditures	4,266,022	4,474,013	4,238,690	235,323
EXCESS (DEFICIENCIES) OF REVENUES OVER (UNDER) EXPENDITURES	153,217	3,346	317,298	313,952
OTHER FINANCING SOURCES (USES):				
Transfers out	(215,854)	(239,530)	(241,830)	(2,300)
NET CHANGE IN FUND BALANCE	$ (62,637)	$ (236,184)	75,468	$ 311,652
FUND BALANCE:				
Beginning of year			2,886,529	
End of year			$ 2,961,997	

EATON REGIONAL EDUCATION SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)

	2018	2017	2016	2015	2014
Reporting Unit's proportion of net pension liability (%)	0.10686%	0.10203%	0.09722%	0.09093%	0.09566%
Reporting Unit's proportionate share of net pension liability	$ 32,123,687	$ 26,440,435	$ 24,255,435	$ 22,209,418	$ 21,071,438
Reporting Unit's covered-employee payroll	$ 9,467,511	$ 8,709,026	$ 8,527,260	$ 7,690,197	$ 8,448,492
Reporting Unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	339.30%	303.60%	284.45%	288.80%	249.41%
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	62.36%	64.21%	63.27%	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Agency presents information for those years for which information is available.

EATON REGIONAL EDUCATION SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF YEAR ENDED JUNE 30)

	2019	2018	2017	2016	2015
Statutorily required pension contributions	$ 2,924,307	$ 2,798,385	$ 2,356,657	$ 2,090,007	$ 1,722,375
Pension contributions in relation to statutorily required contributions	2,924,307	2,798,385	2,356,657	2,090,007	1,722,375
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Reporting Unit's covered-employee payroll	$ 9,689,199	$ 9,382,472	$ 8,534,318	$ 8,119,266	$ 8,374,992
Pension contributions as a percentage of covered-employee payroll	30.18%	29.83%	27.61%	25.74%	20.57%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Agency presents information for those years for which information is available.

EATON REGIONAL EDUCATION SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)

	2018	2017
Reporting Unit's proportion of net other postemployment benefit liability (%)	0.11144%	0.10242%
Reporting Unit's proportionate share of net other postemployment benefit liability	$ 8,858,127	$ 9,069,524
Reporting Unit's covered-employee payroll	$ 9,467,511	$ 8,709,026
Reporting Unit's proportionate share of net other postemployment benefit liability as a percentage of its covered-employee payroll	93.56%	104.14%
Plan fiduciary net position as a percentage of total other postemployment benefit liability (Non-university employers)	42.95%	36.39%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Agency presents information for those years for which information is available.

EATON REGIONAL EDUCATION SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S OPEB CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF YEAR ENDED JUNE 30)

	2019	2018
Statutorily required other postemployment benefit contributions	$ 806,702	$ 804,562
Other postemployment benefit contributions in relation to statutorily required contributions	806,702	804,562
Contribution deficiency (excess)	$ -	$ -
Reporting Unit's covered-employee payroll	$ 9,689,199	$ 9,382,472
Other postemployment benefit contributions as a percentage of covered employee payroll	8.33%	8.58%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Agency presents information for those years for which information is available.

EATON REGIONAL EDUCATION SERVICE AGENCY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019

Pension Information

Benefit changes - there were no changes of benefit terms in 2018.

Changes of assumptions - the assumption changes for 2018 were:

Wage inflation rate decreased to 2.75% from 3.50%.

Discount rate for MIP and Basic plans decreased to 7.05% from 7.50%.

Projected salary increases decreased to 2.75%-11.55%, including wage inflation at 2.75% from 3.50%-12.30%, including wage inflation of 3.50%.

Mortality assumptions were updated to the RP-2014 Male and Female Healthy Annuitant table from the RP-2000 Combined Healthy Life Mortality table.

OPEB Information

Benefit changes - there were no changes of benefit terms in 2018.

Changes of assumptions - the assumption changes for 2018 were:

Wage inflation rate decreased to 2.75% from 3.50%.

Discount rate decreased to 7.15% from 7.50%.

Projected salary increases decreased to 2.75%-11.55%, including wage inflation at 2.75% from 3.50%-12.30%, including wage inflation of 3.50%.

Healthcare cost trend rate decreased to 7.50% Year 1 graded to 3.00% Year 12 from 7.50% Year 1 graded to 3.50% Year 12.

Mortality assumptions were updated to the RP-2014 Male and Female Healthy Annuitant table from the RP-2000 Combined Healthy Life Mortality table.

ADDITIONAL SUPPLEMENTARY INFORMATION

EATON REGIONAL EDUCATION SERVICE AGENCY
NONMAJOR GOVERNMENTAL FUND TYPES
BALANCE SHEET
JUNE 30, 2019

			Capital project funds			
	Food service fund	Debt service fund	General capital projects fund	Special education capital projects fund	Career and technical education capital projects fund	Total nonmajor funds
ASSETS						
ASSETS:						
Cash and cash equivalents	$ 96	$ 28,491	$ 459,445	$ 190,042	$ 86,183	$ 764,257
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	$ 96	$ -	$ 6,989	$ 2,040	$ -	$ 9,125
FUND BALANCES:						
Assigned:						
Debt service	-	28,491	-	-	-	28,491
Capital projects	-	-	452,456	188,002	86,183	726,641
Total fund balances	-	28,491	452,456	188,002	86,183	755,132
TOTAL LIABILITIES AND FUND BALANCES	$ 96	$ 28,491	$ 459,445	$ 190,042	$ 86,183	$ 764,257

EATON REGIONAL EDUCATION SERVICE AGENCY
NONMAJOR GOVERNMENTAL FUND TYPES
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2019

			Capital project funds			
	Food service fund	Debt service fund	General capital projects fund	Special education capital projects fund	Career and technical education capital projects fund	Total nonmajor funds
REVENUES:						
Local souces	$ -	$ -	$ -	$ 9,705	$ -	$ 9,705
Federal sources	34,473	-	-	-	-	34,473
Total revenues	34,473	-	-	9,705	-	44,178
EXPENDITURES:						
Food service	35,129	-	-	-	-	35,129
Capital outlay	-	-	39,220	37,780	-	77,000
Debt service:						
Principal repayment	-	180,000	-	-	-	180,000
Interest expense	-	113,234	-	-	-	113,234
Total expenditures	35,129	293,234	39,220	37,780	-	405,363
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(656)	(293,234)	(39,220)	(28,075)	-	(361,185)
OTHER FINANCING SOURCES:						
Operating transfers in	656	293,234	-	151,128	-	445,018
NET CHANGE IN FUND BALANCES	-	-	(39,220)	123,053	-	83,833
FUND BALANCES:						
Beginning of year	-	28,491	491,676	64,949	86,183	671,299
End of year	$ -	$ 28,491	$ 452,456	$ 188,002	$ 86,183	$ 755,132

EATON REGIONAL EDUCATION SERVICE AGENCY
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2018 BUILDING AND SITE BONDS
YEAR ENDED JUNE 30, 2019

2018 Building and Site Bonds			Interest due		
Year ended June 30,	Interest rate	Principal due May 1	May 1	November 1	Total due annually
2020	3.00%	$ 125,000	$ 56,063	$ 56,063	$ 237,126
2021	3.00%	130,000	54,188	54,188	238,376
2022	3.00%	135,000	52,238	52,238	239,476
2023	3.00%	140,000	50,213	50,213	240,426
2024	3.00%	145,000	48,113	48,113	241,226
2025	3.50%	150,000	45,938	45,938	241,876
2026	3.50%	155,000	43,313	43,313	241,626
2027		-	40,600	40,600	81,200
2028	3.50%	325,000	37,800	37,800	400,600
2029		-	34,913	34,913	69,826
2030	3.50%	345,000	31,938	31,938	408,876
2031		-	28,875	28,875	57,750
2032	3.50%	375,000	25,638	25,638	426,276
2033	3.50%	195,000	22,313	22,313	239,626
2034	3.50%	200,000	18,900	18,900	237,800
2035	3.50%	210,000	15,400	15,400	240,800
2036	3.50%	215,000	11,725	11,725	238,450
2037	3.50%	225,000	7,963	7,963	240,926
2038	3.50%	230,000	4,025	4,025	238,050
Total 2018 bonded debt		$ 3,300,000	$ 630,156	$ 630,156	$ 4,560,312

The above bonds dated May 22, 2018 were issued for the purpose of remodeling, equipping and re-equipping, and furnishing and refurnishing educational buildings and facilities; purchasing and installing information technology systems, equipment and software; and developing and improving sites. The amount of the original bond issue was $3,300,000.

EATON REGIONAL EDUCATION SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved award/grant amount	Accrued (unearned) revenue 7/1/2018	Prior year expenditures (memo only)	Current year expenditures	Current year cash receipts	Accrued (unearned) revenue 6/30/2019	Current year cash transferred to subrecipient
U.S. Department of Agriculture:								
Passed through Michigan Department of Education:								
National School Breakfast Program:								
National School Breakfast Program 181970	10.553	$ 1,143	$ -	$ -	$ 1,143	$ 1,143	$ -	$ -
National School Breakfast Program 191970	10.553	10,546	-	-	10,546	10,546	-	-
Total CFDA #10.553		11,689	-	-	11,689	11,689	-	-
Passed through Michigan Department of Education:								
National School Lunch Program:								
National School Lunch Program 181960	10.555	2,508	-	-	2,508	2,508	-	-
National School Lunch Program 191960	10.555	20,276	-	-	20,276	20,276	-	-
Total CFDA #10.555		22,784	-	-	22,784	22,784	-	-
Total Child Nutrition Cluster		34,473	-	-	34,473	34,473	-	-
Passed through Michigan Department of Health and Human Services:								
Passed through Michigan Fitness Foundation:								
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program:								
ADMIN-18-99011 (8594)	10.561	200,000	66,787	139,082	14,263	81,050	-	-
Total U.S. Department of Agriculture		234,473	66,787	139,082	48,736	115,523	-	-
U.S. Department of Education:								
Passed through Michigan Department of Education:								
Special Education Grants to States:								
Transition Services 180491TC	84.027	58,000	10,117	58,000	-	10,117	-	-
Regular 1804501718	84.027	3,186,275	746,057	3,162,936	23,339	746,057	23,339	504,433
Regular 1904501819	84.027	3,260,736	-	-	3,248,074	1,928,513	1,319,561	2,245,832
Enhancing Opportunities 180480EOSD	84.027	50,000	2,682	50,000	-	2,682	-	-
General Supervision 190490GSG	84.027	118,800	-	-	118,800	95,205	23,595	-
Total CFDA #84.027		6,673,811	758,856	3,270,936	3,390,213	2,782,574	1,366,495	2,750,265

The accompanying notes are an integral part of this schedule.

EATON REGIONAL EDUCATION SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved award/grant amount	Accrued (unearned) revenue 7/1/2018	Prior year expenditures (memo only)	Current year expenditures	Current year cash receipts	Accrued (unearned) revenue 6/30/2019	Current year cash transferred to subrecipient
U.S. Department of Education (Concluded):								
Passed through Michigan Department of Education:								
Special Education Preschool Grants:								
Regular 1804601718	84.173	$ 97,924	$ 28,192	$ 97,924	$ -	$ 28,192	$ -	$ -
Regular 1904601819	84.173	101,160	-	-	101,160	76,882	24,278	-
Total CFDA #84.173		199,084	28,192	97,924	101,160	105,074	24,278	-
Total Special Education Cluster		6,872,895	787,048	3,368,860	3,491,373	2,887,648	1,390,773	2,750,265
Passed through Michigan Department of Education and								
Clinton County Regional Education Service Agency:								
Career and Technical Education - Basic Grants to States:								
Regional Allocation 2017-2018	84.048	264,086	109,123	264,086	-	109,123	-	-
Regional Allocation 2018-2019	84.048	352,311	-	-	352,311	243,938	108,373	-
Total CFDA #84.048		616,397	109,123	264,086	352,311	353,061	108,373	-
Passed through Michigan Department of Education:								
Special Education - Grants for Infants and Families:								
181340 2017-2018	84.181	109,953	963	109,953	-	963	-	-
191340 2018-2019	84.181	113,505	-	-	113,505	109,437	4,068	-
Total CFDA #84.181		223,458	963	109,953	113,505	110,400	4,068	-
Passed through Michigan Department of Education:								
Title I Grants to Local Educational Agencies:								
181570 2017-2018 (6014)	84.010	68,390	2,236	2,236	16,933	19,169	-	-
191570 2018-2019 (6013)	84.010	315,361	-	-	138,632	24,970	113,662	-
Total CFDA #84.010		383,751	2,236	2,236	155,565	44,139	113,662	-
Passed through Michigan Department of Education and Michigan State University:								
Title II, Part A(3) Improving Teacher Quality Competitive Grant:								
170291-2018 (7660)	84.367B	123,907	-	-	104,310	104,310	-	-
Total U.S. Department of Education		8,220,408	899,370	3,745,135	4,217,064	3,499,558	1,616,876	2,750,265

The accompanying notes are an integral part of this schedule.

EATON REGIONAL EDUCATION SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved award/grant amount	Accrued (unearned) revenue 7/1/2018	Prior year expenditures (memo only)	Current year expenditures	Current year cash receipts	Accrued (unearned) revenue 6/30/2019	Current year cash transferred to subrecipient
U.S. Department of Health and Human Services:								
Passed through Michigan Department of Community Health:								
Affordable Care Act (ACA) Personal Responsibility Education Program:								
20180333-00 2017-2018 6974	93.092	$ 100,000	$ 16,522	$ 72,511	$ 19,013	$ 35,535	$ -	$ -
20190333-00 2018-2019 6973	93.092	90,000	-	-	66,408	51,357	15,051	-
Total CFDA #93.092		190,000	16,522	72,511	85,421	86,892	15,051	-
Passed through Michigan Department of Community Health:								
Pregnancy Assistance Fund Program:								
20180208-00 (7864)	93.500	249,152	48,363	193,697	55,455	103,818	-	-
20190208-00 (7863)	93.500	228,000	-	-	146,316	121,317	24,999	-
Total CFDA #93.500		477,152	48,363	193,697	201,771	225,135	24,999	-
Passed through Mid Michigan District Health Department:								
Drug Free Communities Support Program Grants:								
Drug Free Communities Support Program (2017-18) (8164)	93.276	10,395	2,494	6,155	758	3,252	-	-
Drug Free Communities Support Program (2018-19) (8163)	93.276	10,603	-	-	10,603	6,402	4,201	-
Total CFDA #93.276		20,998	2,494	6,155	11,361	9,654	4,201	-

The accompanying notes are an integral part of this schedule.

EATON REGIONAL EDUCATION SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved award/grant amount	Accrued (unearned) revenue 7/1/2018	Prior year expenditures (memo only)	Current year expenditures	Current year cash receipts	Accrued (unearned) revenue 6/30/2019	Current year cash transferred to subrecipient
U.S. Department of Health and Human Services (Concluded):								
Passed through Michigan Department of Human Services:								
Center for Mental Health Services:								
Substance Abuse and Mental Health Services								
Projects of Regional and National Significance								
1H79SM081341-01	93.243	$ 125,000	$ -	$ -	$ 76,772	$ 65,417	$ 11,355	$ -
Direct Programs:								
Centers for Disease Control and Prevention:								
Cooperative Agreements to Promote Adolescent Health through								
School-Based HIV/STD Prevention and School-Based Surveillence								
1NU87PS004352-01-00	93.079	360,000	-	-	207,430	116,112	91,318	-
Medicaid Assistance Program- Title XIX Outreach:								
2017-2018	93.778	38,181	(9,348)	-	38,325	28,977	-	14,982
2018-2019	93.778	47,946	-	-	-	10,386	(10,386)	-
Total CFDA #93.778		86,127	(9,348)	-	38,325	39,363	(10,386)	14,982
Total U.S. Department of Health and Human Services		1,259,277	58,031	272,363	621,080	542,573	136,538	14,982
Total Federal Financial Awards		$ 9,714,158	$ 1,024,188	$ 4,156,580	$ 4,886,880	$ 4,157,654	$ 1,753,414	$ 2,765,247

The accompanying notes are an integral part of this schedule.

EATON REGIONAL EDUCATION SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PASS THROUGH AMOUNTS
YEAR ENDED JUNE 30, 2019

Federal grantor/pass-through grantor/program title	Federal CFDA number	Subrecipient award / contract amount	Due to (from) subrecipient 7/1/18	Subrecipient current year expenditures	Current year cash transferred to subrecipient	Due to (from) subrecipient 6/30/19
U.S. Department of Education:						
Passed through Michigan Department of Education:						
Special Education Grants to States:						
Project number 1904501819 - Passed through to:	84.027					
Charlotte Public Schools		$ 1,400,000	$ -	$ 1,400,000	$ 1,006,427	$ 393,573
Eaton Rapids Public Schools		1,528,417	-	1,528,417	1,148,860	379,557
Insight Academy		139,170	-	139,170	90,545	48,625
Liftech		26,974	-	26,974	-	26,974
		3,094,561	-	3,094,561	2,245,832	848,729
Passed through Michigan Department of Education:						
Special Education Grants to States:						
Project number 1804501718 - Passed through to:	84.027					
Grand Ledge Public Schools		2,970,246	463,245	-	463,245	-
Insight Academy		134,655	41,188	-	41,188	-
Lifetech		25,641	-	-	-	-
		3,130,542	504,433	-	504,433	-
Total Special Education Grants to States		6,225,103	504,433	3,094,561	2,750,265	848,729

The accompanying notes are an integral part of this schedule.

EATON REGIONAL EDUCATION SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PASS THROUGH AMOUNTS
YEAR ENDED JUNE 30, 2019

Federal grantor/pass-through grantor/program title	Federal CFDA number	Subrecipient award / contract amount	Due to (from) subrecipient 7/1/18	Subrecipient current year expenditures	Current year cash transferred to subrecipient	Due to (from) subrecipient 6/30/19
U.S. Department of Health and Human Services:						
Direct Program:						
Medicaid Assistance Program- Title XIX Outreach:						
2017-2018:	93.778					
Charlotte Public Schools		$ 3,349	$ -	$ 3,349	$ 3,349	$ -
Eaton Rapids Public Schools		4,855	-	4,855	4,855	-
Grand Ledge Public Schools		4,281	-	4,281	4,281	-
Island City Academy		251	-	251	251	-
Maple Valley Schools		782	-	782	782	-
Potterville Public Schools		1,464	-	1,464	1,464	-
Total Medicaid Assistance Program		14,982	-	14,982	14,982	-
Total federal funds passed through to subrecipients		$ 6,240,085	$ 504,433	$ 3,109,543	$ 2,765,247	$ 848,729

The accompanying notes are an integral part of this schedule.

EATON REGIONAL EDUCATION SERVICE AGENCY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Eaton Regional Education Service Agency under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* (CFR) 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 Eaton Regional Education Service Agency it is not intended to and does not present the financial position or changes in net position of Eaton Regional Education Service Agency.

The Agency qualifies for low-risk auditee status. Management has utilized the Cash Management System and the Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are now allowable or are limited as to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. Eaton Regional Education Service Agency has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

The expenditures on the schedule of expenditures of federal awards do not include local match.

NOTE 3 - RECONCILIATION WITH AUDITED FINANCIAL STATEMENTS

Reconciliation of federal revenues reported on the financial statements with expenditures per the schedule of expenditures of federal awards:

Federal expenditures are reported as revenue in the following funds in the financial statements:	
General fund	$ 856,893
Special education fund	3,643,203
Career and technical education fund	352,311
Food service fund	34,473
Expenditures per schedule of expenditures of federal awards	$ 4,886,880

EATON REGIONAL EDUCATION SERVICE AGENCY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 4 - SUBRECIPIENTS

Of the federal expenditures presented in the schedule of expenditures of federal awards, Eaton Regional Education Service Agency provided federal awards to subrecipients reported in the enclosed schedule of pass-through amounts.

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

To the Board of Education
Eaton Regional Education Service Agency

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eaton Regional Education Service Agency as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Eaton Regional Education Service Agency's basic financial statements and have issued our report thereon dated October 8, 2019.

Internal Control Over Financial Reporting

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

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 Agency'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.

Maney Costerisan PC

October 8, 2019

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

To the Board of Education
Eaton Regional Education Service Agency

Report on Compliance for Each Major Federal Program

We have audited Eaton Regional Education 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 Eaton Regional Education Service Agency's major federal programs for the year ended June 30, 2019. Eaton Regional Education Service Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Eaton Regional Education 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* (CFR) 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 Eaton Regional Education 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 unmodified opinion on compliance for major federal programs. However, our audit does not provide a legal determination of Eaton Regional Education Service Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, Eaton Regional Education 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, 2019.

Report on Internal Control Over Compliance

Management of Eaton Regional Education 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 Eaton Regional Education 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 Eaton Regional Education 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 a 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.

October 8, 2019

EATON REGIONAL EDUCATION SERVICE AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	*Unmodified*		
Internal control over financial reporting:			
➢ Material weakness(es) identified:	___ Yes	X No	
➢ Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ Yes	X None reported	
Noncompliance material to financial statements noted?	___ Yes	X No	

Federal Awards

Internal control over major programs:			
➢ Material weakness(es) identified:	___ Yes	X No	
➢ Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ Yes	X	
Type of auditor's report issued on compliance for major programs:	*Unmodified*		
Any audit findings disclosed that are required to be reported in accordance with Title 2 CFR Section 200.516(a)?	___ Yes	X No	

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027 & 84.173	Special Education Cluster

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000		
Auditee qualified as low-risk auditee?	X Yes	___ No	

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Question Costs

None

EATON REGIONAL EDUCATION SERVICE AGENCY
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

There were no audit findings in the prior year.