



Year Ended
June 30, 2016

Financial
Statements and
Single Audit Act
Compliance

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JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

November 1, 2016

Board of Education
Jackson County Intermediate School District
Jackson, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Jackson County Intermediate School District* (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Jackson County Intermediate School District as of June 30, 2016, and the respective changes in financial position, and where applicable, cash flows thereof and the budgetary comparison for the general fund, special education fund and the career technical education fund 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 the schedules for the pension plan, listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rehmann Johnson LLC". The signature is written in a cursive, flowing style.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Management's Discussion and Analysis

The Jackson County Intermediate School District (the "District"), is one of Michigan's 56 intermediate school Districts, created by the state legislature in 1962 to provide regional services to local schools. The District provides direct or indirect services to the approximately 24,000 students in Jackson County from all 12 public school districts, three local charter schools and various parochial schools in the county. These include special education services, professional development and curriculum support for teachers and administrative staff throughout the county, career and technical education through the Jackson Area Career Center, technology services, pupil accounting and other student information services, assistance with grant writing, business functions, and many more.

As management of the District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. The management's discussion and analysis is provided at the beginning of the audit to provide an overview of the past and current position of the District's financial condition. This summary should not be taken as a replacement for the complete set of audited financial statements and other supplemental information that presents in greater detail the District's revenues and expenditures by program and fund.

Financial Highlights

The District's total net position decreased by \$238,153.

Goals related to financial activities of the District for the 2015-16 fiscal year were generally met. While the fund balances of some funds went up and other funds went down over the past year, the District's management believes the overall condition of all funds and governmental activities of the District improved slightly during the year. The Board of Education has assigned fund balance target ranges to the General Fund, the Special Education Fund, and the Career & Technical Education Fund, and all of these funds ended the fiscal year with a fund balance within its assigned target range.

At the close of the 2015-16 fiscal year, the District's governmental fund balances totaled \$17,583,194, an increase of \$1,215,049 over the prior year. Of the \$17,583,194, \$1,310,293 is nonspendable in the form of prepaids or land held for resale, \$5,906,415 is restricted for use in particular programs (special education, career technical education, training assistance), \$7,460,500 is restricted for capital projects or technology, \$680,000 is assigned for future technology consortium expenses, and \$2,225,986 is unassigned.

Using this Financial Report

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

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. They provide a clear picture of the District as a single, unified entity, and complement rather than replace traditional fund-based financial statements.

The statement of net position presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual balance reported as net position. Net position should be understood as a measure of "net worth" rather than as a measure of expendable, available resources. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Management's Discussion and Analysis

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. This statement focuses on expenses (cost) for each of the District's functional activities (e.g., instruction, supporting services and depreciation, etc.). In the private sector, revenues are the first item in the operating statement reflecting the common business goal of maximizing revenues. In the public sector, the goal is to provide needed services cost-effectively so the first item in the statement of activities for local governments is expenses, not revenues. The cost of services need not be financed from the District's own resources, but may be offset by outside resources such as contributions, fees, and grants. The statement of activities is presented to highlight the portion of each functional activity that must be financed by the District's own resources. The statement first reports all direct costs associated with each functional activity, then reports dedicated outside revenues as a direct reduction, to arrive at the program's net cost to the District.

Governmental Activities. Most of the District's basic services are included here, such as learning services, special education, career and technical education, transportation, and administration. Property taxes and state aid finance most of these activities. Also, in the internal service funds, the District charges fees to help it cover the costs of certain services it provides. The District's adult education programs and technology related services are examples.

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 fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds as opposed to the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as local taxes or federal grants). The District has three kinds of funds:

Governmental Funds. Most of the District's basic services are included in 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 (fund balance). Such information may be useful in evaluating a District's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government'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 District maintains four major operating governmental funds - the General Fund, the Special Education Fund, the Career Technical Education Fund and the Recurring Projects Fund. Information for these is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The District adopts annual appropriated budgets for the General Fund and major special revenue funds. A budgetary comparison statement has been provided for the General Fund and major special revenue funds to demonstrate compliance with their budgets.

Proprietary Fund. In the internal service fund, the District charges fees to help it cover the costs of certain technology services it provides.

Fiduciary Funds. The District is the trustee, or fiduciary, for assets that belong to others such as student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Management's Discussion and Analysis

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. Other information consists the required supplementary information for the District's pension plan, combining fund financial statements and single audit act compliance information.

The District's audit firm has provided assurance in its independent auditors' report, located immediately preceding this management's discussion and analysis, that the basic financial statements are fairly stated. The other information identified above has varying degrees of assurance as provided by the audit firm. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the other parts in these sections.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$38,475,411 at the close of the most recent fiscal year, a change of less than 1% from the previous year.

	Net Position	
	Governmental Activities	
	2016	2015
Current and other assets	\$ 26,306,194	\$ 24,351,628
Capital assets, net	13,508,852	13,070,928
Total assets	<u>39,815,046</u>	<u>37,422,556</u>
Deferred outflows of resources	<u>13,079,832</u>	<u>10,307,794</u>
Long-term liabilities	910,756	905,850
Current and other liabilities	90,188,893	77,368,905
Total liabilities	<u>91,099,649</u>	<u>78,274,755</u>
Deferred inflows of resources	<u>270,640</u>	<u>7,692,853</u>
Net position:		
Net investment in capital assets	12,758,852	12,280,928
Restricted	13,972,602	13,105,771
Unrestricted (deficit)	(65,206,865)	(63,623,957)
Total net position	<u><u>\$(38,475,411)</u></u>	<u><u>\$ (38,237,258)</u></u>

The results of this year's operations for the District as a whole are reported in the statement of activities. The following table takes the information from that statement and rearranges them slightly to show the change in net position for the year which was a decrease of \$238,153, which as mentioned is a change of less than 1% from the prior year for total net position. In the following table the reader can also easily see the District's total revenues for the year by major source as well as the total expenses for the year by major function.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Management's Discussion and Analysis

	Changes in Net Position	
	Governmental Activities	
	2016	2015
Revenues		
Program revenues:		
Charges for services	\$ 205,220	\$ 237,636
Operating grants	18,363,449	16,688,390
General revenues:		
Property taxes	38,572,384	37,700,569
Unrestricted state aid	12,919,889	12,618,241
Other general revenue	4,735,091	4,736,523
Total revenues	<u>74,796,033</u>	<u>71,981,359</u>
Expenses:		
Instruction	18,435,397	15,408,015
Supporting services	40,066,399	36,940,403
Community services	263,792	602,655
Payments to other governments	14,929,154	14,095,986
Interest on long-term debt	40,900	42,800
Unallocated depreciation	1,298,544	1,145,927
Total expenses	<u>75,034,186</u>	<u>68,235,786</u>
Change in net position	(238,153)	3,745,573
Net position:		
Beginning of year	(38,237,258)	26,558,619
Restatement for GASB 68	-	(68,541,450)
End of year	<u>\$(38,475,411)</u>	<u>\$(38,237,258)</u>

The commitment of the Board of Education and the District's management is to provide effective programs for all students in Jackson County in the most cost efficient manner possible. The District's expenses are predominantly related to instructing (25%), providing services for pupils (53%) and direct payments to local school districts and education providers (20%). Instructional costs relate specifically to providing career and technical education to students of local school districts and to providing special education instruction to other students of local districts. The higher ratio of support services is consistent with the purpose of intermediate school districts, which is to provide support programs to all local school districts in the County in order to more efficiently and effectively educate every student.

Analysis of the District's Budget and Operating Results

As previously mentioned, the District has four main operating funds - the General Fund, the Special Education Fund, the Career Technical Education Fund and the Recurring Projects Fund. The budgets for these funds are prepared according to Michigan law.

During the fiscal year ended June 30, 2016, the District amended the budgets of the General, Special Education and Career Technical Education Funds one time to reflect changes in both revenues and expenditures from the assumptions that were made when the budget was originally developed. A brief review of each fund's performance is provided below.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Management's Discussion and Analysis

General Fund. As summarized below, during the 2016 fiscal year the General Fund had total revenues and transfers in of \$17,883,131 and total expenditures and transfers out of \$17,534,913. As a result the fund balance at year-end increased by \$348,218 to a total of \$3,610,592.

Summary of General Fund Performance			
for the Year Ended June 30, 2016			
	Original Budget	Final Budget	Actual Results
Total revenues and transfers in	\$ 17,910,201	\$ 18,200,708	\$ 17,883,131
Total expenditures and transfers out	(18,209,201)	(17,908,083)	(17,534,913)
Net change in fund balance	(299,000)	292,625	348,218
Fund balance - Beginning of year	3,262,374	3,262,374	3,262,374
End of year	\$ 2,963,374	\$ 3,554,999	\$ 3,610,592

The General Fund actual revenues and transfers in were lower than both the original and amended budgets. The General Fund actual expenditures and transfers out were also lower than both the original and amended budgets. These differences were due primarily to grant related spending and the timing of revenue and expenditure recognition associated with fulfilling those grants. Apart from the grant related revenues and expenditures, adjustments were made to ensure that actual expenditures of the General Fund were in line with the revenue. The net result realized was an increase in the General Fund for the year and the resultant ending fund balance is within the target range established by the Board of Education for the General Fund.

Special Education Fund. As summarized below, during the 2016 fiscal year the Special Education Fund had total revenues and transfers in of \$48,224,373 and total expenditures and transfers out of \$48,232,056. As a result the fund balance at year-end decreased by \$7,683 to a total of \$2,793,060.

Summary of Special Ed Fund Performance			
for the Year Ended June 30, 2016			
	Original Budget	Final Budget	Actual Results
Total revenues and transfers in	\$ 46,990,082	\$ 48,155,087	\$ 48,224,373
Total expenditures and transfers out	(47,828,082)	(48,291,312)	(48,232,056)
Net change in fund balance	(838,000)	(136,225)	(7,683)
Fund balance - Beginning of year	2,800,743	2,800,743	2,800,743
End of year	\$ 1,962,743	\$ 2,664,518	\$ 2,793,060

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Management's Discussion and Analysis

Both the revenues / transfers in and expenditures / transfers out of the Special Education Fund came in higher than the amounts originally budgeted. Revenues / transfers in were higher than the final amended budget, while expenditures / transfers out were lower than the final amended budget. The biggest change from the original budget was slightly higher property tax revenue than expected. This is shared with the local school districts in the county through the ISD's Special Education reimbursement payments to the local districts and also invested in the educational programming for our special needs students. The final results for the year were better than budgeted, and the ending fund balance is well within the target range established by the Board of Education for the Special Education Fund.

Career Technical Education Fund. As summarized below, during the 2016 fiscal year the Career Technical Education Fund had total revenues of \$12,122,080 and total expenditures and transfers out of \$12,644,970. As a result the fund balance at year-end decreased by \$522,890 to a total of \$3,025,933.

Summary of Career Technical Education Fund Performance			
for the Year Ended June 30, 2016			
	Original Budget	Final Budget	Actual Results
Total revenues	\$ 11,765,378	\$12,007,528	\$12,122,080
Total expenditures and transfers out	(12,512,000)	(12,483,761)	(12,644,970)
Net change in fund balance	(746,622)	(476,233)	(522,890)
Fund balance -			
Beginning of year	3,548,823	3,548,823	3,548,823
End of year	\$ 2,802,201	\$ 3,072,590	\$ 3,025,933

The actual revenue and expenditures / transfers out for the Career Technical Education Fund were slightly higher than both the original budget and the final amended budget. This resulted in a decrease in fund balance for the year, but not as big of a decrease as had originally been budgeted. The ending fund balance is within the target range established by the Board of Education for the Career and Technical Education Fund.

Recurring Projects Fund. During the 2016 fiscal year the Recurring Projects Fund had no revenues, \$2,500,000 in transfers in and total expenditures of \$1,179,630. As a result the fund balance at year-end increased by \$1,320,370 to a total of \$7,192,605 which is all restricted for capital projects.

Capital Asset and Debt Administration

Capital Assets. At the end of the 2015-16 fiscal year, the District had \$33,845,101 invested in land, construction in progress, buildings, furniture and equipment and transportation equipment, an increase of \$1,459,779 from the previous year. During 2015-16 there was additional depreciation of \$1,298,544 resulting in total accumulated depreciation as of June 30, 2016, of \$20,336,249. This yields a net book value of the District's capital assets of \$13,508,852 at June 30, 2016, an increase of \$437,924 over the previous year.

Since most of the District's facilities were originally built 30-40 years ago, they require continued investment to keep them well maintained. The District's capital asset plan is to protect the District's assets from deterioration and to continue to provide an excellent learning environment through the constant and vigilant care of the district's maintenance and custodial staffs. In order to ensure this continues into the future, the District utilizes its recurring projects fund to provide the necessary funding for facility maintenance and improvement projects that would otherwise not be possible relying only upon annual operating budgets without taking on additional debt. Examples of such projects could include chillers, boilers, energy management systems, roofs, parking lots, class room / meeting room / office space renovation, and other similar building updates.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Management's Discussion and Analysis

Long-term Debt. The District has long-term bonds of \$750,000 outstanding. This is a relatively small amount compared to many school districts in Michigan. This bonded indebtedness is attributable to School Building and Site Bonds issued in August 2009 that were used to complete an addition to the District's Kit Young Center where special education students aged 18-26 are trained in community focused instruction. These bonds are due in annual installments of \$40,000 to \$75,000 through the year 2029.

Factors Bearing on the District's Future

The world of K-12 education in the state of Michigan continues to encounter many changes and face many challenges. These include the areas of school funding, educational achievement, debates regarding public versus charter and private school performance, and consolidation of services. State and federal legislation also continues to impact school districts and their employees in such areas as teacher evaluations, pension reform, health care insurance, and spending of federal grant dollars. The District expects the pace of change to continue. Some of the key areas which may bring challenges to the district in the future include, but are not limited to, the following:

- **Support Services:** For many years the Jackson County ISD has viewed its primary purpose as servicing the local districts of Jackson County in whatever areas they need support. Over the years, areas of service have expanded from the initial primary focus on instructional support to now include many areas of non-instructional support in such fields as technology, business and finance, student data reporting, legal and many more. Areas where the role of intermediate school districts seem to be growing currently based on strong emphasis and directives from the state are early childhood programming, supporting priority and focus schools, assisting financially distressed school districts, reading proficiency, and career readiness (which includes a renewed emphasis on vocational training).
- **Local Property Tax Revenue:** After several years in a row of declining property values totaling over 10%, followed by a couple years of slowly improving property values, there was significant improvement in the real estate market and property values increased significantly in Jackson County for the 2016 tax year. Unfortunately, the Headlee Amendment caps the increase in property values on which school districts may levy their authorized mills so in reality the Jackson County ISD will see only very small growth in its near term local property tax revenue despite the much stronger real estate market.
- **Other Property Tax Issues:** The District continues to be impacted by the property tax refunds it is required to make as a result of Michigan Tax Tribunal (MTT) decisions reducing the value of both residential and commercial properties. The number and dollar value of these decisions has declined quite a bit in the past couple years, however some "big box" stores are filing additional claims using the "dark store" approach. Another potential issue is the gradual elimination of the Personal Property Tax (PPT) on Michigan businesses, although there is a provision in the legislation eliminating the PPT that will hopefully make ISD's whole for this lost property tax revenue.
- **The Affordable Care Act:** The Affordable Care Act (ACA) has placed many new requirements on employers related to the provision of health care insurance. In order to ensure compliance with these requirements a significant amount of additional tracking, monitoring and reporting is necessary and as with any new regulations, they can be time consuming and inefficient. Additionally, the ACA impacts the use of part-time employees which has been a common practice within many school districts. Going forward the District, like many employers, may have to think differently about its use of part-time employees.
- **The Fair Labor Standards Act:** Significant changes in the Fair Labor Standards Act (FLSA) take effect December 1, 2016. These changes come after many years without such revisions. As mentioned above, new regulations require time and attention from all employers to ensure compliance. These changes also have the potential to increase costs, particularly as a result of new overtime eligibility rules for non-instructional salaried staff members which are part of the new regulations.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Management's Discussion and Analysis

- **Labor Relations:** The District has had a good working relationship in the past with all of its union partners and employees, and the District expects this to continue into the future. The labor contract with one of the District's represented groups expires June 30, 2017. Two other contracts with represented groups will expire December 31, 2017, and the final labor contract is set to expire December 31, 2018. Additionally, each year the District typically makes minor updates to its handbook covering the non-represented group of administration employees for the following fiscal year. This is noted for the readers' information only and not to point out any expected issue or concern.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Kevin Oxley, Superintendent, or Mr. Roger Auwers, Director of Finance and Operations, at (517) 768-5200.

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BASIC FINANCIAL STATEMENTS

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Net Position

June 30, 2016

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 18,619,768
Investments	817,110
Receivables	5,559,023
Prepaid items and other assets	1,310,293
Capital assets not being depreciated	340,511
Capital assets being depreciated, net	<u>13,168,341</u>
Total assets	<u>39,815,046</u>
Deferred outflows of resources	
Deferred pension amounts	<u>13,079,832</u>
Liabilities	
Accounts payable and accrued liabilities	7,334,259
Unearned revenue	1,146,960
Long-term debt:	
Due within one year	200,756
Due in more than one year	710,000
Net pension liability	<u>81,707,674</u>
Total liabilities	<u>91,099,649</u>
Deferred inflows of resources	
Deferred pension amounts	<u>270,640</u>
Net position	
Net investment in capital assets	12,758,852
Restricted for:	
Special education	2,793,060
Career technical education	3,025,933
Training assistance	693,109
Capital projects	7,460,500
Unrestricted (deficit)	<u>(65,206,865)</u>
Total net position	<u><u>\$ (38,475,411)</u></u>

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2016

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 18,435,397	\$ -	\$ 12,053,704	\$ (6,381,693)
Supporting services	40,066,399	205,220	6,309,745	(33,551,434)
Community services	263,792	-	-	(263,792)
Payments to other governments	14,929,154	-	-	(14,929,154)
Interest on long-term debt	40,900	-	-	(40,900)
Unallocated depreciation	1,298,544	-	-	(1,298,544)
Total governmental activities	\$ 75,034,186	\$ 205,220	\$ 18,363,449	(56,465,517)
General revenues				
Property taxes				38,572,384
Unrestricted state aid				12,919,889
Grants and contributions not restricted to specific programs				4,664,989
Unrestricted earnings on investment and deposits				70,102
Total general revenues				56,227,364
Change in net position				(238,153)
Net position, beginning of year				(38,237,258)
Net position, end of year				\$ (38,475,411)

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2016

	General	Special Education	Career Technical Education
Assets			
Cash and cash equivalents	\$ 6,172,118	\$ 6,979,239	\$ 4,360,672
Investments	-	5,595	811,515
Accounts receivable	188,071	1,203,141	87,736
Due from other governments	1,345,918	2,181,784	455,186
Due from other funds	71	-	-
Prepaid items	704,606	34,351	18,491
Land held for resale	-	-	552,845
Total assets	\$ 8,410,784	\$ 10,404,110	\$ 6,286,445
Liabilities			
Accounts payable	\$ 817,159	\$ 251,746	\$ 93,459
Salaries payable	39,116	2,568,874	625,927
Due to other governments	101,838	388,069	94,358
Accrued liabilities	92,663	1,542,978	350,827
Due to other funds	2,625,875	2,859,383	2,066,373
Unearned revenue	1,119,042	-	27,918
Total liabilities	4,795,693	7,611,050	3,258,862
Deferred inflows of resources			
Unavailable receivables	4,499	-	1,650
Fund balances			
Nonspendable:			
Prepaid items	704,606	34,351	18,491
Land held for resale	-	-	552,845
Restricted for:			
Special education	-	2,758,709	-
Career technical education	-	-	2,454,597
Training assistance	-	-	-
Capital projects:			
Projects	-	-	-
Technology	-	-	-
Assigned - technical consortium	680,000	-	-
Unassigned	2,225,986	-	-
Total fund balances	3,610,592	2,793,060	3,025,933
Total liabilities, deferred inflows of resources and fund balances	\$ 8,410,784	\$ 10,404,110	\$ 6,286,445

The accompanying notes are an integral part of these financial statements.



Recurring Projects	Nonmajor Governmental Funds	Totals
\$ -	\$ 950,027	\$ 18,462,056
-	-	817,110
-	84,976	1,563,924
-	12,211	3,995,099
7,551,631	-	7,551,702
-	-	757,448
-	-	552,845
<u>\$ 7,551,631</u>	<u>\$ 1,047,214</u>	<u>\$ 33,700,184</u>
\$ 359,026	\$ 8,219	\$ 1,529,609
-	-	3,233,917
-	-	584,265
-	-	1,986,468
-	71	7,551,702
-	-	1,146,960
<u>359,026</u>	<u>8,290</u>	<u>16,032,921</u>
-	77,920	84,069
-	-	757,448
-	-	552,845
-	-	2,758,709
-	-	2,454,597
-	693,109	693,109
7,192,605	-	7,192,605
-	267,895	267,895
-	-	680,000
-	-	2,225,986
<u>7,192,605</u>	<u>961,004</u>	<u>17,583,194</u>
<u>\$ 7,551,631</u>	<u>\$ 1,047,214</u>	<u>\$ 33,700,184</u>

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JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2016

Fund balances - total governmental funds	\$ 17,583,194
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	340,511
Capital assets being depreciated, net	13,168,341
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred inflows in the governmental funds and not in fund balance.	
Unavailable receivables	84,069
Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net position.	
Net position of governmental activities accounted for in internal service funds	157,712
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds payable	(750,000)
Compensated absences	(160,756)
Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(81,707,674)
Deferred outflows related to the net pension liability	13,079,832
Deferred inflows related to the net pension liability	(270,640)
Net position of governmental activities	<u><u>\$ (38,475,411)</u></u>

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2016

	General	Special Education	Career Technical Education
Revenues			
Local sources	\$ 5,792,061	\$ 29,602,690	\$ 9,928,238
State sources	7,606,568	12,378,766	1,841,291
Federal sources	934,502	6,092,917	352,551
Total revenues	14,333,131	48,074,373	12,122,080
Expenditures			
Current:			
Instruction	-	11,167,033	6,621,415
Supporting services	11,837,406	24,447,954	3,309,763
Community services	-	-	263,792
Payments to other governments	4,797,507	9,686,169	-
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Capital outlay -			
Technology capital improvements	-	-	-
Total expenditures	16,634,913	45,301,156	10,194,970
Revenues over (under) expenditures	(2,301,782)	2,773,217	1,927,110
Other financing sources (uses)			
Transfers in	3,550,000	150,000	-
Transfers out	(900,000)	(2,930,900)	(2,450,000)
Total other financing sources (uses)	2,650,000	(2,780,900)	(2,450,000)
Net change in fund balances	348,218	(7,683)	(522,890)
Fund balances, beginning of year	3,262,374	2,800,743	3,548,823
Fund balances, end of year	\$ 3,610,592	\$ 2,793,060	\$ 3,025,933

The accompanying notes are an integral part of these financial statements.



Recurring Projects	Nonmajor Governmental Funds	Totals
\$ -	\$ 184,961	\$ 45,507,950
-	86,254	21,912,879
-	-	7,379,970
<hr/>		
-	271,215	74,800,799
<hr/>		
-	-	17,788,448
1,179,630	48,728	40,823,481
-	-	263,792
-	-	14,483,676
-	40,000	40,000
-	40,900	40,900
-	145,453	145,453
<hr/>		
1,179,630	275,081	73,585,750
<hr/>		
(1,179,630)	(3,866)	1,215,049
<hr/>		
2,500,000	80,900	6,280,900
-	-	(6,280,900)
<hr/>		
2,500,000	80,900	-
<hr/>		
1,320,370	77,034	1,215,049
<hr/>		
5,872,235	883,970	16,368,145
<hr/>		
\$ 7,192,605	\$ 961,004	\$ 17,583,194
<hr/> <hr/>		

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JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2016

Net change in fund balances - total governmental funds	\$ 1,215,049
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital assets purchased/constructed	1,740,786
Depreciation expense	(1,298,544)
Loss on disposal of capital assets	(4,318)
The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.	
Change in deferred inflows for unavailable receivables	(5,108)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Principal payments on long-term liabilities	40,000
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 funds.	
Change in the net pension liability and related deferred amounts	(1,926,585)
Change in the accrual for compensated absences	(44,906)
Internal service funds are used by management to charge the costs of certain activities, as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.	
Net income from governmental activities accounted for in internal service funds	45,473
Change in net position of governmental activities	<u>\$ (238,153)</u>

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016				2015 Actual
	Original Budget	Final Budget	Actual	Over (under) Final Budget	
Revenues					
Local sources:					
Property tax levy	\$ 1,450,000	\$ 1,506,000	\$ 1,506,781	\$ 781	\$ 1,472,695
Earnings on investments and deposits	15,681	18,500	19,080	580	17,796
Rentals	13,520	15,020	14,948	(72)	12,697
Other	4,044,600	4,347,655	4,251,252	(96,403)	4,238,287
Total local sources	5,523,801	5,887,175	5,792,061	(95,114)	5,741,475
State sources:					
State school aid	2,564,670	2,700,553	2,648,613	(51,940)	2,477,343
Other	4,674,145	5,021,539	4,957,955	(63,584)	4,171,404
Total state sources	7,238,815	7,722,093	7,606,568	(115,525)	6,648,747
Federal sources:					
Title I	654,437	515,567	490,715	(24,852)	370,743
Other	943,148	524,937	442,850	(82,087)	179,693
Total federal sources	1,597,585	1,041,441	934,502	(106,939)	550,436
Total revenues	14,360,201	14,650,708	14,333,131	(317,577)	12,940,658
Expenditures					
Supporting services:					
Pupil support	226,309	256,292	238,439	(17,853)	258,675
Instructional support	3,063,561	3,243,569	3,097,577	(145,992)	2,775,248
General administration	872,263	862,223	505,333	(356,890)	518,962
Business services	1,732,858	1,687,375	1,669,075	(18,300)	1,590,591
Operations and maintenance	534,905	511,879	489,955	(21,924)	484,214
Central services	6,109,447	5,772,150	5,619,523	(152,627)	5,347,584
Community services	623,270	390,421	217,504	(172,917)	74,857
Total supporting services	13,162,612	12,723,909	11,837,406	(886,503)	11,050,131
Payments to other governments	4,996,589	4,484,174	4,797,507	313,333	4,176,071
Total expenditures	18,159,201	17,208,083	16,634,913	(573,170)	15,226,202
Revenues under expenditures	(3,799,000)	(2,557,375)	(2,301,782)	255,593	(2,285,544)

continued...

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016				2015 Actual
	Original Budget	Final Budget	Actual	Over (under) Final Budget	
Other financing sources (uses)					
Transfers in	\$ 3,550,000	\$ 3,550,000	\$ 3,550,000	\$ -	\$ 3,550,000
Transfers out	(50,000)	(700,000)	(900,000)	200,000	(700,000)
Total other financing sources (uses)	<u>3,500,000</u>	<u>2,850,000</u>	<u>2,650,000</u>	<u>200,000</u>	<u>2,850,000</u>
Net change in fund balance	(299,000)	292,625	348,218	55,593	564,456
Fund balance, beginning of year	<u>3,262,374</u>	<u>3,262,374</u>	<u>3,262,374</u>	-	<u>2,697,918</u>
Fund balance, end of year	<u>\$ 2,963,374</u>	<u>\$ 3,554,999</u>	<u>\$ 3,610,592</u>	<u>\$ 55,593</u>	<u>\$ 3,262,374</u>

concluded.

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Special Education Special Revenue Fund

For the Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016				2015 Actual
	Original Budget	Final Budget	Actual	Over (under) Final Budget	
Revenues					
Local sources:					
Property taxes	\$ 26,900,000	\$ 27,607,700	\$ 27,639,808	\$ 32,108	\$ 27,011,883
Earnings on investments and deposits	25,861	33,250	35,563	2,313	29,195
Contributions	14,000	26,207	28,381	2,174	22,330
Medicaid fee for service	1,616,497	1,864,306	1,858,713	(5,593)	1,616,497
Other	21,000	40,426	40,225	(201)	208,396
Total local sources	28,577,358	29,571,889	29,602,690	30,801	28,888,301
State sources:					
State school aid - unrestricted	8,952,349	9,199,051	9,206,325	7,274	9,065,961
State school aid - restricted	3,056,000	3,166,441	3,172,441	-	2,995,057
Total state sources	12,008,349	12,365,492	12,378,766	7,274	12,061,018
Federal sources:					
IDEA flowthrough	5,666,626	5,506,623	5,536,820	30,197	5,765,367
Preschool incentive	217,184	224,882	216,626	(8,256)	223,757
Infant and toddler early intervention	162,996	163,550	163,550	-	162,996
State initiated	157,569	172,650	175,921	3,271	190,456
Total federal sources	6,204,375	6,067,705	6,092,917	25,212	6,342,576
Total revenues	46,790,082	48,005,087	48,074,373	69,286	47,291,895
Expenditures					
Instruction -					
Added needs - special education	11,253,245	11,237,734	11,167,033	(70,701)	10,409,475
Supporting services:					
Pupil support	15,954,452	15,983,474	15,805,311	(178,163)	15,329,761
Instructional support	2,393,880	2,476,313	2,385,263	(91,050)	2,295,641
General administration	795,781	661,991	618,679	(43,312)	720,446
School administration	571,482	471,342	416,677	(54,665)	383,896
Business services	226,200	140,509	128,536	(11,973)	113,668
Operations and maintenance	976,960	1,028,885	964,148	(64,737)	1,076,910
Transportation	3,613,327	3,624,877	3,634,713	9,836	3,889,311
Central services	287,614	289,337	270,786	(18,551)	266,700
Community services	162,996	223,850	223,841	(9)	-
Total supporting services	24,982,692	24,900,578	24,447,954	(452,624)	24,076,333
Payments to other governments	9,761,245	9,622,100	9,686,169	64,069	9,819,498
Total expenditures	45,997,182	45,760,412	45,301,156	(459,256)	44,305,306
Revenues over expenditures	792,900	2,244,675	2,773,217	528,542	2,986,589

continued...

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Special Education Special Revenue Fund

For the Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016				2015 Actual
	Original Budget	Final Budget	Actual	Over (under) Final Budget	
Other financing sources (uses)					
Transfers in	\$ 200,000	\$ 150,000	\$ 150,000	\$ -	\$ 150,000
Transfers out	(1,830,900)	(2,530,900)	(2,930,900)	400,000	(2,682,800)
Total other financing sources (uses)	(1,630,900)	(2,380,900)	(2,780,900)	400,000	(2,532,800)
Net change in fund balance	(838,000)	(136,225)	(7,683)	128,542	453,789
Fund balance, beginning of year	2,800,743	2,800,743	2,800,743	-	2,346,954
Fund balance, end of year	\$ 1,962,743	\$ 2,664,518	\$ 2,793,060	\$ 128,542	\$ 2,800,743

concluded.

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Career Technical Education Special Revenue Fund

For the Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016				2015 Actual
	Original Budget	Final Budget	Actual	Over (under) Final Budget	
Revenues					
Local sources:					
Property taxes	\$ 9,000,000	\$ 9,429,250	\$ 9,425,795	\$ (3,455)	\$ 9,215,991
Tuition	265,000	238,565	204,920	(33,645)	229,236
Earnings on investments and deposits	17,000	13,500	14,359	859	16,373
Other	507,000	282,874	283,164	290	297,383
Total local sources	9,789,000	9,964,189	9,928,238	(35,951)	9,758,983
State sources:					
Unrestricted state aid	1,200,104	1,029,589	1,176,935	147,346	1,095,983
Vocational education	440,490	645,949	649,106	3,157	445,682
Other	14,750	15,250	15,250	-	14,750
Total state sources	1,655,343	1,690,788	1,841,291	150,503	1,556,415
Federal sources -					
Perkins	321,035	352,551	352,551	-	316,269
Total revenues	11,765,378	12,007,528	12,122,080	114,552	11,631,667
Expenditures					
Instruction:					
Basic programs - vocational education	7,083,613	6,718,188	6,621,415	(96,773)	6,323,592
Supporting services:					
Pupil support	863,390	911,660	879,000	(32,660)	810,928
Instructional support	241,408	175,360	240,905	65,545	211,174
School administration	814,314	787,324	695,849	(91,475)	665,004
Business services	67,500	52,700	48,011	(4,689)	42,444
Operations and maintenance	888,824	835,566	818,275	(17,291)	908,231
Transportation	56,952	53,392	42,666	(10,726)	45,731
Central services	665,168	332,645	585,057	252,412	695,024
Total supporting services	3,597,556	3,148,647	3,309,763	161,116	3,378,536
Community services	405,831	288,926	263,792	(25,134)	325,388
Payments to other governments	-	-	-	-	25,560
Total expenditures	11,087,000	10,155,761	10,194,970	39,209	10,053,076
Revenues over expenditures	678,378	1,851,767	1,927,110	75,343	1,578,591

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JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Career Technical Education Special Revenue Fund

For the Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	2016				2015 Actual
	Original Budget	Final Budget	Actual	Over (under) Final Budget	
Other financing sources (uses)					
Sale of capital assets	\$ -	\$ -	\$ -	\$ -	\$ 1,000
Transfers out	(1,425,000)	(2,328,000)	(2,450,000)	122,000	(1,950,000)
Total other financing sources (uses)	(1,425,000)	(2,328,000)	(2,450,000)	122,000	(1,949,000)
Net change in fund balance	(746,622)	(476,233)	(522,890)	(46,657)	(370,409)
Fund balance, beginning of year	3,548,823	3,548,823	3,548,823	-	3,919,232
Fund balance, end of year	\$ 2,802,201	\$ 3,072,590	\$ 3,025,933	\$ (46,657)	\$ 3,548,823

concluded.

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Net Position

Proprietary Funds

June 30, 2016

	Governmental Activities	Internal Service Fund
Assets		
Cash and cash equivalents	\$ 157,712	
Net position		
Unrestricted	\$ 157,712	

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2016

	Governmental Activities
	Internal Service Fund
Operating revenues	
Charges for services	\$ 99,297
Operating expenses	
Supporting services	54,166
	<hr/>
Operating income	45,131
Nonoperating revenue	
Interest revenue	342
	<hr/>
Net income	45,473
Net position, beginning of year	112,239
	<hr/>
Net position, end of year	<u>\$ 157,712</u>

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2016

	Governmental Activities
	Internal Service Fund
Cash flows from operating activities	
Cash received from customers	\$ 184,635
Cash payments for goods and services	<u>(54,166)</u>
Net cash provided by operating activities	130,469
Cash flows from investing activities	
Interest received	<u>342</u>
Net change in cash and cash equivalents	130,811
Cash and cash equivalents, beginning of year	<u>26,901</u>
Cash and cash equivalents, end of year	<u><u>\$ 157,712</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 45,131
Adjustments to reconcile operating income to net cash provided by operating activities	
Change in:	
Due from other governments	<u>85,338</u>
Net cash provided by operating activities	<u><u>\$ 130,469</u></u>

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Fiduciary Net Position - All Fiduciary Funds June 30, 2016

	Private Purpose Trust Fund	
	Imagination Library	Agency Fund
Assets		
Cash and cash equivalents	\$ 54,727	\$ 102,752
Liabilities		
Due to student groups and activities	-	\$ 102,752
Net position		
Restricted for child literacy program	\$ 54,727	

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Position - Private Purpose Trust Fund

Imagination Library

For the Year Ended June 30, 2016

Additions

Local sources -
Contributions

\$ 105,144

Deductions

Books
Other expenses

107,810

2,026

Total deductions

109,836

Change in net position

(4,692)

Net position, beginning of year

59,419

Net position, end of year

\$ 54,727

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Jackson County Intermediate School District (the "District") has followed the guidelines of the Governmental Accounting Standards Board and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

Government-wide and Fund 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 non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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, except for agency funds, which do not have a measurement focus, 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.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or one year for expenditure-driven grants. 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.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

Property taxes, intergovernmental revenue, 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

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

The *special education special revenue fund* accounts for special education initiatives carried out by the District, which are primarily financed through restricted state aid and property taxes.

The *career technical education special revenue fund* accounts for vocational education initiatives carried out by the District, which are primarily financed through restricted state aid and property taxes.

The *capital projects recurring projects fund* is used to account for and report financial resources that are restricted, committed or assigned to expenditure for improvements and projects funded by the general fund, special education fund, and career technical education fund.

Additionally, the District reports the following fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

The *capital projects technology fund* is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Private purpose trust fund is used to account for funding through donations with a mission to mail one free book per month to kids under the age of 5 aiming to improve literacy of pre-kindergarten children.

The *agency fund* accounts for assets held for student activity groups and organizations and are custodial in nature.

The *internal service fund* is used to account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The District participates in an external investment pool. In accordance with GASB 79, the District's shares of this investment are recorded at amortized cost, which approximates fair value. Other investments of the District are reported at fair value.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non current portion of interfund loans).

Inventory and Prepaids

Inventory is valued at the lower of cost (first in, first out) or market. Inventory in the general and special revenue funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories in the fund financial statements are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of current assets.

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

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years, or computer equipment with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

	Years
Buildings and improvements	50
Furniture and equipment	5-20
Transportation equipment	5-10

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

Deferred Outflows of Resources

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 District reports deferred outflows of resources related to the net pension liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

Compensated Absences

Vacation and Sick Pay - Vacation days are earned by most year-round employees at rates specified under contractual provisions. Retiring/terminated employees are paid for unused accumulated vacation days. The District's sick pay and personal leave policies allow for accumulation of up to a certain number of days depending on the employee group involved. Upon termination of employment, all accumulated sick and personal days are forfeited. It is the District's policy to recognize the cost of such leave at the time payments are made.

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated vacation days. The liability has been calculated for employees who currently are eligible to receive termination payments. The amount reported is salary related and includes no fringe benefits.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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 in 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 proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources

In addition to liabilities, the balance sheet 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 governmental funds report unavailable revenues, which arise only under the modified accrual basis of accounting, from receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. These amounts are not deferred in the government-wide financial statements, which are reflected on the accrual basis of accounting. The District also reports deferred inflows of resources related to pension costs.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

Fund Equity

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. The District reports *assigned fund balance* for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education has delegated the authority to assign fund balance to the Superintendent or his/her designee. *Unassigned fund balance* is the residual classification for the general fund.

When the District incurs an expenditure for purposes for which various fund balance classifications can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

2. BUDGETARY INFORMATION

The general and special revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. All annual appropriations lapse at fiscal year end. The budgets for the general and special revenue funds are adopted on a functional basis.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Budget to actual comparisons for the general fund and each major special revenue fund are presented in the fund financial statements at the legal level of budgetary control. Expenditures in excess of appropriations for the year ended June 30, 2016, are as follows:

	Final Budget	Actual	Over Budget
General fund:			
Payments to other governments	\$ 4,484,174	\$ 4,797,507	\$ 313,333
Transfers out	700,000	900,000	200,000
Special education fund:			
Supporting services:			
Transportation	3,624,877	3,634,713	9,836
Payments to other governments	9,622,100	9,686,169	64,069
Transfers out	2,530,900	2,930,900	400,000
Career technical education fund:			
Instructional support	175,360	240,905	65,545
Central services	332,645	585,057	252,412
Transfers out	2,328,000	2,450,000	122,000

4. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the Statement of Net Position and Fiduciary Statement of Net Position follows:

Statement of Net Position	
Cash and cash equivalents	\$ 18,619,768
Investments	817,110
Statement of Fiduciary Net Position	
Cash and cash equivalents	<u>157,479</u>
Total	<u><u>\$ 19,594,357</u></u>
Deposits and investments	
Cash on hand	\$ 600
Bank deposits (checking and savings accounts)	18,776,647
Investments	<u>817,110</u>
Total	<u><u>\$ 19,594,357</u></u>
Statutory Authority	

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

State statutes authorize the District to invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allow for all of these types of investments.

The District chooses to disclose its investments by specifically identifying each. At June 30, 2016, the District had the following investments:

Deposit / Investment	Maturity	Amortized Cost/ Fair Value	Rating
Mutual Funds	n/a	\$ 455,883	n/a
Michigan Liquid Asset Fund	n/a	<u>361,227</u>	S&P - AAAm
		<u>\$ 817,110</u>	

Deposit and Investment Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$18,051,556 of the District's bank balance of \$18,846,174 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. None of the District's investments are subject to custodial credit risk because their existence is not evidenced by securities in physical or book form.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

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

The District's only recurring fair value measurements as of June 30, 2016, were related to its investments in mutual funds. These investments are valued using quoted market pricing of the underlying securities (Level 1 inputs).

5. RECEIVABLES

Accounts receivable as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General	Special Education	Career Technical Education
Accounts receivable	\$ 188,071	\$ 1,203,141	\$ 87,736
Due from other governments	1,345,918	2,181,784	455,186
	<u>\$ 1,533,989</u>	<u>\$ 3,384,925</u>	<u>\$ 542,922</u>
	Nonmajor Governmental Funds	Total	
Accounts receivable	\$ 84,976	\$ 1,563,924	
Due from other governments	12,211	3,995,099	
	<u>\$ 97,187</u>	<u>\$ 5,559,023</u>	

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated:				
Land	\$ 25,007	\$ -	\$ -	\$ 25,007
Construction in progress	-	315,504	-	315,504
	<u>25,007</u>	<u>315,504</u>	<u>-</u>	<u>340,511</u>
Capital assets, being depreciated:				
Land improvements	2,630,565	21,295	-	2,651,860
Buildings and improvements	24,217,419	947,600	-	25,165,019
Furniture and equipment	3,214,575	267,559	(216,474)	3,265,660
Transportation equipment	2,297,756	188,828	(64,533)	2,422,051
	<u>32,360,315</u>	<u>1,425,282</u>	<u>(281,007)</u>	<u>33,504,590</u>
Less accumulated depreciation for:				
Land improvements	(544,014)	(84,570)	-	(628,584)
Buildings and improvements	(15,790,347)	(717,942)	-	(16,508,289)
Furniture and equipment	(1,606,080)	(309,061)	212,156	(1,702,985)
Transportation equipment	(1,373,953)	(186,971)	64,533	(1,496,391)
	<u>(19,314,394)</u>	<u>(1,298,544)</u>	<u>276,689</u>	<u>(20,336,249)</u>
Total capital assets being depreciated, net	<u>13,045,921</u>	<u>126,738</u>	<u>(4,318)</u>	<u>13,168,341</u>
Governmental activities capital assets, net	<u>\$ 13,070,928</u>	<u>\$ 442,242</u>	<u>\$ (4,318)</u>	<u>\$ 13,508,852</u>

Depreciation expense of \$1,298,544 was reported on the statement of activities as "unallocated depreciation" (i.e., not allocated to functions/programs).

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

7. PAYABLES

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General	Special Education	Career Technical Education	Recurring Projects
Accounts payable	\$ 817,159	\$ 251,746	\$ 93,459	\$ 359,026
Salaries payable	39,116	2,568,874	625,927	-
Due to other governments	101,838	388,069	94,358	-
Accrued expenditures	92,663	1,542,978	350,827	-
	<u>\$ 1,050,776</u>	<u>\$ 4,751,667</u>	<u>\$ 1,164,571</u>	<u>\$ 359,026</u>
	Nonmajor Governmental Funds	Total		
Accounts payable	\$ 8,219	\$ 1,529,609		
Salaries payable	-	3,233,917		
Due to other governments	-	584,265		
Accrued liabilities	-	1,986,468		
	<u>\$ 8,219</u>	<u>\$ 7,334,259</u>		

8. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

At June 30, 2016, interfund receivables and payables consisted of the following:

	Due from Other Funds	Due to Other Funds
General	\$ 71	\$ 2,625,875
Special education	-	2,859,383
Career technical education	-	2,066,373
Recurring projects	7,551,631	-
Nonmajor governmental funds	-	71
	<u>\$ 7,551,702</u>	<u>\$ 7,551,702</u>

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

For the year ended June 30, 2016, interfund transfers consisted of the following:

	Transfers in	Transfers out
General	\$ 3,550,000	\$ 900,000
Special education	150,000	2,930,900
Career technical education	-	2,450,000
Recurring projects	2,500,000	-
Nonmajor governmental funds	80,900	-
	<u>\$ 6,280,900</u>	<u>\$ 6,280,900</u>

The District reports interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the balance sheet for the governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2016, the District transferred funds to provide funds for debt service and to return funds from the special education and career technical education funds to the general fund. In addition, funds were transferred to the recurring projects fund for special improvement projects within the District.

9. LONG-TERM DEBT

Long-term debt and other obligations of the District at June 30, 2016, are summarized as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
2009 School Building & Site Bonds, due in annual installments of \$40,000 to \$75,000 through the year 2029; interest at 2.0%	\$ 790,000	\$ -	\$ (40,000)	\$ 750,000	\$ 40,000
Compensated absences	<u>115,850</u>	<u>160,756</u>	<u>(115,850)</u>	<u>160,756</u>	<u>160,756</u>
Total long-term debt	<u>\$ 905,850</u>	<u>\$ 160,756</u>	<u>\$ (155,850)</u>	<u>\$ 910,756</u>	<u>\$ 200,756</u>

Compensated absences are generally liquidated by the general, special education, and career technical education funds.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

Future principal and interest payment requirements on outstanding debt are as follows:

Year Ended June 30,	Principal	Interest	Total
2017	\$ 40,000	\$ 38,750	\$ 78,750
2018	45,000	36,850	81,850
2019	45,000	34,713	79,713
2020	50,000	32,575	82,575
2021	50,000	30,075	80,075
2022-2026	300,000	108,913	408,913
2027-2029	220,000	24,474	244,474
Totals	\$ 750,000	\$ 306,350	\$ 1,056,350

10. LEASE AGREEMENTS

The District maintains an operating lease agreement for 7 buses with an original balance of \$1,125,202. The future minimum lease obligation of these minimum lease payments as of June 30, 2016 are as follows:

Year	Amount
2017	\$ 207,202
2018	408,240
2019	75,880
2020	171,236
	<u>\$ 862,558</u>

Rental expense on this lease and an additional bus lease ended during the fiscal year was \$206,118 for the year ended June 30, 2016.

11. RISK MANAGEMENT

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

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

The District is self-insured to provide health benefits for certain employee groups. The District estimates the liability for its self-insured coverages and includes both those claims that have been reported as well as those that have not yet been reported. These estimates are prepared with the assistance of the District's third-party administrators for claims management and are recorded in the General, Special Education and Career Technical Education funds. Changes in the estimated liability are as follows:

	2016	2015
Estimated liability, beginning of year	\$ 31,714	\$ 97,782
Estimated claims incurred, including changes in estimates	1,094,972	1,518,779
Claim payments	<u>(1,070,919)</u>	<u>(1,584,847)</u>
Estimated liability, end of year	<u>\$ 55,767</u>	<u>\$ 31,714</u>

12. PROPERTY TAXES

Property taxes are assessed as of December 31 and attach as an enforceable lien on property as of July 1 of the following year. Taxes are levied on whose boundaries include property within the District and are due on September 15.

13. RETIREMENT PLAN

Plan Description

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

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

The System's financial statements are available at www.michigan.gov/mpsers-cafr.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. 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.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

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

Contributions and Funded Status

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21-year period for the 2015 fiscal year.

The table below summarizes pension contribution rates in effect for fiscal year 2015.

Benefit Structure	Member Rates	Employer Rates
Basic	0.0% - 4.0%	22.52% - 23.07%
Member Investment Plan (MIP)	3.0% - 7.0%	22.52% - 23.07%
Pension Plus	3.0% - 6.4%	21.99%
Defined Contribution	0.0%	17.72% - 18.76%

The District's contribution to MPSERS under all pension plans for the year ended June 30, 2016 was \$7,883,487.

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

At June 30, 2016, the District reported a liability of \$81,707,674 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the District's proportion was 0.33452%, which was an increase of 0.01860% from its proportion measured as of September 30, 2014.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

For the year ended June 30, 2016, the District recognized pension expense of \$7,884,515. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 270,640	\$ (270,640)
Changes in assumptions	2,011,816	-	2,011,816
Net difference between projected and actual earnings on pension plan investments	417,052	-	417,052
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,635,560	-	3,635,560
	<u>6,064,428</u>	<u>270,640</u>	<u>5,793,788</u>
District contributions subsequent to the measurement date	7,015,404	-	7,015,404
	<u>7,015,404</u>	<u>-</u>	<u>7,015,404</u>
Total	<u>\$ 13,079,832</u>	<u>\$ 270,640</u>	<u>\$ 12,809,192</u>

\$7,015,404 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2017	\$ 1,207,747
2018	1,207,747
2019	1,098,626
2020	<u>2,279,668</u>
Total	<u>\$ 5,793,788</u>

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension liability in the September 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	8.0%
Pension Plus plan (hybrid)	7.5%
Projected salary increases	3.5% - 12.3%, including wage inflation at 3.5%
Cost of living adjustments	3% annual non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate
Domestic equity pools	28.00%	5.90%	1.64%
Alternative investment pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.90%	0.09%
Real estate and infrastructure pools	10.00%	4.30%	0.43%
Absolute return pools	15.50%	6.00%	0.93%
Short-term investment pools	2.00%	0.00%	0.00%
	<u>100.00%</u>		5.90%
Inflation			<u>2.10%</u>
Investment rate of return			<u>8.00%</u>

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District's proportionate share of the net pension liability	\$ 105,342,138	\$ 81,707,674	\$ 61,782,854

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At June 30, 2016, the District reported a payable of \$1,151,836 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2016.

Other Postemployment Benefits

Retirees enrolled in MPERS before September 4, 2012 have the option of participating in the *Premium Subsidy* plan, a defined benefit postemployment healthcare plan, which is funded by employers on a prefunded basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension. Employer contributions range from 2.71% to 6.83% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

Plan members enrolled on or after September 4, 2012 participate in the *Personal Healthcare Fund*. This defined contribution other postemployment benefits plan includes a required 2% employee contribution into a personal tax-deferred account, which is matched by an additional 2% employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3% employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 were declared unconstitutional by the Supreme Court. Such amounts will be refunded by MPERS to each District, including interest, and will then be refunded to individual employees.

The District's contributions to MPERS for other postemployment benefits amounted to \$2,577,177 for the year ended June 30, 2016.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

■ Notes to Financial Statements

14. NET INVESTMENT IN CAPITAL ASSETS

As of June 30, 2016, net investment in capital assets was comprised of the following:

Net investment in capital assets	
Capital assets not being depreciated	\$ 340,511
Capital assets being depreciated, net	13,168,341
Bonds payable	<u>(750,000)</u>
Total net investment in capital assets	<u>\$ 12,758,852</u>

15. SUBSEQUENT EVENT

On August 16, 2016, the District entered into an operating lease agreement for the leasing of four new buses totaling \$678,006. Lease payments each year are expected to be \$75,880.



REQUIRED SUPPLEMENTARY INFORMATION

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of the District's Proportionate Share of the Net Pension Liability

	Year Ended June 30,	
	2015	2016
District's proportion of the net pension liability	\$ 69,586,838	\$ 81,707,674
District's proportionate share of the net pension liability	0.31592%	0.33452%
District's covered-employee payroll	\$ 23,907,307	\$ 23,818,313
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	291.07%	343.05%
Plan fiduciary net position as a percentage of the total pension liability	66.20%	63.17%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Required Supplementary Information

MPERS Cost-Sharing Multiple-Employer Plan

Schedule of District Contributions

	Year Ended June 30,	
	2015	2016
Contractually required contribution	\$ 6,142,307	\$ 7,883,487
Contributions in relation to the contractually required contribution	<u>(6,142,307)</u>	<u>(7,883,487)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 23,416,380	\$ 23,864,947
Contributions as a percentage of covered employee payroll	26.23%	33.03%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

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COMBINING FUND STATEMENTS

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2016

	Special Revenue	Debt Service	Capital Projects	
	Training Assistance	2009 Debt Service	Technology	Totals
Assets				
Cash and cash equivalents	\$ 680,969	\$ -	\$ 269,058	\$ 950,027
Accounts receivable	-	-	84,976	84,976
Due from other governments	12,211	-	-	12,211
Total assets	<u>\$ 693,180</u>	<u>\$ -</u>	<u>\$ 354,034</u>	<u>\$ 1,047,214</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ 8,219	\$ 8,219
Due to other funds	71	-	-	71
Total liabilities	71	-	8,219	8,290
Deferred inflows of resources				
Unavailable receivables	-	-	77,920	77,920
Fund balances				
Restricted	<u>693,109</u>	<u>-</u>	<u>267,895</u>	<u>961,004</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 693,180</u>	<u>\$ -</u>	<u>\$ 354,034</u>	<u>\$ 1,047,214</u>

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds For the Year Ended June 30, 2016

	Special Revenue	Debt Service	Capital Projects	
	Training Assistance	2009 Debt Service	Technology	Totals
Revenues				
Local revenue:				
Tuition	\$ 300	\$ -	\$ -	\$ 300
Earnings on investments and deposits	-	-	758	758
Other	2,650	-	181,253	183,903
State revenue	86,254	-	-	86,254
Total revenues	89,204	-	182,011	271,215
Expenditures				
Supporting services	48,728	-	-	48,728
Debt service:				
Principal	-	40,000	-	40,000
Interest and fiscal charges	-	40,900	-	40,900
Capital outlay - Technology capital improvements	-	-	145,453	145,453
Total expenditures	48,728	80,900	145,453	275,081
Revenues over (under) expenditures	40,476	(80,900)	36,558	(3,866)
Other financing sources				
Transfers in	-	80,900	-	80,900
Net change in fund balances	40,476	-	36,558	77,034
Fund balances, beginning of year	652,633	-	231,337	883,970
Fund balances, end of year	\$ 693,109	\$ -	\$ 267,895	\$ 961,004

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SINGLE AUDIT ACT COMPLIANCE

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**INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

November 1, 2016

To the Board of Education
Jackson County Intermediate School District
Jackson, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Jackson County Intermediate School District (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 1, 2016, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2016

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount
U.S. Department of Education				
2014-2015 Title I Regional Assistance	84.010	MDE	151570-1415	\$ 504,437
2015-2016 Title I Regional Assistance	84.010	MDE	161570-1516	628,539
Special Education Cluster:				
2014-2015 IDEA Flowthrough	84.027A	MDE	150450-1415	5,586,626
2015-2016 IDEA Flowthrough	84.027A	MDE	160450-1516	5,587,279
2014-2015 State Initiated / Competitive EOSD	84.027A	MDE	150480-EOSD	50,000
2015-2016 State Initiated / Competitive EOSD	84.027A	MDE	160480-EOSD	50,000
2014-2015 State Initiated / Department TC	84.027A	MDE	150490-TC	65,000
2015-2016 State Initiated / Department TC	84.027A	MDE	160490-TC	65,000
2014-2015 Preschool Incentive	84.173A	MDE	150460-1415	217,184
2015-2016 Preschool Incentive	84.173A	MDE	160460-1516	217,154
2014-2015 Perkins	84.048A	HCISD	-n/a-	321,035
2015-2016 Perkins	84.048A	HCISD	-n/a-	352,551
2015-2016 Infant and Toddler Formula	84.181A	MDE	161340-1516	163,550
2009-2010 McKinney-Vento Homeless Education	84.196A	MDE	102320-0910	-
2013-2014 McKinney-Vento Homeless Education	84.196A	MDE	142320-1314	75,845
2014-2015 McKinney-Vento Homeless Education	84.196A	MDE	152320-1415	60,984
2015-2016 McKinney-Vento Homeless Education	84.196A	MDE	162320-1516	55,734

Accrued (Unearned) Revenue at July 1, 2015	Federal Funds / Payments In-Kind Received	Expenditures (Memo Only) Prior Year(s)	Expenditures June 30, 2016	Accrued (Unearned) Revenue at June 30, 2016	Current Year Cash Transferred to Subrecipient
\$ 58,531	\$ 165,559	\$ 303,870	\$ 107,028	\$ -	\$ -
-	326,527	-	383,687	57,160	-
58,531	492,086	303,870	490,715	57,160	-
449,170	684,514	5,351,282	235,344	-	-
-	4,239,715	-	5,301,477	1,061,762	-
11,390	15,828	45,562	4,438	-	-
-	36,624	-	48,832	12,208	-
15,952	15,952	65,000	-	-	-
-	49,000	-	65,000	16,000	-
51,864	126,592	142,456	74,728	-	-
-	98,221	-	141,898	43,677	-
528,376	5,266,446	5,604,300	5,871,717	1,133,647	-
72,789	72,789	316,269	-	-	-
-	277,120	-	352,551	75,431	-
72,789	349,909	316,269	352,551	75,431	-
-	163,550	162,996	163,550	-	-
(6,530)	-	-	-	(6,530)	-
3,219	3,219	14,990	-	-	-
15,613	32,449	31,202	17,304	468	16,424
-	12,219	-	18,199	5,980	16,795
12,302	47,887	46,192	35,503	(82)	33,219

continued...

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2016

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount
U.S. Department of Education (concluded)				
2014-2015 Title II, Part A Regular	84.367	MDE	15052-1415	\$ 937
Mathematics and Science Partnerships	84.366B	LISD	-n/a-	189,642
2014-2015 Reading Recovery	84.396A	OU	-n/a-	19,805
2014-2015 Substance Abuse and Mental Health Services	93.243	MDE	152730	140,569
2015-2016 Substance Abuse and Mental Health Services	93.243	MDE	162730	268,117
2015-2016 Substance Abuse and Mental Health Services	93.243	MDE	162750	13,938
2014-2015 Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	MDE	153QUA	75,000
2015-2016 Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	MDE	163QUA	100,000
Total U.S. Department of Education				
U.S. Department of Health and Human Services				
2015-2016 Medicaid Administrative Outreach	93.778	MDE	-n/a-	-n/a-
Total Federal Financial Assistance				

See notes to schedule of expenditures of federal awards.

Accrued (Unearned) Revenue at July 1, 2015	Federal Funds / Payments In-Kind Received	Expenditures (Memo Only) Prior Year(s)	Expenditures June 30, 2016	Accrued (Unearned) Revenue at June 30, 2016	Current Year Cash Transferred to Subrecipient
\$ -	\$ 937	\$ -	\$ 937	\$ -	\$ -
3,795	95,842	3,795	100,253	8,206	-
(17,739)	-	2,006	17,739	-	-
29,024	87,395	52,464	58,371	-	-
-	114,055	-	126,654	12,599	-
-	3,697	-	7,954	4,257	-
29,024	205,147	52,464	192,979	16,856	-
12,381	33,730	53,651	21,349	-	-
-	71,470	-	75,026	3,556	-
12,381	105,200	53,651	96,375	3,556	-
699,459	6,727,004	6,545,543	7,322,319	1,294,774	33,219
-	57,651	-	57,651	-	-
<u>\$ 699,459</u>	<u>\$ 6,784,655</u>	<u>\$ 6,545,543</u>	<u>\$ 7,379,970</u>	<u>\$ 1,294,774</u>	<u>\$ 33,219</u>

concluded.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Jackson County Intermediate School District (the "District") under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

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

The schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this schedule.

For purposes of charging indirect costs to federal awards, the District has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

3. PASS-THROUGH AGENCIES

The District receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
HCISD	Hillsdale County Intermediate School District
LISD	Lenawee Intermediate School District
OU	Oakland University



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

November 1, 2016

Board of Education
Jackson County Intermediate School District
Jackson, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Jackson County Intermediate School District* (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 1, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.

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

November 1, 2016

Board of Education
Jackson County Intermediate School District
Jackson, Michigan

Report on Compliance for the Major Federal Program

We have audited the compliance of the *Jackson County Intermediate School District* (the "District") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2016. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program 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 requirement of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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



JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2016

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ 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? _____ yes X none reported

Type of auditors' report issued on compliance for major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? _____ yes X no

Identification of major program:

CFDA Number

84.027A & 84.173A

Name of Federal Program or Cluster

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

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.



JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2016

None reported.



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