

**ALPENA-MONTMORENCY-ALCONA
EDUCATIONAL SERVICE DISTRICT**

Audited Financial Statements and
Other Supplementary Financial Information

Year Ended June 30, 2014

STRALEY, LAMP AND KRAENZLEIN P.C.

**ALPENA – MONTMORENCY – ALCONA
EDUCATIONAL SERVICE DISTRICT
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Alpena, Michigan 49707
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Alpena-Montmorency-Alcona Educational Service District
Alpena, 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 **Alpena-Montmorency-Alcona Educational Service District** as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the **Alpena-Montmorency-Alcona Educational Service District's** basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Alpena-Montmorency-Alcona Educational Service District**, as of June 30, 2014 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as disclosed 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 **Alpena-Montmorency-Alcona Educational Service District's** basic financial statements. The individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2014, on our consideration of the **Alpena-Montmorency-Alcona Educational Service District's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **Alpena-Montmorency-Alcona Educational Service District's** internal control over financial reporting and compliance.

Straley Lamp & Kraenzlein P.C.

October 2, 2014

Alpena-Montmorency-Alcona Educational Service District Management's Discussion and Analysis

The following is management's discussion and analysis of the financial position and results of operations for the fiscal year ended June 30, 2014. Please read it in conjunction with the financial statements and related footnotes, which follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand the Alpena-Montmorency-Alcona Educational Service District (the Educational Service District) financially as a whole. The *Government-Wide Financial Statements* provide information about the activities of the whole Educational Service District, presenting both an aggregate view of the Educational Service District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Educational Service District's governmental funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the Educational Service District acts solely as an agent for the benefit of students and parents. The annual report is arranged as follows:

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

Basic Financial Statements

Government-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary information for General Fund,
and Special Education Fund

Other Supplemental Information

Individual Fund Statements

Federal Financial Assistance

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

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

Alpena-Montmorency-Alcona Educational Service District Management's Discussion and Analysis

These two statements report the Educational Service District's net position and how they have changed. Net position – the difference between assets and liabilities, as reported in the statement of net position - is one way to measure the Educational Service District's financial health, or position. Over time, increases or decreases in the Educational Service District's net position – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Educational Service District's operating results. The Educational Service District's goal is to provide ongoing programs and services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided, student achievement and the safety of the schools to assess the overall health of the Alpena-Montmorency-Alcona Educational Service District.

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

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

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

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

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

The Educational Service District as Trustee – Reporting the Educational Service District's Fiduciary Responsibilities

The Educational Service District is a trustee, or fiduciary, for its student activity funds. All of the Educational Service District's fiduciary activities are reported in separate statements of fiduciary net position. We excluded these activities from the Educational Service District's other financial statement because the Educational Service District cannot use these assets to finance its operations. The Educational Service District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

**Alpena-Montmorency-Alcona Educational Service District
Management's Discussion and Analysis**

The Alpena-Montmorency-Alcona Educational Service District as a Whole

Recall that the statement of net position provides the perspective of the Educational Service District as a whole. Table 1 provides a summary of the Educational Service District's net position as of June 30, 2014 and 2013:

TABLE 1

	2014	2013
ASSETS		
Current and Other Assets	\$ 5,762,096	\$ 5,192,465
Property and Equipment	1,285,007	1,345,086
Total assets	\$ 7,047,103	\$ 6,537,551
LIABILITIES		
Current Liabilities	\$ 1,183,890	\$ 1,060,679
Long-term Liabilities	-	-
Total liabilities	\$ 1,183,890	\$ 1,060,679
NET POSITION		
Invested in property and equipment	\$ 1,285,007	\$ 1,345,086
Restricted	3,885,073	3,502,402
Unrestricted	693,133	629,384
Total net position	\$ 5,863,213	\$ 5,476,872

The above analysis focuses on the net position. The change in net position (see Table 2) of the Educational Service District's governmental activities is discussed below. The Educational Service District's net position was \$5,863,213 at June 30, 2014. Capital assets totals \$1,285,007 and compares the original cost, less depreciation of the Educational Service District's capital assets. The remaining amount of the net position consisted of \$3,885,073 as restricted for special education purposes, and \$693,133 was unassigned.

The \$5,863,213 in available net position of governmental activities represents the *accumulated* results of all past years' operations. The unrestricted net position balance enables the Educational Service District to meet working capital and cash flow requirements as well as provide for future uncertainties. The operating results of the General and Special Education Funds will have a significant impact on the change in net position from year to year.

The results of this year's operations for the governmental activities of the Educational Service District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal year 2014 as compared to 2013.

**Alpena-Montmorency-Alcona Educational Service District
Management's Discussion and Analysis**

TABLE 2

	2014	2013
Revenue		
Program Revenue:		
Charges for services	\$ 554,160	\$ 661,444
Operating grants	1,663,018	1,978,185
General revenue:		
Property taxes	4,159,113	4,196,335
State aid	2,898,173	2,470,879
Investment earnings	29,181	24,642
Miscellaneous	19,082	7,726
Total revenue	\$ 9,322,727	\$ 9,339,211
Functions/Program Expenses		
Instruction	\$ 1,785,155	\$ 1,724,356
Support services	5,426,073	5,964,558
Community services	6,694	4,827
Debt services	-	14,458
Interdistrict transfers	1,344,530	1,397,809
Payment to not for profit agencies	259,082	92,226
Depreciation (unallocated)	114,852	107,416
Total expenses	8,936,386	9,305,650
Change in net position	386,341	33,561
Net position - beginning of the year	5,476,872	5,443,311
Net position - end of the year	\$ 5,863,213	\$ 5,476,872

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$8,936,386. Certain activities were partially funded from those who benefited from the programs \$(554,160), or by other governments and organizations that subsidized certain programs with grants and contributions \$(1,663,081). The Educational Service District paid for the remaining “public benefit” portion of our governmental activities with \$4,159,113 in taxes, \$2,898,173 in state aid, \$29,181 of investments earnings and with miscellaneous other revenues of \$19,082.

The Alpena-Montmorency-Alcona Educational Service District experienced an increase in net position of \$386,341. The key reasons for this change in net position, was the decrease in staffing due to retirement and an increase in state aid of \$477,686. During the year, the District had capital additions of \$54,773, offset by depreciation expense of \$114,852.

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

Alpena-Montmorency-Alcona Educational Service District Management's Discussion and Analysis

the effect of operating grants, which can vary widely and the District must be flexible enough to add or delete those programs affected.

The Alpena-Montmorency-Alcona Educational Service District's Funds

As we noted earlier, the Educational Service District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Educational Service District is being accountable for the resources taxpayers and others provide and may provide more insight into the Educational Service District's overall financial health. As the Educational Service District completed this year, the governmental funds reported a combined fund balance of \$4,578,206, which is an increase of \$446,420 from last year. The primary reason for the increase is a reduction in spending in the non-grant/unrestricted areas of the General Fund and Special Education Fund.

The General Fund balance available to fund general operations costs for administrative and support services remains stable at \$693,133, an increase of \$63,749 from the prior year. The increase in fund balance can be attributed to a reduction in staffing and allocating staff to grants.

The Special Education Fund which is a restricted fund and exists to support mandated Special Education Programs shows an excellent fund balance of \$3,885,073, an increase of \$382,671 from the prior year. The increase in fund balance can be attributed to operational cost savings and outgoing transfers.

Budgetary Highlights

Over the course of the year, the Educational Service District performs budget amendments as necessary to reflect changes from the original adopted budget in June, 2013. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted June 12, 2014. (A schedule showing the Educational Service District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements).

A large portion of Educational Service District funding is in the form of state and federal grants. It is common to receive notification of grant awards subsequent to the adoption of the original budget. Grant awards vary significantly from original estimates. These grant awards were one of the main reasons to necessitate budget amendments throughout the 2013-2014 fiscal year.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2014, the Educational Service District had \$1,285,007 invested in a broad range of capital assets, including land, buildings, furniture and equipment, and vehicles. This amount represents a net decrease (including additions, deductions, and depreciation) of approximately \$(60,079) from last year.

**Alpena-Montmorency-Alcona Educational Service District
Management’s Discussion and Analysis**

TABLE 3

	2014	2013
Assets not being depreciated – Land	\$ 152,248	\$ 152,248
Land improvements	136,772	136,772
Building improvements	2,304,059	2,285,273
Office and computer equipment	844,264	875,971
Vehicles	120,551	120,551
 Total capital assets	 3,405,646	 3,570,815
 Less accumulated depreciation	 (2,272,887)	 (2,225,729)
 Net capital assets	 \$ 1,285,007	 \$ 1,345,086

Debt

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

Economic Factors and Next Year’s Budgets and Rates

Our Board of Education and administration considered many factors when setting the Educational Service District’s 2014-15 fiscal year budgets. The 2014-15 fiscal year budgets was adopted in June, 2014 based on property valuations and state and federal revenue estimates available at that time. The Intermediate School District (ISD) reform legislation requires our constituent Boards of Education to adopt a resolution offering support for, or opposition to (disapproval) the ISD’s proposed General Fund Budget. In addition, local boards could offer specific written suggestions or objections to the budget. These resolutions and suggestions were taken into consideration when adopting the 2014-15 fiscal year budgets.

The Educational Service District, like all local governments and schools, has seen a decrease in local property tax revenue attributable to a decline in property values. Under state law, the Educational Service District cannot access additional property taxes for operations without a vote by the electorate. As a result, local funding increases are limited. The District did receive approval by the electorate in May, 2007 for a Headlee override and a ten year millage renewal in the Special Education Fund. This funding is the foundation to provide stability to the Special Education Programs. The Educational Service District’s reliance of state and federal funding is based on the economic health of each. The state periodically holds a revenue estimating conference (January and May) to estimate revenues. Based on reports from state sources, the revenue outlook in 2014-15 should improve compared to previous years, but will be offset to a degree by declining enrollment. The outlook for federal sources will be stagnant. Once all grants, pupil counts, and state aid calculations are received, state law requires the Educational Service District to amend the budget if actual resources are not sufficient to fund original appropriations.

Alpena-Montmorency-Alcona Educational Service District Management's Discussion and Analysis

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

- Center Based Special Education Programs
- Special Education Pupil Support Services
- General Education Instructional Support Services
- General Education Preschool Programs

Service priorities for the new fiscal year include: the commitment to student achievement with curriculum specialists, intervening services along with continued support of General Education State Assessment Test Preparation Programs, Student Behavior Programs and Professional Development Activities covering all curricular areas, all Preschool Activities and Administrative/Business/Technical support.

Contacting the Educational Service District's Financial Management

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

AMA-ESD
2118 U.S. 23 South
Alpena, Michigan 49707
(989) 354-3101

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BASIC FINANCIAL STATEMENTS

Alpena-Montmorency-Alcona Educational Service District

STATEMENT OF NET POSITION

June 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 441
Taxes receivable	98,052
Accounts receivable	15,068
Due from other governmental units	823,785
Interest receivable on investments and deposits	5,128
Investments	4,787,205
Prepaid expenses	32,417
Capital assets not being depreciated	152,248
Capital assets being depreciated - net of depreciation	<u>1,132,759</u>
Total assets	<u>7,047,103</u>
LIABILITIES	
Accounts payable	111,549
Due to other governmental units	106,134
Accrued expenditures	168,767
Salaries payable	379,760
Unearned revenue	<u>417,680</u>
Total liabilities	<u>1,183,890</u>
NET POSITION	
Investment in capital assets	1,285,007
Restricted:	
Special Education	3,885,073
Unrestricted	<u>693,133</u>
Total net position	<u>\$ 5,863,213</u>

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

Alpena-Montmorency-Alcona Educational Service District

STATEMENT OF ACTIVITIES

June 30, 2014

FUNCTION / PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
Instruction	\$ 1,785,155	\$ 2,900	\$ 139,004	\$ (1,643,251)
Supporting services	5,426,073	551,260	1,523,703	(3,351,110)
Community services	6,694	-	311	(6,383)
Interdistrict transfers	1,344,530	-	-	(1,344,530)
Payment to not-for-profit entities	259,082	-	-	(259,082)
Depreciation - unallocated	114,852	-	-	(114,852)
Total Governmental Activities	8,936,386	554,160	1,663,018	(6,719,208)
General Revenues:				
Property taxes, levied for general purposes				406,518
Property taxes, levied for special education				3,752,595
State aid				2,898,173
Investment earnings				29,181
Miscellaneous				19,082
Total general revenues				7,105,549
Change in net position				386,341
Net position - beginning of the year				5,476,872
Net position - end of the year				<u><u>\$ 5,863,213</u></u>

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

Alpena-Montmorency-Alcona Educational Service District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	Special Education Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 84	\$ 357	\$ 441
Taxes receivable	9,665	88,387	98,052
Accounts receivable	10,935	4,133	15,068
Due from other funds	-	32,102	32,102
Due from other governmental units	252,096	571,689	823,785
Interest receivable on investments and deposits	1,386	3,742	5,128
Investments	1,056,866	3,730,339	4,787,205
Prepaid expenses	8,173	24,244	32,417
Total assets	<u>\$ 1,339,205</u>	<u>\$ 4,454,993</u>	<u>\$ 5,794,198</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 100,589	\$ 10,960	\$ 111,549
Due to other funds	32,102	-	32,102
Due to other governmental units	53,411	52,723	106,134
Accrued expenditures	11,073	157,694	168,767
Salaries payable	32,100	347,660	379,760
Unearned revenue	416,797	883	417,680
Total liabilities	<u>646,072</u>	<u>569,920</u>	<u>1,215,992</u>
Fund balances			
Nonspendable	8,173	24,244	32,417
Restricted	-	3,860,829	3,860,829
Unassigned	684,960	-	684,960
Total fund balances	<u>693,133</u>	<u>3,885,073</u>	<u>4,578,206</u>
Total liabilities and fund balances	<u>\$ 1,339,205</u>	<u>\$ 4,454,993</u>	<u>\$ 5,794,198</u>

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

Alpena-Montmorency-Alcona Educational Service District

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES**

June 30, 2014

Total Governmental Fund Balances		\$	4,578,206
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.			
Capital assets not being depreciated	\$	152,248	
Capital assets being depreciated		3,405,646	
Less: Accumulated depreciation		<u>(2,272,887)</u>	
			<u>1,285,007</u>
Total Net Position - Governmental Activities		\$	<u><u>5,863,213</u></u>

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

Alpena-Montmorency-Alcona Educational Service District

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year ended June 30, 2014

	General Fund	Special Education Fund	Total Governmental Funds
REVENUES			
Local sources	\$ 427,840	\$ 4,258,392	\$ 4,686,232
State sources	1,425,434	1,493,656	2,919,090
Federal sources	31,360	1,570,536	1,601,896
Interdistrict sources	85,795	14,478	100,273
Other sources	15,119	117	15,236
	<u>1,985,548</u>	<u>7,337,179</u>	<u>9,322,727</u>
Total revenues			
EXPENDITURES			
Instruction	536,432	1,248,723	1,785,155
Supporting services	1,484,196	3,977,864	5,462,060
Community services	6,036	658	6,694
Interdistrict transfers	-	1,344,530	1,344,530
Payments to not-for-profit entities	259,082	-	259,082
Capital outlay	-	18,786	18,786
	<u>2,285,746</u>	<u>6,590,561</u>	<u>8,876,307</u>
Total expenditures			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(300,198)</u>	<u>746,618</u>	<u>446,420</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	363,947	-	363,947
Transfers to other funds	-	(363,947)	(363,947)
	<u>363,947</u>	<u>(363,947)</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	63,749	382,671	446,420
FUND BALANCES, beginning of the year	<u>629,384</u>	<u>3,502,402</u>	<u>4,131,786</u>
FUND BALANCES, end of the year	<u>\$ 693,133</u>	<u>\$ 3,885,073</u>	<u>\$ 4,578,206</u>

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

Alpena-Montmorency-Alcona Educational Service District

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

Year ended June 30, 2014

Total net change in fund balances - governmental funds		\$	446,420
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.			
Capital asset additions	\$	54,773	
Depreciation expense		<u>(114,852)</u>	
			(60,079)
Some revenues (costs) reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in governmental funds			
Net book value of assets sold or retired			<u>-</u>
Change in net position of governmental activities		\$	<u><u>386,341</u></u>

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

Alpena-Montmorency-Alcona Educational Service District

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2014

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 20,781</u>
Total assets	<u><u>\$ 20,781</u></u>
LIABILITIES	
Accounts payable	\$ 2,092
Due to student activities	<u>18,689</u>
Total liabilities	<u><u>\$ 20,781</u></u>

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

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

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

A. Description of Operations and Reporting Entity.

Description of Operations. The Educational Service District operates under an appointed Board of Education (seven members) and provides educational and support services as mandated by the State of Michigan and was organized in 1962. The Educational Service District serves as the regional school service agency for four public Educational Service Districts, one charter school, and non-public schools in Alpena, Montmorency, Alcona, and part of Presque Isle County.

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

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

B. Fund Accounting.

Fund Accounting. The accounts of the Educational Service District are organized on the basis of funds, each of which is considered a separate accounting entity. Major funds are presented individually in the fund-level financial statements. The Educational Service District's major funds are the General Fund and Special Education Fund. The non-major funds are combined and presented as one column in the fund-level financial statements. The financial activities of the Educational Service District are recorded in the following fund types and individual funds:

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

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

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

NOTES TO FINANCIAL STATEMENTS

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

Debt Service Fund. This fund is used to account for the resources accumulated and payments made for principle and interest on long-term general obligation debt of governmental funds.

Fiduciary Funds. Fiduciary funds are used to account for assets held by the Educational Service District in a trustee capacity or as an agent for others. The Educational Service District presently maintains an agency fund to record transactions of student groups for school and school related purposes. Fiduciary funds are not included in the government-wide statements.

C. Basis of Presentation.

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

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

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

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

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting.

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

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

Unearned Revenue. Unearned revenue arises in connection with resources that have been received but before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

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

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

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

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

Investments. During the fiscal year ended June 30, 2014, investments were limited to certificates of deposit and cash management funds. The cash management funds are local government investment pools held at the Michigan Liquid Asset Fund (MILAF). Local government investment pools allow Educational Service Districts within the State of Michigan to consolidate their funds for investment purposes. Investments in cash management funds are valued at cost which equals market value.

NOTES TO FINANCIAL STATEMENTS

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

Prepaid Assets. Payments made to vendors for services that will benefit periods beyond June 30, 2014, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

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

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	50 years
Office equipment	5 – 20 years
Computer equipment	5 years
Vehicles	8 years

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

Vacation and Sick Leave. Employees must use all vacation leave earned during the current school year by June 30 of that year. Employees have no vested rights to unused sick leave.

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

NOTES TO FINANCIAL STATEMENTS

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

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

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

Economic Dependency. The Educational Service District received approximately 18% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source, the Educational Service District is considered to be economically dependent.

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

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

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

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

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

Reclassification. Certain items reported in the June 30, 2013 financial statements may have been reclassified to conform to the presentation for the current year.

NOTE 2--LEGAL COMPLIANCE.

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

The provisions of the Uniform Budgeting and Account Act, P.A. 621 became effective in July 1981. The Act provides major revenue categories and expenditure functions that constitute minimal levels. The Educational Service District's budget was legally enacted on a functional level. Detail at the activity level is presented in the General Fund and each Special Revenue Funds Statement of Revenues, Expenditures and Fund Balances for the benefit of management.

During the year ended June 30, 2014, the Educational Service District incurred revenues in certain budgetary funds which were less than the amounts appropriated. P.A. 621 provides that an Educational Service District shall not incur expenditures in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section (RSI).

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 3--DEPOSITS AND INVESTMENTS.

As of June 30, 2014, the Educational Service District had the following deposits reported in the basic financial statements as follows:

Cash – District wide	\$	441
Cash – Agency fund		20,781
Investments – District wide		<u>4,787,205</u>
	\$	<u>4,808,427</u>

As of June 30, 2014, the Educational Service District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Standard & Poor's Rating</u>	<u>%</u>
Cash Management Funds-MILAF	\$ 10,513	0.0000	AAAm	0.22%
Municipal NOW accounts	1,525,529	0.0000	N/A	31.87%
Certificates of Deposit/CDARS	<u>3,251,163</u>	<u>0.5726</u>	N/A	<u>67.91%</u>
Total Fair Value	<u>\$ 4,787,205</u>			
Portfolio weighted average maturity		<u>0.5726</u>		<u>100.00%</u>

1 day maturity equals 0.0027, 1 year equals 1.0000

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

Credit Risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2014, the Educational Service District did not have any investments with ratings below prime.

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

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that, in the event of a bank failure, the Educational Service District's deposits may not be returned to it. As of June 30, 2014, none of the Educational Service District's bank balance of \$441 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 3--DEPOSITS AND INVESTMENTS. (continued)

Custodial Credit Risk – Agency Deposits. As of June 30, 2014, the Educational Service District’s agency bank balance of \$20,781 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution’s trust department or agent, but not in the district’s name.

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of a bank or counterparty failure, the Educational Service District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party and deposits may not be returned to it. As of June 30, 2014, there was \$435,122 that was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution’s trust department or agent, but not in the Educational Service District’s name. The carrying amount of all investments is \$4,787,205.

The Educational Service District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the district will do business. Much of these uninsured investments were invested into U.S. Treasury government securities which are protected by the good faith and credit of the U.S. Government and normally have very little risk. The Educational Service District also participates in CDARS, a service of Promontory International Network LLC, which allows local financial institutions to access up to \$50 million in combined FDIC protection on certificate of deposit investments.

The Board of Education authorized the following financial institutions for the investment of the District’s funds for the year ended June 30, 2014: First Merit, Flagstar Bank, Fifth Third Bank, First Federal, CDARS a service of Promontory International Network LLC, Michigan Liquid Asset Fund, HPC Credit Union, Besser Credit Union, Huntington Bank, Alpena Alcona Area Credit Union, Independent Bank, and Chemical Bank.

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

NOTE 4--INTERFUND RECEIVABLES AND PAYABLES.

Interfund receivable and payable balances at June 30, 2014 are as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ -	\$ 32,102
Special Education Fund	<u>32,102</u>	<u>-</u>
Totals	<u>\$ 32,102</u>	<u>\$ 32,102</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made. All amounts are expected to be repaid within one year.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 5--CAPITAL ASSETS.

Capital assets activity for the fiscal year ended June 30, 2014 was as follows:

	Balances June 30, 13	Additions	Disposals and Adjustments	Balances June 30, 14
Capital assets not being depreciated:				
Land	\$ 152,248	\$ -	\$ -	\$ 152,248
Capital assets being depreciated:				
Land improvements	136,772	-	-	136,772
Building and improvements	2,285,273	18,786	-	2,304,059
Office and computer	875,971	35,987	(67,694)	844,264
Vehicles	120,551	-	-	120,551
	<u>3,418,567</u>	<u>54,773</u>	<u>(67,694)</u>	<u>3,405,646</u>
Less accumulated depreciation:				
Land improvements	(103,220)	(5,353)	-	(108,573)
Buildings and improvements	(1,184,520)	(78,356)	-	(1,262,876)
Office and computer	(863,889)	(17,966)	67,694	(814,161)
Vehicle	(74,100)	(13,177)	-	(87,277)
	<u>(2,225,729)</u>	<u>(114,852)</u>	<u>67,694</u>	<u>(2,272,887)</u>
Net capital assets	<u>\$ 1,345,086</u>	<u>\$ (60,079)</u>	<u>\$ -</u>	<u>\$ 1,285,007</u>

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

NOTE 6--LONG-TERM DEBT (including current portions).

As of June 30, 2014, the Educational Service District had no outstanding long-term debt.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 7--PROPERTY TAXES.

The assessed values of real and personal property situated in the Educational Service District are established annually by local taxing authorities as of December 31, and are equalized by the State at an estimated 50 percent of current market value. The property tax is levied on July 1 and becomes delinquent after September 14 for Alpena and Alcona County residents (July 31 for City of Alpena residents), with the remainder levied December 1 and payable by February 14. Uncollected property taxes as of March 1 are added to the County delinquent tax rolls. By agreement with the various counties, the Counties purchase at face value the real property taxes receivable returned delinquent each March 1. The property value used for determining the amount of property tax levied is known as the "taxable value" (TV). This differs from the State Equalized Value (SEV) by increases being limited to a cost-of-living adjustment or five (5) percent, whichever is less. The taxable value for the 2013-2014 school year in the Educational Service District was established at \$1,881,631,438. General Education Millage of .2139 and Special Education Millage of 1.9743 mills have been approved by the voters of the district.

NOTE 8--DEFINED BENEFIT PENSION PLAN AND POST-EMPLOYMENT BENEFITS.

Plan Description. The Educational Service District participates in the Michigan Public School Employees Retirement System (MPERS), a statewide cost-sharing, multiple-employer collection of several retirement plans administered by the State of Michigan that covers substantially all employees of the Educational Service District. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute. The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-5103.

Postemployment Benefits. A comprehensive reform of retirement plans administered by MPERS was enacted in the 2012-13 fiscal year. Previous Defined Benefit and Hybrid plans were modified and a Defined Contribution plan was added. As a result of the reforms, existing members (i.e., working employees covered under the system) were given a one-time opportunity to make certain elections regarding then-existing plans, contributions, and future benefit calculations. All changes became effective February 1, 2013.

Features of the various options include how future benefits are calculated and resultant member contribution if any; how post-retirement healthcare is funded; and whether current member contributions must be made for future healthcare. The employer contribution is also impacted by these choices. Most of the options are no longer available to new employees, who must enroll in either the Defined Contribution or Hybrid plan with the no option regarding healthcare.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 8--DEFINED BENEFIT PENSION PLAN AND POST-EMPLOYMENT BENEFITS. (continued)

The following chart depicts the possible arrangements:

<u>Status</u>	<u>E'ee</u>	<u>Type</u>	<u>Plan Combination:</u>		<u>Employee Contributions:</u>				<u>Employer Contributions:</u>		
			<u>Pension</u>	<u>Health</u>	<u>DB Pension</u>	<u>PHF</u>	<u>HCC</u>	<u>DC Pension</u>	<u>DB Pension</u>	<u>PHF</u>	<u>DC Pension</u>
Clsd	Basic	DB	Basic	Subsidy	0.00%	N/A	3.0%	N/A	24.32%	N/A	N/A
Clsd	Basic	DB	Basic	PHF	0.00%	2.00%	N/A	N/A	23.39%	2.00%	N/A
Clsd	Basic	DB	Basic 4%	Subsidy	4.00%	N/A	3.0%	N/A	24.32%	N/A	N/A
Clsd	Basic	DB	Basic 4%	PHF	4.00%	2.00%	N/A	N/A	23.39%	2.00%	N/A
Clsd	Basic	DC	DC Conv	Subsidy	N/A	N/A	3.0%	0.00%	21.89%	N/A	4.00%
Clsd	Basic	DC	DC Conv	PHF	N/A	2.00%	N/A	0.00%	20.96%	2.00%	4.00%
Clsd	MIP	DB	Fixed	Subsidy	3.90%	N/A	3.0%	N/A	24.32%	N/A	N/A
Clsd	MIP	DB	Fixed	PHF	3.90%	2.00%	N/A	N/A	23.39%	2.00%	N/A
Clsd	MIP	DB	Graded	Subsidy	3-4.30%	N/A	3.0%	N/A	24.32%	N/A	N/A
Clsd	MIP	DB	Graded	PHF	3-4.30%	2.00%	N/A	N/A	23.39%	2.00%	N/A
Clsd	MIP	DB	Plus	Subsidy	3-6.40%	N/A	3.0%	N/A	24.32%	N/A	N/A
Clsd	MIP	DB	Plus	PHF	3-6.40%	2.00%	N/A	N/A	23.39%	2.00%	N/A
Clsd	MIP	DB	MIP 7%	Subsidy	7.00%	N/A	3.0%	N/A	24.32%	N/A	N/A
Clsd	MIP	DB	MIP 7%	PHF	7.00%	2.00%	N/A	N/A	23.39%	2.00%	N/A
Clsd	MIP	DC	DC Conv	Subsidy	N/A	N/A	3.0%	N/A	21.89%	N/A	4.00%
Clsd	MIP	DC	DC Conv	PHF	N/A	2.00%	N/A	N/A	20.98%	2.00%	4.00%
Clsd	Pnsn +	Hybrid	Pnsn +	Subsidy	3-6.40%	N/A	3.0%	2.00%	24.13%	N/A	1.00%
Open	Pnsn +	Hybrid	Pnsn +	PHF	3-6.40%	2.00%	N/A	2.00%	23.20%	2.00%	1.00%
Open	DC	DC	DC	PHF	N/A	2.00%	N/A	6.00%	20.96%	2.00%	3.00%

For the years ended June 30, 2014 and 2013, the Educational Service District employees contributed \$318,898 and \$317,680, respectively.

The following describes the nature of various required contributions.

NOTES TO FINANCIAL STATEMENTS

NOTE 8--DEFINED BENEFIT PENSION PLAN AND POST-EMPLOYMENT BENEFITS. (continued)

Member Contributions – Pension. Employee contributions to the system for Defined Benefit members vary from 0% for basic members to 7% for those electing to retain the highest multiplier in the pension calculation formula. Employee contributions are 0% for the converted Defined Contribution plans, and 6% for the new Defined Contribution plans. Hybrid members must contribute towards both plan types. Certain contributions indicated in the table above are based upon graded premium calculations based on compensation levels; certain other contributions may be changed within certain constraints, with employer contributions being likewise adjusted in those instances.

Member Contributions – Healthcare. Members enrolled in MPSERS before September 4, 2012 had the option to continue participation in the Premium Subsidy plan, a defined benefit postemployment healthcare plan, which is funded on a cash disbursement 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 MPSERS with the balance deducted from the monthly pension. Subsidy Plan participants contribute 3 percent of covered payroll to the Retiree Healthcare Fund as a Health Care Contribution (HCC). At retirement, these individuals receive a subsidy for healthcare premiums that cover up to 80 percent of cost.

Employees who first become members on or after September 4, 2012, as well as all existing members who chose to convert from the Subsidy Plan participate in the Personal Healthcare Fund (PHF). This defined contribution other postemployment benefits plan includes a required 2 percent employee contribution into a personal tax-deferred account, which is matched by an additional 2 percent employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses.

Employer Contributions. The contribution requirements of plan members and the Educational Service District are established by Michigan State statute and may be amended only by action of the State Legislature. Employer contributions consist of tiered rates covering normal pension and health costs, the costs of an early retirement incentive, and the Unfunded Accrued Liability (UAL) cost for pension and health benefits. As part of the pension reforms adopted in 12-13, the district is only responsible for 20.96% of the total UAL costs. Subsequent increases in the UAL must be funded by the State of Michigan. The current percentage for the additional UAL cost is 4.56% and is not included in the table depicted above. The District's contributions to MPSERS under all plans for the years ended June 30, 2014, 2013, and 2012 were \$1,050,840, \$951,887, and \$917,659, respectively.

Deferred Compensation Plans. The Educational Service District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all employees, permits them to defer a portion of their salary until future years. The base limit for an employee is \$17,500, catch-up provisions are an additional \$3,000 and age-based (over 50) can contribute an additional \$5,500. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Contributions (employer and employee) to the Section 403(b) plan totaled \$145,387 and \$136,265 for the years ended June 30, 2014 and 2013, respectively. The assets of the plan are administered and held by various approved third party financial institutions.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 9--INTERFUND TRANSFERS.

The Special Education transferred \$363,947 to the General Fund.

The transfers to the General Fund was to reimburse indirect costs of grant programs and to reimburse for administrative (business, technology, etc.) and support services (operations and maintenance) of non-grant programs.

NOTE 10--RISK MANAGEMENT.

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

The Educational Service District participates in the MASB-SEG Property and Casualty Pool for general and automobile liability, motor vehicle physical damage and property damage coverage. The MASB-SEG Property/Casualty Pool, Inc. was established in May 1985, pursuant to the laws of the State of Michigan. The purpose of the pool is to provide cooperative and comprehensive risk financing and control services. Member premiums are used to purchase excess insurance coverage and pay member claims in excess of deductible amounts. The deductible amount of any one loss ranges from \$250 to \$1,000 with a maximum coverage amount of \$5,000,000 for liability claims.

The Educational Service District also participates in the SEG-Self-Insured Workers' Disability Compensation Fund for its Workers Compensation liabilities with coverage specific/statutory (unlimited) employers' liability of \$500,000.

The Educational Service District has purchased commercial insurance for medical benefits claims. A self-funded Dental and Vision Benefit Plan is provided for employees and their eligible dependents.

NOTE 11--CONTINGENCIES, CLAIMS AND LITIGATION.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 12—UPCOMING ACCOUNTING PRONOUNCEMENTS.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the GASB in June 2012 and will be effective for the District's 2015 fiscal year. The statement requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement is also intended to improve the comparability and consistency of how governments calculate the pension liabilities and expense.

The Educational Service District is currently evaluating the impact the following standard will have on the financial statements when adopted. Additionally, the Office of Retirement Services is working to determine how the Educational Service District's proportionate share of the current liability might be calculated.

Some factors to focus on as the Educational Service District prepares for adoption of this standard include the following:

The Office of Retirement Services is working on an implementation plan to assist the Educational Service District in obtaining needed information.

Since the obligation is so significant, documentation showing the calculation is accurate will need to be developed and audited. The current plan is that the Auditor General's office will perform needed tests on most of the information and the information will be made available to the Educational Service District.

For virtually all districts, once the obligation is included in the financial statements, it is likely the government-wide financial statements will report a negative net position. The State and bond rating agencies understand this fact and it should not adversely affect the assessment of the Educational Service District's financial position, as both agencies have been considering this obligation for quite some time in their assessments of districts and other agencies.

The adoption of the standard will not impact the MPSERS expenditures reported in the General Fund and will not impact the balance of the General Fund.

Disclosures regarding the plan and data related to the plan will be significantly expanded in the Educational Service District's financial statements.

NOTE 13--SUBSEQUENT EVENTS.

Management has evaluated subsequent events through October 2, 2014, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Alpena-Montmorency-Alcona Educational Service District

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2014

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local sources	\$ 419,444	\$ 425,992	\$ 427,840	\$ 1,848
Non-educational entity	2,542	-	-	-
State sources	1,152,578	1,827,284	1,425,434	(401,850)
Federal sources	10,000	36,801	31,360	(5,441)
Incoming transfers	561,739	464,252	464,861	609
Total revenues	<u>2,146,303</u>	<u>2,754,329</u>	<u>2,349,495</u>	<u>(404,834)</u>
EXPENDITURES				
Instructional Services				
Instructional services	462,294	441,697	400,639	41,058
Great Start grant	140,830	237,444	151,437	86,007
Math/Science grant	53,919	59,402	44,902	14,500
NCLB (ECIA) /REAP grants	10,000	19,622	17,520	2,102
American History grant	-	1,024	1,024	-
Great Start readiness	550,000	1,126,634	819,245	307,389
	<u>1,217,043</u>	<u>1,885,823</u>	<u>1,434,767</u>	<u>451,056</u>
Administrative and Support Services				
Leadership / governance	431,898	433,101	421,268	11,833
Business / compliance	363,880	319,649	315,774	3,875
Operation and maintenance	67,512	67,512	56,624	10,888
Technology services	185,049	66,173	57,313	8,860
Outgoing transfers	-	-	-	-
	<u>1,048,339</u>	<u>886,435</u>	<u>850,979</u>	<u>35,456</u>
Total expenditures	<u>2,265,382</u>	<u>2,772,258</u>	<u>2,285,746</u>	<u>486,512</u>
CURRENT CHANGE IN FUND BALANCE	(119,079)	(17,929)	63,749	81,678
FUND BALANCES , beginning of the year	<u>575,743</u>	<u>629,384</u>	<u>629,384</u>	<u>-</u>
FUND BALANCES , end of the year	<u>\$ 456,664</u>	<u>\$ 611,455</u>	<u>\$ 693,133</u>	<u>\$ 81,678</u>

Alpena-Montmorency-Alcona Educational Service District

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - SPECIAL EDUCATION FUND**

Year ended June 30, 2014

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local sources	\$ 4,109,451	\$ 4,244,736	\$ 4,258,392	\$ 13,656
State sources	1,544,126	1,498,795	1,493,656	(5,139)
Federal sources	1,654,899	1,707,910	1,570,536	(137,374)
Incoming transfers / other	15,864	15,585	14,595	(990)
Total revenues	<u>7,324,340</u>	<u>7,467,026</u>	<u>7,337,179</u>	<u>(129,847)</u>
EXPENDITURES				
Direct Instruction				
Pied Piper - MoCI	642,262	622,431	605,020	17,411
Pied Piper - SCI	459,367	468,074	455,510	12,564
ECDD Classroom	184,896	197,053	188,194	8,859
	<u>1,286,525</u>	<u>1,287,558</u>	<u>1,248,724</u>	<u>38,834</u>
Instructional Support				
Psychological services	404,391	452,527	440,533	11,994
Hearing impaired	30,500	23,305	23,305	-
Learning disabilities	112,954	213,368	206,768	6,600
Mentally impaired	120,000	121,209	117,667	3,542
Autistic impaired	128,105	130,857	125,422	5,435
Speech therapy	759,300	768,717	756,830	11,887
Social work	239,516	115,982	115,516	466
Early Intervening	232,275	259,112	264,199	(5,087)
Occupational therapy	137,495	136,385	129,833	6,552
Physical therapy	60,500	64,250	62,080	2,170
Improvement of instruction	40,400	39,857	24,317	15,540
Vision Consultant	20,000	20,000	18,968	1,032
ECDD Consultant	118,825	122,507	119,120	3,387
Early on consultant	105,000	89,979	40,841	49,138
Emotionally impaired	231,829	232,651	229,571	3,080
Transition services	156,187	149,986	145,401	4,585
	<u>2,897,277</u>	<u>2,940,692</u>	<u>2,820,371</u>	<u>120,321</u>
Administrative				
Planning, monitoring, data collection	200,783	222,606	195,297	27,309
Instructional supervision	462,779	461,623	454,453	7,170
Board of education	26,300	41,300	26,625	14,675
	<u>689,862</u>	<u>725,529</u>	<u>676,375</u>	<u>49,154</u>

Alpena-Montmorency-Alcona Educational Service District

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - SPECIAL EDUCATION FUND**

Year ended June 30, 2014

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
Other Costs				
Operation and maintenance	\$ 163,238	\$ 159,398	\$ 145,062	\$ 14,336
Capital outlay	26,000	24,000	18,916	5,084
Local P.A.C.	750	500	155	345
Pupil transportation	439,123	352,345	330,807	21,538
Outgoing transfers / other	1,761,000	1,720,152	1,714,098	6,054
	<u>2,390,111</u>	<u>2,256,395</u>	<u>2,209,038</u>	<u>47,357</u>
Total expenditures	<u>7,263,775</u>	<u>7,210,174</u>	<u>6,954,508</u>	<u>255,666</u>
CURRENT CHANGE IN FUND BALANCE	60,565	256,852	382,671	125,819
FUND BALANCES , beginning of the year	<u>3,365,518</u>	<u>3,502,402</u>	<u>3,502,402</u>	<u>-</u>
FUND BALANCES , end of the year	<u>\$ 3,426,083</u>	<u>\$ 3,759,254</u>	<u>\$ 3,885,073</u>	<u>\$ 125,819</u>

OTHER SUPPLEMENTAL INFORMATION

INDIVIDUAL FUND STATEMENTS

Alpena-Montmorency-Alcona Educational Service District

**GENERAL FUND
BALANCE SHEET**

	June 30	
	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 84	\$ 65
Taxes receivable	9,665	5,301
Accounts receivable	10,935	8,785
Due from other governmental units	252,096	279,810
Interest receivable on investments and deposits	1,386	3,730
Investments	1,056,866	828,632
Prepaid expenses	8,173	10,309
	<u> </u>	<u> </u>
Total assets	<u>\$ 1,339,205</u>	<u>\$ 1,136,632</u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 100,589	\$ 20,145
Due to other funds	32,102	72,507
Due to other governmental units	53,411	123,723
Accrued expenditures	11,073	30,245
Salaries payable	32,100	29,939
Unearned revenue	416,797	230,689
	<u> </u>	<u> </u>
Total liabilities	<u>646,072</u>	<u>507,248</u>
Fund Balances		
Nonspendable	8,173	10,309
Unassigned	684,960	619,075
	<u> </u>	<u> </u>
Total fund balances	<u>693,133</u>	<u>629,384</u>
	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 1,339,205</u>	<u>\$ 1,136,632</u>

Alpena-Montmorency-Alcona Educational Service District

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year ended June 30		
	2014 Final Budget	2014 Actual	2013 Actual
REVENUES			
LOCAL SOURCES			
Property tax levy	\$ 402,492	\$ 403,819	\$ 404,394
Penalties and interest on delinquent taxes	550	906	242
Revenue in lieu of taxes	3,000	2,699	5,789
Tuition - Camp Wilderness	2,900	2,900	2,577
Earnings on investments and deposits	4,900	4,954	5,110
Conference fees	1,250	1,115	1,854
Rental of facility	100	100	100
Sprinkler Lake - dues/fees	-	-	1,926
Private sources (contributions)	900	900	5,870
USF reimbursement	8,350	8,408	8,551
Miscellaneous	1,550	2,039	948
Total local sources	<u>425,992</u>	<u>427,840</u>	<u>437,361</u>
NON EDUCATIONAL ENTITY			
Reimbursements and refunds	-	-	9,226
Total non educational entity	<u>-</u>	<u>-</u>	<u>9,226</u>
STATE SOURCES			
State aid			
Unrestricted	363,719	363,719	362,465
Restricted	1,455,350	1,057,597	603,130
Other	8,215	4,118	15,556
Total state source	<u>1,827,284</u>	<u>1,425,434</u>	<u>981,151</u>
FEDERAL SOURCES			
R.E.A.P.	15,722	15,383	16,507
Teaching American History	1,253	1,253	121,115
Child & Adult Food Program	13,826	13,826	-
Title II, Part D, Educational Technology	6,000	898	7,971
Community Foundation - BEWET	-	-	2,379
Total federal sources	<u>36,801</u>	<u>31,360</u>	<u>147,972</u>
INTERDISTRICT SOURCES			
Other school districts	85,795	85,795	176,108
Total interdistrict sources	<u>85,795</u>	<u>85,795</u>	<u>176,108</u>
OTHER SOURCES			
Reimbursements and refunds	12,532	15,119	15,275
Total other sources	<u>12,532</u>	<u>15,119</u>	<u>15,275</u>
Total revenues	<u>2,388,404</u>	<u>1,985,548</u>	<u>1,767,093</u>

Alpena-Montmorency-Alcona Educational Service District

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year ended June 30		
	2014 Final Budget	2014 Actual	2013 Actual
EXPENDITURES			
INSTRUCTION			
ELEMENTARY			
Salaries	\$ 2,500	\$ -	\$ 7,475
Employee benefits	191	-	719
Purchased services	2,500	-	323
Supplies and materials	1,000	129	638
	<u>6,191</u>	<u>129</u>	<u>9,155</u>
PRE-SCHOOL			
Purchased services	533,253	427,109	117,031
Supplies and materials	94,565	60,130	562
Other	6,586	2,326	588
Outgoing transfers	56,950	45,838	256,641
	<u>691,354</u>	<u>535,403</u>	<u>374,822</u>
SUMMER SCHOOL			
Salaries	-	-	600
Employee benefits	-	-	46
Purchased services	-	-	12,559
Supplies and materials	900	900	4,870
	<u>900</u>	<u>900</u>	<u>18,075</u>
Total instruction	<u>698,445</u>	<u>536,432</u>	<u>402,052</u>
SUPPORTING SERVICES			
PUPIL SERVICES			
GUIDANCE SERVICES			
Salaries	27,066	9,901	14,028
Employee benefits	14,041	5,122	4,710
Purchased services	9,452	2,105	2,154
	<u>50,559</u>	<u>17,128</u>	<u>20,892</u>
Total pupil services	<u>50,559</u>	<u>17,128</u>	<u>20,892</u>

Alpena-Montmorency-Alcona Educational Service District

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year ended June 30		
	2014 Final Budget	2014 Actual	2013 Actual
EXPENDITURES (CONTINUED)			
INSTRUCTIONAL STAFF SERVICES			
IMPROVEMENT OF INSTRUCTION			
Salaries	\$ 291,990	\$ 272,634	\$ 250,633
Employee benefits	194,150	176,516	153,159
Purchased services	48,238	20,764	114,429
Supplies and materials	8,012	6,668	14,227
Capital outlay	-	-	1,409
Other	1,070	1,250	1,549
Outgoing transfers	-	-	4,655
	<u>543,460</u>	<u>477,832</u>	<u>540,061</u>
SUPERVISION/DIRECTION OF INSTRUCTIONAL STAFF			
Salaries	76,175	51,944	1,652
Employee benefits	39,253	26,747	535
Purchased services	3,456	1,853	8,747
Supplies and materials	1,665	648	678
Outgoing transfers	-	-	9,183
	<u>120,549</u>	<u>81,192</u>	<u>20,795</u>
OTHER INSTRUCTIONAL STAFF SERVICES			
Salaries	460	460	272
Employee benefits	256	256	209
	<u>716</u>	<u>716</u>	<u>481</u>
Total instructional staff services	<u>664,725</u>	<u>559,740</u>	<u>561,337</u>
GENERAL ADMINISTRATION			
BOARD OF EDUCATION			
Salaries	2,400	2,463	1,830
Employee benefits	184	189	140
Purchased services	40,060	34,564	82,186
Supplies and materials	2,350	1,699	1,682
Other	10,000	8,887	9,777
	<u>54,994</u>	<u>47,802</u>	<u>95,615</u>

Alpena-Montmorency-Alcona Educational Service District

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year ended June 30		
	2014 Final Budget	2014 Actual	2013 Actual
EXPENDITURES (CONTINUED)			
EXECUTIVE ADMINISTRATION			
Salaries	\$ 228,684	\$ 227,187	\$ 225,676
Employee benefits	125,261	126,920	114,567
Purchased services	6,550	5,157	5,966
Supplies and materials	2,750	1,651	2,254
Other	9,250	8,751	9,055
	<u>372,495</u>	<u>369,666</u>	<u>357,518</u>
Total general administration	<u>427,489</u>	<u>417,468</u>	<u>453,133</u>
BUSINESS SERVICES			
FISCAL SERVICES			
Salaries	219,813	217,518	222,448
Employee benefits	121,603	123,036	121,417
Purchased services	12,650	12,907	10,990
Supplies and materials	3,000	2,169	2,762
Capital outlay	-	-	604
Other	1,832	1,943	955
	<u>358,898</u>	<u>357,573</u>	<u>359,176</u>
OTHER BUSINESS SERVICES			
Purchased services	1,050	1,050	1,196
Other	3,750	2,007	1,389
	<u>4,800</u>	<u>3,057</u>	<u>2,585</u>
Total business services	<u>363,698</u>	<u>360,630</u>	<u>361,761</u>
OPERATIONS AND MAINTENANCE			
OPERATIONS BUILDINGS SERVICES			
Salaries	3,192	2,547	918
Employee benefits	499	751	192
Purchased services	49,884	40,247	58,842
Supplies and materials	23,284	19,451	3,992
	<u>76,859</u>	<u>62,996</u>	<u>63,944</u>
Total operations and maintenance	<u>76,859</u>	<u>62,996</u>	<u>63,944</u>

Alpena-Montmorency-Alcona Educational Service District

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year ended June 30		
	2014 Final Budget	2014 Actual	2013 Actual
EXPENDITURES (CONTINUED)			
PUPIL TRANSPORTATION			
PUPIL TRANSPORTATION			
Purchased services	\$ -	\$ 86	\$ -
Total pupil transportation	-	86	-
CENTRAL SERVICES			
PLANNING, RESEARCH, DEVELOPMENT AND EVALUATION			
Salaries	-	-	466
Employee benefits	-	-	249
Purchased services	2,353	2,353	28,701
Outgoing transfers	-	-	4,525
	<u>2,353</u>	<u>2,353</u>	<u>33,941</u>
COMMUNICATION SERVICES			
Purchased services	4,528	2,637	4,524
	<u>4,528</u>	<u>2,637</u>	<u>4,524</u>
STAFF/PERSONNEL SERVICES			
Purchased services	15,235	2,134	1,062
Outgoing transfer	-	-	650
	<u>15,235</u>	<u>2,134</u>	<u>1,712</u>
INFORMATION MANAGEMENT SERVICES			
Salaries	2,346	2,346	109,105
Employee benefits	885	886	54,814
Purchased services	26,526	14,619	17,311
Supplies and materials	3,865	1,753	383
Capital outlay	15,140	13,478	4,742
Other	-	-	50
Outgoing transfer	25,942	25,942	-
	<u>74,704</u>	<u>59,024</u>	<u>186,405</u>
Total central services	<u>96,820</u>	<u>66,148</u>	<u>226,582</u>

Alpena-Montmorency-Alcona Educational Service District

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year ended June 30		
	2014 Final Budget	2014 Actual	2013 Actual
EXPENDITURES (CONTINUED)			
OTHER SUPPORT SERVICES			
FOOD SERVICES			
Salaries	\$ -	\$ -	\$ 500
Employee benefits	-	-	38
	<u>-</u>	<u>-</u>	<u>538</u>
Total other support services	<u>-</u>	<u>-</u>	<u>538</u>
Total supporting services	<u>1,680,150</u>	<u>1,484,196</u>	<u>1,688,187</u>
COMMUNITY SERVICES			
COMMUNITY SERVICES DIRECTION			
Outgoing transfers	2,500	-	374
	<u>2,500</u>	<u>-</u>	<u>374</u>
COMMUNITY ACTIVITIES			
Supplies and materials	4,700	3,675	2,926
Other	2,985	2,361	513
	<u>7,685</u>	<u>6,036</u>	<u>3,439</u>
OTHER COMMUNITY SERVICES			
Supplies and materials	-	-	500
	<u>-</u>	<u>-</u>	<u>500</u>
Total community services	<u>10,185</u>	<u>6,036</u>	<u>4,313</u>
PAYMENTS TO NOT-FOR-PROFIT ENTITIES			
Payments to not-for-profit entities	<u>329,468</u>	<u>259,082</u>	<u>92,226</u>
Total payments to not-for-profit entities	<u>329,468</u>	<u>259,082</u>	<u>92,226</u>

Alpena-Montmorency-Alcona Educational Service District

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year ended June 30		
	2014 Final Budget	2014 Actual	2013 Actual
EXPENDITURES (CONTINUED)			
CAPITAL OUTLAY			
BUILDING IMPROVEMENTS SERVICES			
Capital outlay	\$ 54,000	\$ -	\$ 10,151
	<u>54,000</u>	<u>-</u>	<u>10,151</u>
Total capital outlay	<u>54,000</u>	<u>-</u>	<u>10,151</u>
Total expenditures	<u>2,772,248</u>	<u>2,285,746</u>	<u>2,196,929</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(383,844)</u>	<u>(300,198)</u>	<u>(429,836)</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	365,925	363,947	252,567
Transfers to other funds	-	-	-
	<u>365,925</u>	<u>363,947</u>	<u>252,567</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(17,919)	63,749	(177,269)
FUND BALANCES, beginning of the year	<u>629,384</u>	<u>629,384</u>	<u>806,653</u>
FUND BALANCES, end of the year	<u>\$ 611,465</u>	<u>\$ 693,133</u>	<u>\$ 629,384</u>

Alpena-Montmorency-Alcona Educational Service District

**SPECIAL EDUCATION FUND
BALANCE SHEET**

	June 30	
	2014	2013
ASSETS		
Cash and cash equivalents	\$ 357	\$ 4,890
Taxes receivable	88,387	46,180
Accounts receivable	4,133	10,281
Due from other funds	32,102	72,507
Due from other governmental units	571,689	643,792
Interest receivable on investments and deposits	3,742	5,179
Investments	3,730,339	3,339,103
Prepaid expenses	24,244	6,408
Total assets	<u>\$ 4,454,993</u>	<u>\$ 4,128,340</u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 10,960	\$ 11,125
Due to other governmental units	52,723	21,080
Accrued expenditures	157,694	213,571
Salaries payable	347,660	372,536
Unearned revenue	883	7,626
	<u>569,920</u>	<u>625,938</u>
Fund Balances		
Nonspendable	24,244	6,408
Restricted	3,860,829	3,495,994
Total fund equity	<u>3,885,073</u>	<u>3,502,402</u>
Total liabilities and equity	<u>\$ 4,454,993</u>	<u>\$ 4,128,340</u>

Alpena-Montmorency-Alcona Educational Service District

**SPECIAL EDUCATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year ended June 30		
	2014 Final Budget	2014 Actual	2013 Actual
REVENUES			
LOCAL SOURCES			
Property taxes	\$ 3,715,005	\$ 3,727,703	\$ 3,732,565
Penalties and interest on delinquent taxes	5,250	8,379	2,195
Revenue in lieu of taxes	30,000	24,892	53,586
Earnings on investments and deposits	13,000	14,942	17,095
Private sources (contributions)	-	-	500
Medicaid fee for service	479,606	479,606	410,239
Miscellaneous	1,875	2,870	2,007
Total local source	<u>4,244,736</u>	<u>4,258,392</u>	<u>4,218,187</u>
STATE SOURCES			
State aid			
Restricted	1,482,295	1,477,156	1,428,775
Vocational rehabilitation	16,500	16,500	16,500
Total state source	<u>1,498,795</u>	<u>1,493,656</u>	<u>1,445,275</u>
FEDERAL SOURCES			
P.L. 94-142 Special Education	1,501,884	1,418,626	1,706,391
P.L. 94-142 Special Education preschool	34,612	34,612	36,726
P.L. 99.457 Infants and Toddlers	131,148	77,915	35,386
MIBLSI-MTSS	7,626	6,743	5,915
Medicaid - Outreach	32,640	32,640	28,495
Total federal source	<u>1,707,910</u>	<u>1,570,536</u>	<u>1,812,913</u>
INTERDISTRICT SOURCES			
Received from other public schools	14,468	14,478	16,019
Total interdistrict source	<u>14,468</u>	<u>14,478</u>	<u>16,019</u>
OTHER SOURCES			
Reimbursements and refunds	1,117	117	3,564
Total other source	<u>1,117</u>	<u>117</u>	<u>3,564</u>
Total revenues	<u>7,467,026</u>	<u>7,337,179</u>	<u>7,495,958</u>

Alpena-Montmorency-Alcona Educational Service District

**SPECIAL EDUCATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year ended June 30		
	2014 Final Budget	2014 Actual	2013 Actual
EXPENDITURES			
INSTRUCTION			
SPECIAL EDUCATION			
Salaries	\$ 707,201	\$ 701,087	\$ 766,213
Employee benefits	561,441	534,709	541,632
Purchased services	3,750	1,194	1,506
Supplies and materials	15,666	11,733	12,728
Capital outlay	-	-	225
	<u>1,288,058</u>	<u>1,248,723</u>	<u>1,322,304</u>
Total instruction	<u>1,288,058</u>	<u>1,248,723</u>	<u>1,322,304</u>
SUPPORTING SERVICES			
PUPIL SERVICES			
HEALTH SERVICES			
Salaries	80,954	80,272	152,252
Employee benefits	49,706	46,449	84,540
Purchased services	67,250	63,834	61,565
Supplies and materials	2,500	1,134	1,815
Other	225	225	225
	<u>200,635</u>	<u>191,914</u>	<u>300,397</u>
PSYCHOLOGICAL SERVICES			
Salaries	279,997	277,109	223,841
Employee benefits	160,701	152,053	115,489
Purchased services	4,200	3,955	3,244
Supplies and materials	7,000	6,787	4,344
Capital outlay	629	629	-
	<u>452,527</u>	<u>440,533</u>	<u>346,918</u>
SPEECH PATHOLOGY			
Salaries	486,957	483,560	472,657
Employee benefits	271,860	263,219	254,195
Purchased services	6,400	6,788	5,496
Supplies and materials	3,500	3,263	1,779
Capital outlay	-	-	1,045
	<u>768,717</u>	<u>756,830</u>	<u>735,172</u>

Alpena-Montmorency-Alcona Educational Service District

SPECIAL EDUCATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year ended June 30		
	2014 Final Budget	2014 Actual	2013 Actual
EXPENDITURES (CONTINUED)			
SOCIAL WORK SERVICES			
Salaries	\$ 79,125	\$ 78,753	\$ 155,159
Employee benefits	35,057	34,802	69,778
Purchased services	1,800	1,961	2,270
Supplies and materials	-	-	57
	<u>115,982</u>	<u>115,516</u>	<u>227,264</u>
TEACHER CONSULTANT			
Salaries	534,159	531,098	683,251
Employee benefits	295,266	278,312	329,793
Purchased services	32,922	30,824	50,338
Supplies and materials	1,550	587	809
Capital outlay	2,000	-	3,706
	<u>865,897</u>	<u>840,821</u>	<u>1,067,897</u>
Total pupil services	<u>2,403,758</u>	<u>2,345,614</u>	<u>2,677,648</u>
INSTRUCTIONAL SUPPORT			
OTHER PUPIL SUPPORT SERVICES			
Salaries	69,192	68,291	68,613
Employee benefits	64,436	61,535	56,161
Purchased services	14,350	14,218	14,297
Supplies and materials	130	-	57
	<u>148,108</u>	<u>144,044</u>	<u>139,128</u>
IMPROVEMENT OF INSTRUCTION			
Salaries	79,298	78,762	66,059
Employee benefits	45,169	43,758	39,359
Purchased services	142,813	148,705	152,814
Supplies and materials	18,476	15,337	7,654
Capital outlay	-	-	900
	<u>285,756</u>	<u>286,562</u>	<u>266,786</u>
SUPERVISION/DIRECTION OF INSTRUCTIONAL STAFF			
Salaries	280,544	278,656	276,851
Employee benefits	166,069	164,360	153,744
Purchased services	93,280	46,378	40,020
Supplies and materials	6,463	4,271	5,345
Capital outlay	2,000	130	450
Other	560	460	486
	<u>548,916</u>	<u>494,255</u>	<u>476,896</u>

Alpena-Montmorency-Alcona Educational Service District

**SPECIAL EDUCATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year ended June 30		
	2014 Final Budget	2014 Actual	2013 Actual
EXPENDITURES (CONTINUED)			
Total instructional support	\$ 982,780	\$ 924,861	\$ 882,810
GENERAL ADMINISTRATION			
BOARD OF EDUCATION			
Purchased services	2,600	2,707	4,092
Total general administration	2,600	2,707	4,092
BUSINESS SERVICES			
FISCAL SERVICES			
Purchased services	6,000	5,364	5,412
	6,000	5,364	5,412
OTHER BUSINESS SERVICES			
Purchased services	2,700	2,697	3,301
Other	30,000	15,857	12,804
	32,700	18,554	16,105
Total business services	38,700	23,918	21,517
OPERATION AND MAINTENANCE			
OPERATIONS BUILDINGS SERVICES			
Salaries	39,044	38,843	42,454
Employee benefits	31,589	31,136	29,843
Purchased services	35,866	30,268	28,611
Supplies and materials	47,669	44,585	41,720
Other	5,230	230	224
	159,398	145,062	142,852
Total operation and maintenance	159,398	145,062	142,852

Alpena-Montmorency-Alcona Educational Service District

**SPECIAL EDUCATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year ended June 30		
	2014 Final Budget	2014 Actual	2013 Actual
EXPENDITURES (CONTINUED)			
PUPIL TRANSPORTATION			
PUPIL TRANSPORTATION			
Salaries	\$ 8,500	\$ 8,011	\$ 7,630
Employee benefits	5,773	5,579	5,066
Purchased services	282,822	266,204	316,388
Supplies and materials	55,150	50,974	55,403
Other	100	39	117
	<u>352,345</u>	<u>330,807</u>	<u>384,604</u>
Total pupil transportation	<u>352,345</u>	<u>330,807</u>	<u>384,604</u>
CENTRAL SERVICES			
PLANNING AND RESEARCH			
Salaries	78,593	78,554	74,642
Employee benefits	35,790	37,155	30,446
Purchased services	1,100	804	1,050
Supplies and materials	250	45	41
Other	80	80	80
	<u>115,813</u>	<u>116,638</u>	<u>106,259</u>
STAFF/PERSONEL SERVICES			
Purchased services	<u>14,591</u>	<u>11,218</u>	<u>5,279</u>
	<u>14,591</u>	<u>11,218</u>	<u>5,279</u>
INFORMATION MANAGEMENT SERVICES			
Salaries	60,441	36,976	35,290
Employee benefits	29,780	18,708	15,769
Purchased services	<u>19,277</u>	<u>15,734</u>	<u>13,930</u>
	<u>109,498</u>	<u>71,418</u>	<u>64,989</u>
Total central services	<u>239,902</u>	<u>199,274</u>	<u>176,527</u>
OTHER SUPPORT SERVICES			
Outgoing transfers	<u>5,621</u>	<u>5,621</u>	<u>5,571</u>
	<u>5,621</u>	<u>5,621</u>	<u>5,571</u>
Total other support services	<u>5,621</u>	<u>5,621</u>	<u>5,571</u>
Total supporting services	<u>4,185,104</u>	<u>3,977,864</u>	<u>4,295,621</u>

Alpena-Montmorency-Alcona Educational Service District

**SPECIAL EDUCATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year ended June 30		
	2014 Final Budget	2014 Actual	2013 Actual
COMMUNITY SERVICES			
OTHER COMMUNITY SERVICES			
Purchased services	\$ 1,100	\$ 155	\$ 501
Supplies and materials	1,381	503	13
	<u>2,481</u>	<u>658</u>	<u>514</u>
Total community services	<u>2,481</u>	<u>658</u>	<u>514</u>
INTERDISTRICT TRANSFERS			
TRANSFERS			
Act 18	1,117,091	1,117,091	1,144,117
Medicaid	216,289	216,289	239,990
Outreach	11,150	11,150	13,702
	<u>1,344,530</u>	<u>1,344,530</u>	<u>1,397,809</u>
Total interdistrict transfers	<u>1,344,530</u>	<u>1,344,530</u>	<u>1,397,809</u>
CAPITAL OUTLAY			
Site Improvements	20,000	17,829	-
Building Improvements	-	957	18,357
	<u>20,000</u>	<u>18,786</u>	<u>18,357</u>
Total capital outlay	<u>20,000</u>	<u>18,786</u>	<u>18,357</u>
Total expenditures	<u>6,840,173</u>	<u>6,590,561</u>	<u>7,034,605</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>626,853</u>	<u>746,618</u>	<u>461,353</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	-	-
Transfers to other funds	(370,000)	(363,947)	(252,567)
	<u>(370,000)</u>	<u>(363,947)</u>	<u>(252,567)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	256,853	382,671	208,786
FUND BALANCES, beginning of the year	<u>3,502,402</u>	<u>3,502,402</u>	<u>3,293,616</u>
FUND BALANCES, end of the year	<u>\$ 3,759,255</u>	<u>\$ 3,885,073</u>	<u>\$ 3,502,402</u>

Alpena-Montmorency-Alcona Educational Service District

**DEBT SERVICE FUND
BALANCE SHEET**

	June 30	
	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	<u>\$ -</u>	<u>\$ -</u>
Total assets	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	<u>\$ -</u>	<u>\$ -</u>
Total liabilities	<u>-</u>	<u>-</u>
Fund Balances		
Restricted	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Alpena-Montmorency-Alcona Educational Service District

**DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year ended June 30		
	2014 Final Budget	2014 Actual	2013 Actual
REVENUES			
STATE SOURCES			
State aid	\$ -	\$ -	\$ 76,510
	<u>-</u>	<u>-</u>	<u>76,510</u>
Total revenues	<u>-</u>	<u>-</u>	<u>76,510</u>
EXPENDITURES			
Debt Service			
Principal	-	-	62,052
Interest and fees	-	-	14,458
	<u>-</u>	<u>-</u>	<u>76,510</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>76,510</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, beginning of the year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Alpena-Montmorency-Alcona Educational Service District

**AGENCY FUND
BALANCE SHEET**

	June 30	
	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	<u>\$ 20,781</u>	<u>\$ 26,796</u>
Total assets	<u><u>\$ 20,781</u></u>	<u><u>\$ 26,796</u></u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 2,092	\$ 10,264
Due to student activities	<u>18,689</u>	<u>16,532</u>
Total liabilities	<u>20,781</u>	<u>26,796</u>
Fund Balances		
Unassigned	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u><u>\$ 20,781</u></u>	<u><u>\$ 26,796</u></u>

Alpena-Montmorency-Alcona Educational Service District

**AGENCY FUND
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DEPOSITS HELD**

	<u>Balances June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances June 30, 2014</u>
STUDENT ACTIVITIES				
Flower Fund	\$ (1,056)	\$ 4,137	\$ 2,959	\$ 122
Sprinkler Lake	-	-	-	-
Greenhouse	11,036	13,563	13,829	10,770
Playground	-	-	-	-
Piper Fund	2,643	7,744	3,232	7,155
Living with ASD	454	-	-	454
Circle of Friends	130	58	-	188
Memorials	3,325	50	3,375	-
	<u>\$ 16,532</u>	<u>\$ 25,552</u>	<u>\$ 23,395</u>	<u>\$ 18,689</u>

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FEDERAL FINANCIAL ASSISTANCE

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Straley Lamp & Kraenzlein P.C.



Certified Public Accountants

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Gordon A. Nethercut, CPA-Retired

INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Board of Education
Alpena-Montmorency-Alcona
Educational Service District
Alpena, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Alpena-Montmorency-Alcona Educational Service District, Alpena, Michigan**, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the **Alpena-Montmorency-Alcona Educational Service District, Alpena, Michigan's** basic financial statements. We issued our report thereon dated October 2, 2014, which contained an unmodified opinion on the basic financial statements of the Educational Service District. Our audit was conducted for the purpose of forming an opinion on the financial statements 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 OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Straley Lamp & Kraenzlein P.C.

October 2, 2014

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

To the Board of Education
Alpena-Montmorency-Alcona
Educational Service District
Alpena, 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 **Alpena-Montmorency-Alcona Educational Service District**, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the **Alpena-Montmorency-Alcona Educational Service District's** basic financial statements, and have issued our report thereon dated October 2, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Straley Lamp & Kraenzlein P.C.

October 2, 2014



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133.**

To the Board of Education
**Alpena-Montmorency-Alcona
Educational Service District**
Alpena, Michigan

Report on Compliance for Each Major Federal Program

We have audited **Alpena-Montmorency-Alcona Educational Service District's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the **Alpena-Montmorency-Alcona Educational Service District's** major federal programs for the year ended June 30, 2014. The **Alpena-Montmorency-Alcona Educational Service District's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the **Alpena-Montmorency-Alcona Educational Service District's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 **Alpena-Montmorency-Alcona Educational Service District's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the **Alpena-Montmorency-Alcona Educational Service District's** compliance.

Opinion on Each Major Federal Program

In our opinion, the **Alpena-Montmorency-Alcona Educational Service District** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the **Alpena-Montmorency-Alcona Educational Service District** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the **Alpena-Montmorency-Alcona Educational Service District's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 **Alpena-Montmorency-Alcona Educational Service District's** internal control over compliance.

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

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

Purpose of 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Straley Lamp & Kraenzlein P.C.

October 2, 2014

Alpena-Montmorency-Alcona Educational Service District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2014

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. Department of Agriculture</u>			
Passed through State of Michigan Department of Education:			
Child and Adult Care Food Program	10.558		
Child and Adult Care Food Program-13/14		141920 1314	\$ 13,826
			<u>13,826</u>
Total U.S. Department of Agriculture			<u>13,826</u>
<u>U.S. Department of Education</u>			
Direct Programs:			
Fund for the Improvement of Education	84.215		
Teaching American History		U215X100204	498,252
			<u>498,252</u>
Rural Education	84.358		
R.E.A.P. Small Rural School Achievement Program-09/10		S358A105863	21,631
R.E.A.P. Small Rural School Achievement Program-10/11		S358A105863	19,336
			<u>40,967</u>
Total Direct Programs			<u>539,219</u>
Passed through State of Michigan Department of Education:			
Special Education - Grants to States	* 84.027		
Enhancing Opportunities ESOD			
Idea ESOD Initiated-13/14		140480 EOSD	45,000
			<u>45,000</u>
Special Education - Grants to States	* 84.027		
Transition Coordinator			
Idea Transition Coordinator-12/13		130490 TC	50,000
Idea Transition Coordinator-13/14		140490 TC	50,000
			<u>100,000</u>
Special Education - Grants to States	* 84.027		
Special Ed Flowthrough			
Special education - Flow-through-11/12		120450 1112	1,400,599
Special education - Flow-through-12/13		130450 1213	1,368,795
Special education - Flow-through-13/14		140450 1314	1,334,245
			<u>4,103,639</u>

* - Major Program

Revenue Accrued (Unearned) at June 30, 2013	Prior Year(s) Expenditures	Current Year		Revenue Accrued (Unearned) at June 30, 2014	Total Expenditures
		Receipts	Expenditures		
\$ -	\$ -	\$ 13,826	\$ 13,826	\$ -	\$ 13,826
-	-	13,826	13,826	-	13,826
-	-	13,826	13,826	-	13,826
58,234	494,828	59,487	1,253	-	496,081
58,234	494,828	59,487	1,253	-	496,081
538	21,631	199	(339)	-	21,292
(7,990)	3,614	7,732	15,722	-	19,336
(7,452)	25,245	7,931	15,383	-	40,628
50,782	520,073	67,418	16,636	-	536,709
-	-	41,482	45,000	3,518	45,000
-	-	41,482	45,000	3,518	45,000
7,970	50,000	7,970	-	-	50,000
-	-	44,536	50,000	5,464	50,000
7,970	50,000	52,506	50,000	5,464	100,000
51,904	1,400,599	51,904	-	-	1,400,599
258,909	1,296,146	331,356	72,649	202	1,368,795
-	-	1,014,581	1,251,701	237,120	1,251,701
310,813	2,696,745	1,397,841	1,324,350	237,322	4,021,095

The accompanying notes are an integral part of this statement.

Alpena-Montmorency-Alcona Educational Service District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2014

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. Department of Education - (continued)</u>			
Passed through State of Michigan Department of Education:			
Special Education - Preschool Grants	* 84.173		
Special Education - Preschool-12/13		130460 1112	\$ 36,726
Special Education - Preschool-13/14		140460 1314	34,612
			<u>71,338</u>
Special Education- Grants for Infants and Families	84.181		
Early on Michigan-12/13		131340 1213	68,415
Early on Michigan-13/14		141340 1314	67,841
Early on Michigan-14/15		151340 1415	67,841
			<u>204,097</u>
Special Education- Flowthrough ARRA	84.391		
Special education - Flow-through-11/12		100455 0910	1,565,322
			<u>1,565,322</u>
Total Passed through Michigan Department of Education			<u>6,089,396</u>
Passed through MiBLSi			
Special Education- Grants to States	* 84.027		
Michigan's Integrated Behavior and Learning Support Initiative			
MTSS		MIBLSI-MTSS	10,000
MTSS		MIBLSI-MTSS	3,541
			<u>13,541</u>
Passed through Eastern Upper Peninsula ISD:			
Title II, Part D Regular - Enhancing Education through Technology	84.366		
Regional Data Initiatives Continuation		114240-RD12	3,000
			<u>3,000</u>
Passed through Wayne RESA:			
Title II, Part D Regular - Enhancing Education through Technology	84.318		
PRIME		114240-RD12	2,000
PRIME		114240-RD12	1,000
			<u>3,000</u>
Total U.S. Department of Education			<u>6,648,156</u>

* - Major Program

Revenue Accrued (Unearned) at June 30, 2013	Prior Year(s) Expenditures	Current Year		Revenue Accrued (Unearned) at June 30, 2014	Total Expenditures
		Receipts	Expenditures		
\$ 10,026	\$ 36,726	\$ 10,026	\$ -	\$ -	\$ 36,726
-	-	26,948	34,612	7,664	34,612
<u>10,026</u>	<u>36,726</u>	<u>36,974</u>	<u>34,612</u>	<u>7,664</u>	<u>71,338</u>
3,746	5,118	9,290	5,544	-	10,662
-	-	33,010	57,754	24,744	57,754
-	-	-	14,617	14,617	14,617
<u>3,746</u>	<u>5,118</u>	<u>42,300</u>	<u>77,915</u>	<u>39,361</u>	<u>83,033</u>
-	1,565,322	(724)	(724)	-	1,564,598
<u>-</u>	<u>1,565,322</u>	<u>(724)</u>	<u>(724)</u>	<u>-</u>	<u>1,564,598</u>
<u>332,555</u>	<u>4,353,911</u>	<u>1,570,379</u>	<u>1,531,153</u>	<u>293,329</u>	<u>5,885,064</u>
(4,153)	5,847	-	4,153	-	10,000
(3,473)	68	-	2,590	(883)	2,658
<u>(7,626)</u>	<u>5,915</u>	<u>-</u>	<u>6,743</u>	<u>(883)</u>	<u>12,658</u>
(3,000)	-	-	898	(2,102)	898
<u>(3,000)</u>	<u>-</u>	<u>-</u>	<u>898</u>	<u>(2,102)</u>	<u>898</u>
-	-	2,000	-	(2,000)	-
-	-	1,000	-	(1,000)	-
-	-	3,000	-	(3,000)	-
<u>372,711</u>	<u>4,879,899</u>	<u>1,640,797</u>	<u>1,555,430</u>	<u>287,344</u>	<u>6,435,329</u>

The accompanying notes are an integral part of this statement.

Alpena-Montmorency-Alcona Educational Service District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2014

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through State of Michigan Department of Community Health:			
Medical Assistance Programs	93.778		
Medicaid Outreach Claims		N/A	\$ 32,640
			<u>32,640</u>
Total U.S. Department of Health and Human Services			<u>32,640</u>
Total Federal Awards			<u>\$ 6,694,622</u>

* - Major Program

Revenue Accrued (Unearned) at July 1, 2013	Prior Year(s) Expenditures	Current Year		Revenue Accrued (Unearned) at June 30, 2014	Total Expenditures
		Receipts	Expenditures		
\$ -	\$ -	\$ 32,640	\$ 32,640	\$ -	\$ 32,640
-	-	32,640	32,640	-	32,640
-	-	32,640	32,640	-	32,640
<u>\$ 372,711</u>	<u>\$ 4,879,899</u>	<u>\$ 1,687,263</u>	<u>\$ 1,601,896</u>	<u>\$ 287,344</u>	<u>\$ 6,481,795</u>

The accompanying notes are an integral part of this statement.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1--BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES.

The accompanying schedule of expenditures of federal awards ("the schedule") includes the federal grant activity of all federal financial assistance programs of the Alpena-Montmorency-Alcona Educational Service District, Alpena, Michigan, under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the schedule are recognized following the cost principals contained in OMB Circular A-87, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

The Alpena-Montmorency-Alcona Educational Service District's reporting entity is defined in Note 1 to the Educational Service District's financial statements. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements. Because the Schedule presents only a selected portion of the operations of the Alpena-Montmorency-Alcona Educational Service District, it is not intended to and does not present the financial position, changes in net position, or cash flows, if applicable of the Alpena-Montmorency-Alcona Educational Service District. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included on the schedule. Pass through identifying numbers are presented where available.

The Office of Management and Budget OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* established a risk-based approach to determine which Federal programs were major programs. This risk-based approach included consideration of: Current and prior audit experience, oversight by Federal agencies and pass-through entities, and the inherent risk of the Federal program. Major program determination was performed and is defined in Section 520 of the circular.

For the audit period ended June 30, 2014 the Alpena-Montmorency-Alcona Educational Service District's dollar threshold for larger Federal programs, which were regarded as Type A programs, were programs with Federal awards expended during the audit period which exceeded \$300,000. All other Federal programs were regarded as Type B programs. For the year ended June 30, 2014, the Alpena-Montmorency-Alcona Educational Service District qualified as a low-risk auditee as defined in Section 530 of the circular. No federal programs were considered to be high-risk and the determination was made that major programs were all Type A programs to encompass at least 25% of the total federal awards expended. During the year ended June 30, 2014, the Alpena-Montmorency-Alcona Educational Service District expended 91% of its total expenditures of federal awards programs audited as Major Programs.

NOTE 2--GRANT AUDITOR REPORT.

Management has utilized the Michigan Department of Education's Cash Management System (CMS) Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

NOTE 3--CFDA.

This refers to the Catalog of Federal Domestic Assistance.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 4--RELATIONSHIP TO GOVERNMENTAL FUND FINANCIAL STATEMENTS.

Revenues from federal sources are reported in the service district's financial statements as follows:

	<u>Federal Revenues</u>
General Fund	\$ 31,360
Special Revenue Funds:	
Special Education Fund	<u>1,570,536</u>
Total Federal Revenues	<u>\$ 1,601,896</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 1,601,896</u>

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

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

Agency total current payments per Michigan Department of Education Grant Auditor Report – (GAR) CMS System	<u>\$1,584,205</u>
Current year receipts passed through Michigan Department of Education: U.S. Department of Education	<u>\$1,584,205</u>

NOTE 6--RECEIPTS.

Current year receipts represent cash/payments-in-kind received from Federal sources during the period July 1, 2013 through June 30, 2014.

NOTE 7--SOURCE DOCUMENTATION.

When possible the project expenditures are vouched to other supporting documentation such as the Michigan Department of Education (MDE) Form DS-4044 "Final Expenditure Report". The amounts reported on the Grant Auditor Report from the Cash Management System (CMS) reconcile with the schedule. Instances, if any, where the federal expenditures do not agree with supporting documents, have been reported as a finding.

Alpena-Montmorency-Alcona Educational Service District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2014

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 programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? Yes X No

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

84.027 Special Education – Grants to States

84.173 Special Education – Preschool Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

None noted in the current year.

SECTION II – FEDERAL PROGRAM AUDIT FINDINGS

None noted in the current year.

Alpena-Montmorency-Alcona Educational Service District

REPORT ON PRIOR AUDIT FINDINGS

For the year ended June 30, 2014

<u>Program</u>	<u>Finding</u>	<u>Questioned Costs</u>
There were no findings or questioned costs noted in the prior year.		

Alpena-Montmorency-Alcona Educational Service District

CORRECTIVE ACTION PLAN

For the year ended June 30, 2014

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