

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

Audited Financial Statements and
Other Supplementary Financial Information

Year Ended June 30, 2015

STRALEY LAMP AND KRAENZLEIN P.C.

**ALPENA – MONTMORENCY – ALCONA
EDUCATIONAL SERVICE DISTRICT
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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, 2015, 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, 2015 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.

Emphasis of Matter

As discussed in Note 8 to the basic financial statements, in 2015 the **Alpena-Montmorency-Alcona Educational Service District** adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. As discussed in Note 12, the adoption of GASB 68 has resulted in an adjustment to the beginning net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and net position liability and reporting units contributions 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 for the years ended June 30, 2015 and 2014 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 21, 2015, 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 21, 2015

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, 2015. 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
Pension Plan Schedules

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, 2015 and 2014:

TABLE 1

	<u>2015</u>	<u>2014</u>
ASSETS		
Current and Other Assets	\$ 6,278,080	\$ 5,762,096
Property and Equipment	<u>1,196,527</u>	<u>1,285,007</u>
Total assets	<u>\$ 7,474,607</u>	<u>\$ 7,047,103</u>
DEFERRED OUTFLOWS OF RESOURCES		
	<u>\$ 913,435</u>	<u>\$ -</u>
LIABILITIES		
Current Liabilities	\$ 1,383,588	\$ 1,183,890
Long-term Liabilities	<u>8,984,285</u>	<u>-</u>
Total liabilities	<u>\$10,367,873</u>	<u>\$ 1,183,890</u>
DEFERRED INFLOWS OF RESOURCES		
	<u>\$ 993,216</u>	<u>\$ -</u>
NET POSITION		
Invested in property and equipment	\$ 1,196,527	\$ 1,285,007
Restricted	4,014,444	3,885,073
Unrestricted	<u>(8,184,018)</u>	<u>693,133</u>
Total net position	<u>\$(2,973,047)</u>	<u>\$ 5,863,213</u>

The above analysis focuses on the net position. The change in net position (see Table 2) of the Educational Service District's governmental activities is discussed below. The Educational Service District's net position was \$(2,973,047) at June 30, 2015. Capital assets totals \$1,196,527 and compares the original cost, less depreciation of the Educational Service District's capital assets. The remaining amount of the net position consisted of \$4,014,444 as restricted for special education purposes, and \$(8,184,018) was unassigned.

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

The negative \$(2,973,047) in total 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. Recording the net pension liability under GASB #68 has significantly impacted this calculation. 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 2015 as compared to 2014.

TABLE 2

	2015	2014
Revenue		
Program Revenue:		
Charges for services	\$ 472,640	\$ 554,160
Operating grants	1,652,537	1,663,018
General revenue:		
Property taxes	4,115,685	4,159,113
State aid	3,087,744	2,898,173
Investment earnings	28,807	29,181
Miscellaneous	17,269	19,082
	\$ 9,374,682	\$ 9,322,727
 Functions/Program Expenses		
Instruction	\$ 1,742,884	\$ 1,785,155
Support services	5,579,728	5,426,073
Community services	37,831	6,694
Interdistrict transfers	1,459,117	1,344,530
Payment to not for profit agencies	234,519	259,082
Depreciation (unallocated)	90,300	114,852
	9,144,379	8,936,386
 Change in net position	230,303	386,341
 Net position - beginning of the year	5,863,213	5,476,872
Change in accounting principle	(9,066,563)	-
Beginning of year, restated	(3,203,350)	-
 Net position - end of the year	\$ (2,973,047)	\$ 5,863,213

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

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$9,144,379. Certain activities were partially funded from those who benefited from the programs \$472,640, or by other governments and organizations that subsidized certain programs with grants and contributions \$1,652,537. The Educational Service District paid for the remaining "public benefit" portion of our governmental activities with \$4,115,685 in taxes, \$3,087,744 in state aid, \$28,807 of investments earnings and with miscellaneous other revenues of \$17,269.

The Alpena-Montmorency-Alcona Educational Service District experienced an increase in net position of \$230,303. The key reasons for this change in net position, was the decrease in staffing while continuing to be very cost conscious as a district.. During the year, the District had capital additions of \$1,820, offset by depreciation expense of \$90,300.

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 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 \$4,894,492, which is an increase of \$316,286 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 \$880,048, an increase of \$186,915 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 \$4,014,444, an increase of \$129,371 from the prior year. The increase in fund balance can be attributed to operational cost savings.

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, 2014. 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 11, 2015. (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).

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

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 2014-2015 fiscal year.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2015, the Educational Service District had \$1,196,527 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 \$(88,480) from last year.

TABLE 3

	<u>2015</u>	<u>2014</u>
Assets not being depreciated – Land	\$ 152,248	\$ 152,248
Land improvements	138,592	136,772
Building improvements	2,304,059	2,304,059
Office and computer equipment	843,993	844,264
Vehicles	<u>120,551</u>	<u>120,551</u>
Total capital assets	3,559,443	3,557,894
Less accumulated depreciation	<u>(2,362,916)</u>	<u>(2,272,887)</u>
Net capital assets	<u>\$ 1,196,527</u>	<u>\$ 1,285,007</u>

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 2015-16 fiscal year budgets. The 2015-16 fiscal year budgets were adopted in June, 2015 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 2015-16 fiscal year budgets.

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

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 2015-16 should remain stable compared to previous years. The outlook for federal sources will also 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.

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, 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
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BASIC FINANCIAL STATEMENTS

Alpena-Montmorency-Alcona Educational Service District

STATEMENT OF NET POSITION

June 30, 2015

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 499
Taxes receivable	85,695
Accounts receivable	12,981
Due from other governmental units	920,518
Interest receivable on investments and deposits	10,497
Investments	5,195,726
Prepaid expenses	52,164
Capital assets not being depreciated	152,248
Capital assets being depreciated - net of depreciation	<u>1,044,279</u>
Total assets	<u>7,474,607</u>
DEFERRED OUTFLOWS OF RESOURCES	
	<u>913,435</u>
LIABILITIES	
Accounts payable	119,661
Due to other governmental units	67,772
Accrued expenditures	171,574
Salaries payable	320,887
Unearned revenue	703,694
Long-term liabilities	
Net pension liability	<u>8,984,285</u>
Total liabilities	<u>10,367,873</u>
DEFERRED INFLOWS OF RESOURCES	
	<u>993,216</u>
NET POSITION	
Investment in capital assets	1,196,527
Restricted:	
Special Education	4,014,444
Unrestricted	<u>(8,184,018)</u>
Total net position	<u>\$ (2,973,047)</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, 2015

FUNCTION / PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
Instruction	\$ 1,742,884	\$ 1,800	\$ 127,816	\$ (1,613,268)
Supporting services	5,579,728	470,840	1,516,101	(3,592,787)
Community services	37,831	-	8,620	(29,211)
Interdistrict transfers	1,459,117	-	-	(1,459,117)
Payment to not-for-profit entities	234,519	-	-	(234,519)
Depreciation - unallocated	90,300	-	-	(90,300)
Total Governmental Activities	9,144,379	472,640	1,652,537	(7,019,202)
General Revenues:				
Property taxes, levied for general purposes				402,314
Property taxes, levied for special education				3,713,371
State aid				3,087,744
Investment earnings				28,807
Miscellaneous				17,269
Total general revenues				7,249,505
Change in net position				230,303
Net position - beginning of the year, as previously stated			\$ 5,863,213	
Adjustment for Change in Accounting Principal (Note 12)			(9,066,563)	
Net position - beginning of year, as restated				(3,203,350)
Net position - end of the year				\$ (2,973,047)

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, 2015

	General Fund	Special Education Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 102	\$ 397	\$ 499
Taxes receivable	8,529	77,166	85,695
Accounts receivable	12,752	229	12,981
Due from other funds	379,773	-	379,773
Due from other governmental units	360,805	559,713	920,518
Interest receivable on investments and deposits	1,991	8,506	10,497
Investments	975,749	4,219,977	5,195,726
Prepaid expenses	26,742	25,422	52,164
Total assets	<u>\$ 1,766,443</u>	<u>\$ 4,891,410</u>	<u>\$ 6,657,853</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 112,200	\$ 7,461	\$ 119,661
Due to other funds	-	379,773	379,773
Due to other governmental units	52,410	15,362	67,772
Accrued expenditures	4,846	166,728	171,574
Salaries payable	13,245	307,642	320,887
Unearned revenue	703,694	-	703,694
Total liabilities	<u>886,395</u>	<u>876,966</u>	<u>1,763,361</u>
Fund balances			
Nonspendable	26,742	25,422	52,164
Restricted	-	3,989,022	3,989,022
Unassigned	853,306	-	853,306
Total fund balances	<u>880,048</u>	<u>4,014,444</u>	<u>4,894,492</u>
Total liabilities and fund balances	<u>\$ 1,766,443</u>	<u>\$ 4,891,410</u>	<u>\$ 6,657,853</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, 2015

Total Governmental Fund Balances		\$	4,894,492
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		3,407,195	
Less: Accumulated depreciation		<u>(2,362,916)</u>	
			1,196,527
Deferred inflows and outflows between measurement date and reporting date of pension plan.			
Changes of pension plan assumptions		331,501	
Changes in pension plan proportionate share		-	
Contributions subsequent to the pension plan measurement date		581,934	
Difference between projected and actual earnings on pension plan		<u>(993,216)</u>	
			(79,781)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported as liabilities in the funds.			
Long-term liabilities at year end consist of:			
Net pension liability		<u>(8,984,285)</u>	
			<u>(8,984,285)</u>
Total Net Position - Governmental Activities		\$	<u><u>(2,973,047)</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, 2015

	General Fund	Special Education Fund	Total Governmental Funds
REVENUES			
Local sources	\$ 424,236	\$ 4,134,740	\$ 4,558,976
State sources	1,704,106	1,446,132	3,150,238
Federal sources	24,822	1,511,378	1,536,200
Interdistrict sources	104,304	20,039	124,343
Other sources	4,925	-	4,925
	<u>2,262,393</u>	<u>7,112,289</u>	<u>9,374,682</u>
Total revenues			
EXPENDITURES			
Instruction	653,186	1,090,198	1,743,384
Supporting services	1,503,132	4,077,445	5,580,577
Community services	31,774	6,057	37,831
Interdistrict transfers	-	1,459,117	1,459,117
Payments to not-for-profit entities	234,519	-	234,519
Capital outlay	2,968	-	2,968
	<u>2,425,579</u>	<u>6,632,817</u>	<u>9,058,396</u>
Total expenditures			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(163,186)</u>	<u>479,472</u>	<u>316,286</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	350,101	-	350,101
Transfers to other funds	-	(350,101)	(350,101)
	<u>350,101</u>	<u>(350,101)</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	186,915	129,371	316,286
FUND BALANCES, beginning of the year	<u>693,133</u>	<u>3,885,073</u>	<u>4,578,206</u>
FUND BALANCES, end of the year	<u>\$ 880,048</u>	<u>\$ 4,014,444</u>	<u>\$ 4,894,492</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, 2015

Total net change in fund balances - governmental funds \$ 316,286

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	\$ 1,820	
Depreciation expense	<u>(90,300)</u>	
		(88,480)

The issuance of long-term debt provides current financial resources to government funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Net change in pension expense under GASB #68		
Proportionate share of expense at measurement date		
September 30, 2014	633,470	
Proportionate share of expense at measurement date		
September 30, 2013	<u>(630,973)</u>	<u>2,497</u>

Change in net position of governmental activities \$ 230,303

Alpena-Montmorency-Alcona Educational Service District

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2015

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 8,452</u>
Total assets	<u><u>\$ 8,452</u></u>
LIABILITIES	
Accounts payable	\$ -
Due to student activities	<u>8,452</u>
Total liabilities	<u><u>\$ 8,452</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, 2015, 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.

Prepaid Assets. Payments made to vendors for services that will benefit periods beyond June 30, 2015, 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.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

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

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.

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.

NOTES TO FINANCIAL STATEMENTS

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

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.

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.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

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

Accounting Changes. Effective July 1, 2014, the Educational Service District implemented the provisions of Governmental Accounting Standards Board, (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* (an amendment of GASB Statement No. 67). This statement requires the basic financial statements of the Michigan Public School Employee Retirement System (MPERS) reporting units to include their proportionate share of the net pension liability and pension expense, as well as additional pension-related note disclosures, and additional pension-related required supplemental information. See Note 8 to understand the impact this statement has had on the School District's Government-wide Financial Statements.

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, 2014 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 Accounting 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, 2015, 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, 2015, the Educational Service District had the following deposits reported in the basic financial statements as follows:

Cash – District wide	\$ 499
Cash – Agency fund	8,452
Investments – District wide	<u>5,195,726</u>
	<u><u>\$5,204,677</u></u>

As of June 30, 2015, the Educational Service District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
Cash Management Funds-MILAF	\$ 2,867	0.0000	AAAm	0.06%
Municipal NOW accounts	544,016	0.0000	N/A	10.47%
Certificates of Deposit/CDARS	<u>4,648,843</u>	<u>1.0082</u>	<u>N/A</u>	<u>89.47%</u>
Total Fair Value	<u>\$ 5,195,726</u>			
Portfolio weighted average maturity		<u>1.0082</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, 2015, 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, 2015, none of the Educational Service District's bank balance of \$449 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, 2015, the Educational Service District’s agency bank balance of \$8,452 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, 2015, there was \$439,512 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 \$5,195,726.

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, 2015: 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, 2015 are as follows:

Fund	Receivable	Payable
General Fund	\$ 379,773	\$ -
Special Education Fund	-	379,773
Totals	\$ 379,773	\$ 379,773

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, 2015 was as follows:

	<u>Balances June 30, 14</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balances June 30, 15</u>
Capital assets not being depreciated:				
Land	\$ 152,248	\$ -	\$ -	\$ 152,248
Capital assets being depreciated:				
Land improvements	136,772	1,820	-	138,592
Building and improvements	2,304,059	-	-	2,304,059
Office and computer	844,264	-	(271)	843,993
Vehicles	120,551	-	-	120,551
	<u>3,405,646</u>	<u>1,820</u>	<u>(271)</u>	<u>3,407,195</u>
Less accumulated depreciation:				
Land improvements	(108,573)	(4,469)	-	(113,042)
Buildings and improvements	(1,262,876)	(64,814)	-	(1,327,690)
Office and computer	(814,161)	(7,840)	271	(821,730)
Vehicle	(87,277)	(13,177)	-	(100,454)
	<u>(2,272,887)</u>	<u>(90,300)</u>	<u>271</u>	<u>(2,362,916)</u>
Net capital assets	<u>\$ 1,285,007</u>	<u>\$ (88,480)</u>	<u>\$ -</u>	<u>\$ 1,196,527</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, 2015, 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 Alcona County residents and 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 2014-2015 school year in the Educational Service District was established at \$1,869,644,814. 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.

A. ORGANIZATION.

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

- Two active classroom teachers or other certified schools personnel.
- One active member or retirant from a non-certified support position.
- One active school system superintendent.
- One active finance or operations (non-superintendent) member.
- One retirant from a classroom teaching position.
- One retirant from a finance or operations management position.
- One administrator or trustee of a community college that is a reporting unit of the System.
- Two from the general public, one with health insurance or actuarial science experience and one with institutional investment experience.
- One elected member of a reporting unit's board of control.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School employees' Retirement Act. There are 685 participating employers. A list of employers is provided in the Statistical Section. The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts, public school academies, district libraries, tax-supported community colleges and seven universities may be members. The seven universities are: Eastern Michigan, Central Michigan, Northern Michigan, Western Michigan, Ferris State, Michigan Technological and Lake Superior State. Employees, who first become employed by one of the seven universities on or after January 1, 1996, become members of an alternative plan.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

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

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual financial Report.

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

Membership

At September 30, 2014, the System's membership consisted of the following:

Inactive plan members or their beneficiaries currently receiving benefits:	
Regular benefits	181,489
Survivor benefits	16,855
Disability benefits	6,168
Total	204,512
Inactive planmembers entitled to but not yet receiving benefits:	16,979
Active plan members:	
Vested	108,934
Non-vested	101,843
Total	210,777
Total plan members	432,268

Benefits Provided

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

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

NOTES TO FINANCIAL STATEMENTS

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

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987, through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Their options are described in detail under pension Reform 2012 beginning on page 23. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

Employer Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits.

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 combinations under the revised system for all members:

Status	E'ee	Type	Plan Combination:		Employee Contributions:				Employer Contributions:		
			Pension	Health	DB Pension	PHF	HCC	DC Pension	DB Pension	PHF	DC Pension
Closed	Basic	DB	Basic	Subsidy	0.00%	N/A	3.0%	N/A	25.78%	N/A	N/A
Closed	Basic	DB	Basic	PHF	0.00%	2.00%	N/A	N/A	25.27%	2.00%	N/A
Closed	Basic	DB	Basic 4%	Subsidy	4.00%	N/A	3.0%	N/A	25.78%	N/A	N/A
Closed	Basic	DB	Basic 4%	PHF	4.00%	2.00%	N/A	N/A	25.27%	2.00%	N/A
Closed	Basic	DC	DC Conv	Subsidy	N/A	N/A	3.0%	0.00%	21.47%	N/A	4.00%
Closed	Basic	DC	DC Conv	PHF	N/A	2.00%	N/A	0.00%	20.96%	2.00%	4.00%
Closed	MIP	DB	Fixed	Subsidy	3.90%	N/A	3.0%	N/A	25.78%	N/A	N/A
Closed	MIP	DB	Fixed	PHF	3.90%	2.00%	N/A	N/A	25.27%	2.00%	N/A
Closed	MIP	DB	Graded	Subsidy	3-4.30%	N/A	3.0%	N/A	25.78%	N/A	N/A
Closed	MIP	DB	Graded	PHF	3-4.30%	2.00%	N/A	N/A	25.27%	2.00%	N/A
Closed	MIP	DB	Plus	Subsidy	3-6.40%	N/A	3.0%	N/A	25.78%	N/A	N/A
Closed	MIP	DB	Plus	PHF	3-6.40%	2.00%	N/A	N/A	25.27%	2.00%	N/A
Closed	MIP	DB	MIP 7%	Subsidy	7.00%	N/A	3.0%	N/A	25.78%	N/A	N/A
Closed	MIP	DB	MIP 7%	PHF	7.00%	2.00%	N/A	N/A	25.27%	2.00%	N/A
Closed	MIP	DC	DC Conv	Subsidy	N/A	N/A	3.0%	0.00%	21.47%	N/A	4.00%
Closed	MIP	DC	DC Conv	PHF	N/A	2.00%	N/A	0.00%	20.96%	2.00%	4.00%
Closed	Pnsn +	Hybrid	Pnsn +	Subsidy	3-6.40%	N/A	3.0%	2.00%	24.70%	N/A	1.00%
Open	Pnsn +	Hybrid	Pnsn +	PHF	3-6.40%	2.00%	N/A	2.00%	24.19%	2.00%	1.00%
Open	DC	DC	DC	PHF	N/A	2.00%	N/A	6.00%	20.96%	2.00%	3.00%

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

Basis of Accounting and Presentation

The System's financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System. The reserves are described below and details are provided in the supporting schedules.

GASB Statement No. 67, which was adopted during the year ended September 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information.

NOTES TO FINANCIAL STATEMENTS

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

Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances.

Reserves

Reserve for Employee Contributions – This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Employer Contributions representing unclaimed funds.

Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. At September 30, 2014, the balance in this reserve was \$1.5 billion.

Reserve for Pension Plus Employee Contributions – This reserve represents active member contributions and interest less amounts transferred to the Reserve for Pension Plus Retired Benefit Payments for regular retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for pension Plus Employer Contributions representing unclaimed funds. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was \$59.9 million.

Reserve for Member Investment Plan – This reserve represents MIP contributions and interest less refunds and transfers to the Reserve for Retired Benefit Payments. At September 30, 2014, the balance in this reserve was \$4.7 billion.

Reserve for Employer Contributions – This reserve represents all reporting unit contributions, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually. Amounts are transferred annually to the Reserve for Retired Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was \$25.8 billion.

Reserve for Pension Plus Employer Contributions – This reserve represents all reporting unit contributions for Pension Plus members, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually at a rate of 7%. Amounts are transferred annually to the Reserve for Retired pension Plus Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was \$55.5 million.

Reserve for Retired Benefit Payments – This reserve represents payments of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was \$44.6 billion.

NOTES TO FINANCIAL STATEMENTS

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

Reserve for Retired Pension Plus Benefit Payments – This reserve represents payments of future retirement benefits to current Pension Plus retirees. At retirement, a member’s accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for pension Plus Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. Currently, there are no participants qualified to retire under this program. At September 30, 2014, the balance in this reserve was \$0.

Reserve for Undistributed Investment Income – This reserve represents all investment earnings. Interest is transferred annually to the other reserves. Administrative expenses of the System are paid from the Reserve for Administrative Expenses, which is credited with amounts from the Reserve for Undistributed Investment Income to cover the expenses. For ease of reporting and understanding, the two reserves are presented as one reserve in the supporting schedules, Public Act 143 of 1997 established a stabilization subaccount within the Reserve for Undistributed Investment Income to which any over funding is credited. As of September 30, 2014, the balance in the subaccount was zero. At September 30, 2014, the balance in this reserve was \$18.6 billion.

Reserve for Health (OPEB) Related Benefits – This reserve is credited with employee and employer contributions for retirees’ health, dental, and vision benefits. Starting in fiscal year 2013, the employer contribution is based on a prefunded basis and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. In addition, in fiscal year 2014, federal funding for Medicare Part D and Employer Group Waiver Plan (EGWP) was paid directly to a third party vendor. The third party vendor uses the EGWP funding for any claims submitted and bills the system for any remaining claims outstanding. Premiums for health, dental and vision benefits are paid from this reserve. At September 30, 2014, the balance in this reserve was \$3.5 billion.

Reporting Entity

The System is a pension and other employee benefit trust fund of the State. As such, the System is considered part of the State and is included in the State’s Comprehensive Annual Financial Report as a pension and other employee benefit trust fund. The System and its Board are not financially accountable for any other entities or other organizations. Accordingly, the System is the only entity included in this financial report.

Benefit Protection

Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an “antialienation” clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

NOTES TO FINANCIAL STATEMENTS

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

Fair Value of Investments

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net asset value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

Investment Income

Dividend and interest income is recognized on the accrual basis. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

Costs of Administering the System

Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the State's general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are financed by undistributed investment income of the System.

Property and Equipment

Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds \$5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Other Postemployment Benefit Plan Fiduciary Net Position. Such assets are depreciated on a straight-line basis over 10 years. As of September 30, 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the System since that date.

Related Party Transactions

Leases and Services – The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The schedule below summarizes costs incurred by the System for such services.

Cash – At September 30, 2014, the System had \$246.7 million in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to (\$0.6) thousand for the year ended September 30, 2014.

NOTES TO FINANCIAL STATEMENTS

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

C. CONTRIBUTIONS AND FUNDING STATUS.

The majority of the members currently participate on a contributory basis, as described above under "Benefits Provided". Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of the September 30, 2014 valuation will be amortized over a 22 year period for the 2014 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2014.

Investment Income

Benefit Structure	Pension Contribution Rates	
	Member	Employer
Basic	0.0 - 4.0%	18.34 - 19.61%
Member Investment Plan	3.0 - 7.0%	18.34 - 19.61%
Pension Plus	3.0 - 6.4%	18.11%
Defined Contribution	0.0	15.44 - 16.61%

The system may reconcile with actuarial requirements annually. If the system reconciles in a year, any funding excess or deficiency for pension benefits is smoothed over a maximum of 5 years, with at least one-fifth (20%) of the funding excess or deficiency included in the subsequent year's contribution. This payment is not recognized as a payable or receivable in the accounting records. If the System does not reconcile in a year, any funding excess or deficiency for pension benefits is accounted for in subsequent required contributions over the remaining amortization period. For fiscal year 2014, the System did not reconcile.

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System's members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 1998, and payments began in fiscal year 1999.

NOTES TO FINANCIAL STATEMENTS

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

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from members' paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2014, there were 16,503 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2014. The average remaining length of a contract was approximately 6.0 years for 2014. The short-term receivable was \$29.7 million and the discounted long-term receivable was \$83.6 million at September 30, 2014.

D. NET PENSION LIABILITY – NON-UNIVERSITY.

Measurement of the MPSERS Net Pension Liability

The Plan's net pension liability is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement).

MPSERS (Plan) Net Pension Liability – Non-University

As of September 30, 2014

Total pension Liability	\$ 65,160,887,182
Plan Fiduciary net position	<u>43,134,384,072</u>
Net Pension Liability	<u>\$ 22,026,503,110</u>
Plan Fiduciary net Position as a Percentage of Total Pension Liability	66.20%
Net pension Liability as a Percentage of Covered-Employee Payroll	250.11%

Year 1 MPSERS GASB 68 implementation recognizes a 0.00% change in the reporting unit's proportionate share between beginning net pension liability and ending net pension liability.

MPSERS (Plan) Net Pension Liability – Non-University

As of October 1, 2013

Total pension Liability	\$ 62,859,499,994
Plan Fiduciary net position	<u>39,427,686,072</u>
Net Pension Liability	<u>\$ 23,431,813,922</u>

NOTES TO FINANCIAL STATEMENTS

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

Proportionate Share of Reporting Unit's Net Pension Liability

At September 30, 2014, the Reporting Unit reported a liability of \$8,984,285 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The Reporting Unit's proportionate share of the net pension liability was based on statutorily required contributions in relation to all reporting units' statutorily required contributions for the measurement period. At September 30, 2014, the Reporting Unit's proportionate share percent was 0.04079% percent.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	4.8%
% Alternative Investment Pools	18.0%	8.5%
International Equity	16.0%	6.1%
Fixed Income Pools	10.5%	1.5%
Real Estate and Infrastructure Pools	10.0%	5.3%
Absolute Return Pools	15.5%	6.3%
Short Term Investment Pools	2.0%	(0.2)%
TOTAL	<u>100.0%</u>	

*Long Term rate of return does not include 2.5% inflation

NOTES TO FINANCIAL STATEMENTS

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

Rate of Return

For the fiscal year ended September 30, 2014, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 12.58%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

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

Sensitivity of the Net pension Liability to Changes in the Discount Rate

As required by GASB Statement No. 68, the following presents the reporting unit's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the reporting unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower of 1 percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid)*	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)*	1% Increase (Non-Hybrid/Hybrid)*
7.0%/6.0%	8.0%/7.0%	9.0%/8.0%
\$ 11,844,997	\$ 8,984,285	\$ 6,574,092

Timing of the Valuation

An actuarial valuation to determine the total pension liability is required to be performed every year. If the actuarial valuation is not calculated as of the plan's fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the pension plan's fiscal year end.

The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures.

Actuarial Valuations and Assumptions

Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

NOTES TO FINANCIAL STATEMENTS

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

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Actuarial Assumptions

Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid)	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 – 12.3%, including wage inflation at 3.5%
Cost-of-Living pension Adjustments:	3% Annual Non-compound for MIP Members
Healthcare Cost Trend Rate:	8.5% Year 1 graded to 3.5% year 12

Additional information as of the latest actuarial valuation follows:

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

Notes

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.8457.
- Recognition period for assets in years is 5.000.
- Full actuarial assumptions are available in the 2014 MPSERS Comprehensive Annual Financial Report.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

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

E. PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS – NON-UNIVERSITY.

For the year ended June 30, 2015, the Reporting Unit recognized total pension expense of \$727,751. At June 30, 2015, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	331,501	-
Net difference between projected and actual earnings on pension plan investments	-	993,216
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	-	-
Reporting Unit contributions subsequent to the measurement date	<u>581,934</u>	<u> </u>
Total	<u>\$ 913,435</u>	<u>\$ 993,216</u>

*This amount, reported as deferred outflows of resources related to pensions resulting from Reporting Unit contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Each reporting unit will provide this information.

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

**Deferred (Inflows) and Deferred Outflows of Resources by Year
(to Be Recognized in Future Pension Expenses)**

Year Ending June 30	<u>Amount:</u>
2015	\$162,104
2016	\$162,104
2017	\$162,104
2018	\$175,403

Note: This table represents page 157 of the GASB 68 Implementation Guide.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 9--INTERFUND TRANSFERS.

The Special Education transferred \$350,101 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.

Alpena-Montmorency-Alcona Educational Service District

NOTES TO FINANCIAL STATEMENTS

NOTE 12—CHANGE IN ACCOUNTING PRINCIPLE.

The financial statements have been restated to incorporate the requirements of Governmental Accounting Standards Board (GASB) Statement #68, *Accounting and Financial Reporting for Pensions* – as follows:

Beginning net position as previously reported at July 1, 2014	\$ 5,863,213
Change in accounting principle:	
Net pension liability (at measurement date of 9/30/14)	(8,984,285)
Deferred inflows and outflows between measurement date and reporting date of pension plan	(79,781)
Net change in pension expense	(2,497)
Net change in accounting principle	<u>(9,066,563)</u>
Net position as restated, July 1, 2014	<u>\$ (3,203,350)</u>

NOTE 13--SUBSEQUENT EVENTS.

Management has evaluated subsequent events through October 21, 2015, 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, 2015

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local sources	\$ 427,144	\$ 419,194	\$ 424,236	\$ 5,042
State sources	1,964,540	2,401,084	1,704,106	(696,978)
Federal sources	18,000	24,789	24,822	33
Incoming transfers	421,822	454,269	459,330	5,061
Total revenues	<u>2,831,506</u>	<u>3,299,336</u>	<u>2,612,494</u>	<u>(686,842)</u>
EXPENDITURES				
Instructional Services				
Instructional services	311,596	359,910	329,542	30,368
Great Start grant	212,324	247,356	134,620	112,736
Math/Science grant	66,846	62,842	48,412	14,430
NCLB (ECIA) /REAP grants	3,000	5,252	5,252	-
Great Start readiness	1,249,375	1,628,817	1,062,275	566,542
	<u>1,843,141</u>	<u>2,304,177</u>	<u>1,580,101</u>	<u>724,076</u>
Administrative and Support Services				
Leadership / governance	393,179	391,728	378,550	13,178
Business / compliance	344,735	357,973	345,075	12,898
Operation and maintenance	78,568	78,972	71,343	7,629
Technology services	86,000	67,131	50,510	16,621
Outgoing transfers	-	-	-	-
	<u>902,482</u>	<u>895,804</u>	<u>845,478</u>	<u>50,326</u>
Total expenditures	<u>2,745,623</u>	<u>3,199,981</u>	<u>2,425,579</u>	<u>774,402</u>
CURRENT CHANGE IN FUND BALANCE	85,883	99,355	186,915	87,560
FUND BALANCES, beginning of the year	<u>611,455</u>	<u>693,133</u>	<u>693,133</u>	<u>-</u>
FUND BALANCES, end of the year	<u>\$ 697,338</u>	<u>\$ 792,488</u>	<u>\$ 880,048</u>	<u>\$ 87,560</u>

Alpena-Montmorency-Alcona Educational Service District

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

Year ended June 30, 2015

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local sources	\$ 4,105,068	\$ 4,244,736	\$ 4,134,740	\$ (109,996)
State sources	1,590,300	1,498,795	1,446,132	(52,663)
Federal sources	1,721,120	1,707,910	1,511,378	(196,532)
Incoming transfers / other	14,100	15,585	20,039	4,454
Total revenues	<u>7,430,588</u>	<u>7,467,026</u>	<u>7,112,289</u>	<u>(354,737)</u>
EXPENDITURES				
Direct Instruction				
Pied Piper - MoCI	471,542	431,803	420,813	10,990
Pied Piper - SCI	417,198	481,566	471,110	10,456
ECDD Classroom	189,309	201,408	198,275	3,133
	<u>1,078,049</u>	<u>1,114,777</u>	<u>1,090,198</u>	<u>24,579</u>
Instructional Support				
Psychological services	471,932	762,437	582,570	179,867
Hearing impaired	30,500	-	-	-
Learning disabilities	220,121	230,780	223,695	7,085
Mentally impaired	124,672	95,062	94,707	355
Autistic impaired	129,371	129,371	127,343	2,028
Speech therapy	615,775	639,671	639,967	(296)
Social work	96,727	22,931	17,990	4,941
Early Intervening	326,516	316,665	299,038	17,627
Occupational therapy	133,215	140,513	133,013	7,500
Physical therapy	60,500	68,545	64,090	4,455
Regional MIBLSI	-	141,274	127,625	13,649
Improvement of instruction	25,738	28,716	16,396	12,320
Vision Consultant	20,000	17,180	13,562	3,618
ECDD Consultant	108,322	168,141	103,302	64,839
Early on consultant	72,077	62,772	52,742	10,030
Emotionally impaired	237,844	244,518	240,385	4,133
Transition services	140,868	140,300	138,665	1,635
	<u>2,814,178</u>	<u>3,208,876</u>	<u>2,875,090</u>	<u>333,786</u>
Administrative				
Planning, monitoring, data collection	698,992	774,240	755,630	18,610
Board of education	31,200	22,000	15,350	6,650
	<u>730,192</u>	<u>796,240</u>	<u>770,980</u>	<u>25,260</u>

Alpena-Montmorency-Alcona Educational Service District

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

Year ended June 30, 2015

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
Other Costs				
Operation and maintenance	\$ 191,556	\$ 146,932	\$ 134,851	\$ 12,081
Capital outlay	60,000	15,000	-	15,000
Local P.A.C.	750	500	79	421
Pupil transportation	395,345	310,245	297,153	13,092
Outgoing transfers / other	1,845,622	1,829,723	1,814,567	15,156
	<u>2,493,273</u>	<u>2,302,400</u>	<u>2,246,650</u>	<u>55,750</u>
Total expenditures	<u>7,115,692</u>	<u>7,422,293</u>	<u>6,982,918</u>	<u>439,375</u>
CURRENT CHANGE IN FUND BALANCE	314,896	44,733	129,371	84,638
FUND BALANCES , beginning of the year	<u>3,759,254</u>	<u>3,885,073</u>	<u>3,885,073</u>	<u>-</u>
FUND BALANCES , end of the year	<u>\$ 4,074,150</u>	<u>\$ 3,929,806</u>	<u>\$ 4,014,444</u>	<u>\$ 84,638</u>

Alpena-Montmorency-Alcona Educational Service District

Required Supplemental Information
Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability

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

	<u>2014</u>
A. Reporting unit's proportion of net pension liability (%)	0.04079%
B. Reporting unit's proportionate share of net pension liability	\$ 8,984,285
C. Reporting unit's covered-employee payroll	\$ 349,121
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	3.89%
E. Plan fiduciary net position as a percentage of total pension liability	66.20%

Notes to Required Supplementary Information for the Year Ended June 30, 2013

Changes in benefit terms: There were no changes of benefit terms in 2013.

Changes in benefit assumptions: There were no changes of benefit assumptions in 2013.

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

Alpena-Montmorency-Alcona Educational Service District

**Required Supplemental Information
Schedule of the Reporting Unit's Contributions**

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

	<u>2015</u>
A. Statutorily required contributions	\$ 732,077
B. Contributions in relation to statutorily required contributions*	<u>\$ 732,341</u>
C. Contribution deficiency (excess)	<u>\$ (264)</u>
D. Reporting unit's covered-employee payroll	\$ 3,337,124
E. Contributions as a percentage of covered-employee payroll	21.95%

*Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to MPSERS, which may differ from the statutorily required contributions.

Notes to Required Supplementary Information for the Year Ended June 30, 2013

Changes in benefit terms: There were no changes of benefit terms in 2013.

Changes in benefit assumptions: There were no changes of benefit assumptions in 2013.

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

OTHER SUPPLEMENTAL INFORMATION

INDIVIDUAL FUND STATEMENTS

Alpena-Montmorency-Alcona Educational Service District

**GENERAL FUND
BALANCE SHEET**

	June 30	
	2015	2014
ASSETS		
Cash and cash equivalents	\$ 102	\$ 84
Taxes receivable	8,529	9,665
Accounts receivable	12,752	10,935
Due from other funds	379,773	-
Due from other governmental units	360,805	252,096
Interest receivable on investments and deposits	1,991	1,386
Investments	975,749	1,056,866
Prepaid expenses	26,742	8,173
Total assets	<u>\$ 1,766,443</u>	<u>\$ 1,339,205</u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 112,200	\$ 100,589
Due to other funds	-	32,102
Due to other governmental units	52,410	53,411
Accrued expenditures	4,846	11,073
Salaries payable	13,245	32,100
Unearned revenue	703,694	416,797
Total liabilities	<u>886,395</u>	<u>646,072</u>
Fund Balances		
Nonspendable	26,742	8,173
Unassigned	853,306	684,960
Total fund balances	<u>880,048</u>	<u>693,133</u>
Total liabilities and fund balances	<u>\$ 1,766,443</u>	<u>\$ 1,339,205</u>

Alpena-Montmorency-Alcona Educational Service District

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

	Year ended June 30		
	2015 Final Budget	2015 Actual	2014 Actual
REVENUES			
LOCAL SOURCES			
Property tax levy	\$ 397,994	\$ 399,916	\$ 403,819
Penalties and interest on delinquent taxes	550	201	906
Revenue in lieu of taxes	2,600	2,398	2,699
Tuition - Camp Wilderness	1,800	1,800	2,900
Earnings on investments and deposits	4,500	4,464	4,954
Conference fees	1,000	1,010	1,115
Rental of facility	-	-	100
Private sources (contributions)	-	-	900
USF reimbursement	9,000	12,718	8,408
Miscellaneous	1,750	1,729	2,039
Total local sources	<u>419,194</u>	<u>424,236</u>	<u>427,840</u>
STATE SOURCES			
State aid			
Unrestricted	379,984	380,407	363,719
Restricted	2,012,001	1,319,600	1,057,597
Other	9,099	4,099	4,118
Total state source	<u>2,401,084</u>	<u>1,704,106</u>	<u>1,425,434</u>
FEDERAL SOURCES			
R.E.A.P.	-	-	15,383
Teaching American History	-	-	1,253
Child & Adult Food Program	13,000	13,033	13,826
Title I, Assistance	5,687	5,687	-
Title II, Part D, Educational Technology	2,102	2,102	898
Title II, Wayne RESA	4,000	4,000	-
Total federal sources	<u>24,789</u>	<u>24,822</u>	<u>31,360</u>
INTERDISTRICT SOURCES			
Other school districts	104,269	104,304	85,795
Total interdistrict sources	<u>104,269</u>	<u>104,304</u>	<u>85,795</u>
OTHER SOURCES			
Reimbursements and refunds	-	4,925	15,119
Total other sources	<u>-</u>	<u>4,925</u>	<u>15,119</u>
Total revenues	<u>2,949,336</u>	<u>2,262,393</u>	<u>1,985,548</u>

Alpena-Montmorency-Alcona Educational Service District

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

	Year ended June 30		
	2015 Final Budget	2015 Actual	2014 Actual
EXPENDITURES			
INSTRUCTION			
ELEMENTARY			
Supplies and materials	\$ -	\$ 27	\$ 129
	-	27	129
PRE-SCHOOL			
Purchased services	875,096	541,571	427,109
Supplies and materials	68,839	35,294	60,130
Other	8,929	5,765	2,326
Outgoing transfers	53,541	70,529	45,838
	1,006,405	653,159	535,403
SUMMER SCHOOL			
Supplies and materials	-	-	900
	-	-	900
Total instruction	1,006,405	653,186	536,432
SUPPORTING SERVICES			
PUPIL SERVICES			
GUIDANCE SERVICES			
Salaries	5,498	4,528	9,901
Employee benefits	2,436	2,129	5,122
Purchased services	11,643	2,354	2,105
Supplies and materials	5,150	3,694	-
	24,727	12,705	17,128
Total pupil services	24,727	12,705	17,128
IMPROVEMENT OF INSTRUCTION			
Salaries	200,106	195,431	272,634
Employee benefits	127,559	121,934	176,516
Purchased services	77,038	31,807	20,764
Supplies and materials	8,602	8,201	6,668
Other	1,035	1,035	1,250
Outgoing transfers	2,500	48	-
	416,840	358,456	477,832

Alpena-Montmorency-Alcona Educational Service District

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

	Year ended June 30		
	2015 Final Budget	2015 Actual	2014 Actual
EXPENDITURES (CONTINUED)			
INSTRUCTIONAL STAFF SERVICES			
SUPERVISION/DIRECTION OF INSTRUCTIONAL STAFF			
Salaries	\$ 140,336	\$ 75,069	\$ 51,944
Employee benefits	79,543	41,967	26,747
Purchased services	47,146	25,038	1,853
Supplies and materials	3,193	1,171	648
	<u>270,218</u>	<u>143,245</u>	<u>81,192</u>
OTHER INSTRUCTIONAL STAFF SERVICES			
Salaries	-	-	460
Employee benefits	-	-	256
	<u>-</u>	<u>-</u>	<u>716</u>
Total instructional staff services	<u>687,058</u>	<u>501,701</u>	<u>559,740</u>
GENERAL ADMINISTRATION			
BOARD OF EDUCATION			
Salaries	3,500	3,280	2,463
Employee benefits	268	251	189
Purchased services	43,190	36,796	34,564
Supplies and materials	2,150	1,674	1,699
Other	9,500	9,406	8,887
	<u>58,608</u>	<u>51,407</u>	<u>47,802</u>
EXECUTIVE ADMINISTRATION			
Salaries	195,915	195,814	227,187
Employee benefits	117,321	115,119	126,920
Purchased services	4,500	3,593	5,157
Supplies and materials	1,100	994	1,651
Other	9,794	9,282	8,751
	<u>328,630</u>	<u>324,802</u>	<u>369,666</u>
OFFICE OF THE PRINCIPAL			
Salaries	1,898	1,898	-
Employee benefits	883	883	-
	<u>2,781</u>	<u>2,781</u>	<u>-</u>
Total general administration	<u>390,019</u>	<u>378,990</u>	<u>417,468</u>

Alpena-Montmorency-Alcona Educational Service District

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

	Year ended June 30		
	2015 Final Budget	2015 Actual	2014 Actual
EXPENDITURES (CONTINUED)			
BUSINESS SERVICES			
FISCAL SERVICES			
Salaries	\$ 242,337	\$ 227,556	\$ 217,518
Employee benefits	137,610	127,574	123,036
Purchased services	27,000	19,774	12,907
Supplies and materials	2,120	1,449	2,169
Other	2,106	1,870	1,943
	<u>411,173</u>	<u>378,223</u>	<u>357,573</u>
OTHER BUSINESS SERVICES			
Purchased services	5,628	2,962	1,050
Other	2,000	516	2,007
	<u>7,628</u>	<u>3,478</u>	<u>3,057</u>
Total business services	<u>418,801</u>	<u>381,701</u>	<u>360,630</u>
OPERATIONS AND MAINTENANCE			
OPERATIONS BUILDINGS SERVICES			
Salaries	1,660	1,468	2,547
Employee benefits	741	551	751
Purchased services	54,118	49,389	40,247
Supplies and materials	22,186	19,366	19,451
	<u>78,705</u>	<u>70,774</u>	<u>62,996</u>
Total operations and maintenance	<u>78,705</u>	<u>70,774</u>	<u>62,996</u>
PUPIL TRANSPORTATION			
PUPIL TRANSPORTATION			
Purchased services	-	-	86
Outgoing transfers	42,600	42,600	-
	<u>42,600</u>	<u>42,600</u>	<u>86</u>
Total pupil transportation	<u>42,600</u>	<u>42,600</u>	<u>86</u>

Alpena-Montmorency-Alcona Educational Service District

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

	Year ended June 30		
	2015 Final Budget	2015 Actual	2014 Actual
EXPENDITURES (CONTINUED)			
CENTRAL SERVICES			
PLANNING, RESEARCH, DEVELOPMENT AND EVALUATION			
Purchased services	\$ 2,375	\$ 2,375	\$ 2,353
	<u>2,375</u>	<u>2,375</u>	<u>2,353</u>
COMMUNICATION SERVICES			
Purchased services	15,512	5,865	2,637
	<u>15,512</u>	<u>5,865</u>	<u>2,637</u>
STAFF/PERSONNEL SERVICES			
Purchased services	23,732	19,836	2,134
Supplies and materials	162	162	-
	<u>23,894</u>	<u>19,998</u>	<u>2,134</u>
INFORMATION MANAGEMENT SERVICES			
Salaries	-	-	2,346
Employee benefits	-	-	886
Purchased services	56,952	48,969	14,619
Supplies and materials	6,665	5,323	1,753
Capital outlay	10,000	-	13,478
Outgoing transfer	32,131	32,131	25,942
	<u>105,748</u>	<u>86,423</u>	<u>59,024</u>
Total central services	<u>147,529</u>	<u>114,661</u>	<u>66,148</u>
Total supporting services	<u>1,789,439</u>	<u>1,503,132</u>	<u>1,484,196</u>
COMMUNITY SERVICES			
COMMUNITY SERVICES DIRECTION			
Purchased services	45,291	21,803	-
Supplies and materials	839	251	-
Other	3,000	355	-
	<u>49,130</u>	<u>22,409</u>	<u>-</u>
COMMUNITY ACTIVITIES			
Supplies and materials	8,969	6,093	3,675
Other	4,050	1,974	2,361
	<u>13,019</u>	<u>8,067</u>	<u>6,036</u>

Alpena-Montmorency-Alcona Educational Service District

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

	Year ended June 30		
	2015 Final Budget	2015 Actual	2014 Actual
EXPENDITURES (CONTINUED)			
CUSTODY AND CARE OF CHILDREN			
Purchased services	\$ 1,000	\$ 71	\$ -
	<u>1,000</u>	<u>71</u>	<u>-</u>
OTHER COMMUNITY SERVICES			
Purchased services	3,600	310	-
Supplies and materials	1,220	917	-
	<u>4,820</u>	<u>1,227</u>	<u>-</u>
Total community services	<u>67,969</u>	<u>31,774</u>	<u>6,036</u>
PAYMENTS TO NOT-FOR-PROFIT ENTITIES			
Payments to not-for-profit entities	<u>278,712</u>	<u>234,519</u>	<u>259,082</u>
Total payments to not-for-profit entities	<u>278,712</u>	<u>234,519</u>	<u>259,082</u>
CAPITAL OUTLAY			
BUILDING IMPROVEMENTS SERVICES			
Capital outlay	<u>56,255</u>	<u>2,968</u>	<u>-</u>
	<u>56,255</u>	<u>2,968</u>	<u>-</u>
Total capital outlay	<u>56,255</u>	<u>2,968</u>	<u>-</u>
Total expenditures	<u>3,198,780</u>	<u>2,425,579</u>	<u>2,285,746</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES			
	<u>(249,444)</u>	<u>(163,186)</u>	<u>(300,198)</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	350,000	350,101	363,947
Transfers to other funds	-	-	-
	<u>350,000</u>	<u>350,101</u>	<u>363,947</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES			
	100,556	186,915	63,749
FUND BALANCES, beginning of the year	<u>693,133</u>	<u>693,133</u>	<u>629,384</u>
FUND BALANCES, end of the year	<u>\$ 793,689</u>	<u>\$ 880,048</u>	<u>\$ 693,133</u>

Alpena-Montmorency-Alcona Educational Service District

**SPECIAL EDUCATION FUND
BALANCE SHEET**

	June 30	
	2015	2014
ASSETS		
Cash and cash equivalents	\$ 397	\$ 357
Taxes receivable	77,166	88,387
Accounts receivable	229	4,133
Due from other funds	-	32,102
Due from other governmental units	559,713	571,689
Interest receivable on investments and deposits	8,506	3,742
Investments	4,219,977	3,730,339
Prepaid expenses	25,422	24,244
	<u>4,891,410</u>	<u>4,454,993</u>
Total assets	<u>\$ 4,891,410</u>	<u>\$ 4,454,993</u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 7,461	\$ 10,960
Due to other funds	379,773	-
Due to other governmental units	15,362	52,723
Accrued expenditures	166,728	157,694
Salaries payable	307,642	347,660
Unearned revenue	-	883
	<u>876,966</u>	<u>569,920</u>
Fund Balances		
Nonspendable	25,422	24,244
Restricted	3,989,022	3,860,829
	<u>4,014,444</u>	<u>3,885,073</u>
Total fund equity	<u>4,014,444</u>	<u>3,885,073</u>
Total liabilities and equity	<u>\$ 4,891,410</u>	<u>\$ 4,454,993</u>

Alpena-Montmorency-Alcona Educational Service District

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

	Year ended June 30		
	2015 Final Budget	2015 Actual	2014 Actual
REVENUES			
LOCAL SOURCES			
Property taxes	\$ 3,673,492	\$ 3,691,240	\$ 3,727,703
Penalties and interest on delinquent taxes	5,500	1,841	8,379
Revenue in lieu of taxes	23,000	22,131	24,892
Earnings on investments and deposits	21,000	22,301	14,942
Medicaid fee for service	394,023	394,023	479,606
Miscellaneous	2,350	3,204	2,870
Total local source	<u>4,119,365</u>	<u>4,134,740</u>	<u>4,258,392</u>
STATE SOURCES			
State aid			
Restricted	1,431,521	1,429,632	1,477,156
Vocational rehabilitation	16,500	16,500	16,500
Total state source	<u>1,448,021</u>	<u>1,446,132</u>	<u>1,493,656</u>
FEDERAL SOURCES			
P.L. 94-142 Special Education	1,515,369	1,229,498	1,418,626
P.L. 94-142 Special Education preschool	34,504	34,504	34,612
P.L. 99.457 Infants and Toddlers	119,807	108,945	77,915
MIBLSI-MTSS	883	883	6,743
MIBLSI-MISD	141,274	112,330	-
Medicaid - Outreach	25,218	25,218	32,640
Total federal source	<u>1,837,055</u>	<u>1,511,378</u>	<u>1,570,536</u>
INTERDISTRICT SOURCES			
Received from other public schools	19,995	20,039	14,478
Total interdistrict source	<u>19,995</u>	<u>20,039</u>	<u>14,478</u>
OTHER SOURCES			
Reimbursements and refunds	-	-	117
Total other source	<u>-</u>	<u>-</u>	<u>117</u>
Total revenues	<u>7,424,436</u>	<u>7,112,289</u>	<u>7,337,179</u>

Alpena-Montmorency-Alcona Educational Service District

SPECIAL EDUCATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year ended June 30		
	2015 Final Budget	2015 Actual	2014 Actual
EXPENDITURES			
INSTRUCTION			
SPECIAL EDUCATION			
Salaries	\$ 601,545	\$ 594,250	\$ 701,087
Employee benefits	475,354	464,101	534,709
Purchased services	21,428	19,422	1,194
Supplies and materials	15,450	11,220	11,733
Capital outlay	1,000	1,205	-
	<u>1,114,777</u>	<u>1,090,198</u>	<u>1,248,723</u>
Total instruction	<u>1,114,777</u>	<u>1,090,198</u>	<u>1,248,723</u>
SUPPORTING SERVICES			
PUPIL SERVICES			
HEALTH SERVICES			
Salaries	85,004	81,772	80,272
Employee benefits	51,534	49,419	46,449
Purchased services	70,000	64,938	63,834
Supplies and materials	2,295	974	1,134
Other	225	-	225
	<u>209,058</u>	<u>197,103</u>	<u>191,914</u>
PSYCHOLOGICAL SERVICES			
Salaries	477,031	364,165	277,109
Employee benefits	272,781	205,106	152,053
Purchased services	4,500	4,104	3,955
Supplies and materials	8,125	9,195	6,787
Capital outlay	-	-	629
	<u>762,437</u>	<u>582,570</u>	<u>440,533</u>
SPEECH PATHOLOGY			
Salaries	389,514	392,432	483,560
Employee benefits	232,038	231,381	263,219
Purchased services	6,280	5,658	6,788
Supplies and materials	5,750	4,733	3,263
	<u>633,582</u>	<u>634,204</u>	<u>756,830</u>

Alpena-Montmorency-Alcona Educational Service District

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

	Year ended June 30		
	2015 Final Budget	2015 Actual	2014 Actual
EXPENDITURES (CONTINUED)			
SOCIAL WORK SERVICES			
Salaries	\$ 16,000	\$ 12,787	\$ 78,753
Employee benefits	6,431	5,203	34,802
Purchased services	-	-	1,961
	<u>22,431</u>	<u>17,990</u>	<u>115,516</u>
TEACHER CONSULTANT			
Salaries	554,453	503,595	531,098
Employee benefits	314,542	286,956	278,312
Purchased services	9,972	6,666	30,824
Supplies and materials	6,085	5,775	587
	<u>885,052</u>	<u>802,992</u>	<u>840,821</u>
Total pupil services	<u>2,512,560</u>	<u>2,234,859</u>	<u>2,345,614</u>
INSTRUCTIONAL SUPPORT			
OTHER PUPIL SUPPORT SERVICES			
Salaries	66,725	66,880	68,291
Employee benefits	58,595	57,405	61,535
Purchased services	14,850	14,380	14,218
Supplies and materials	130	-	-
	<u>140,300</u>	<u>138,665</u>	<u>144,044</u>
IMPROVEMENT OF INSTRUCTION			
Salaries	153,224	151,964	78,762
Employee benefits	94,159	88,145	43,758
Purchased services	175,754	157,464	148,705
Supplies and materials	37,299	33,136	15,337
Other	-	230	-
	<u>460,436</u>	<u>430,939</u>	<u>286,562</u>
SUPERVISION/DIRECTION OF INSTRUCTIONAL STAFF			
Salaries	390,612	382,475	278,656
Employee benefits	249,424	243,070	164,360
Purchased services	74,426	61,652	46,378
Supplies and materials	6,161	5,147	4,271
Capital outlay	6,029	1,028	130
Other	640	545	460
	<u>727,292</u>	<u>693,917</u>	<u>494,255</u>

Alpena-Montmorency-Alcona Educational Service District

SPECIAL EDUCATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year ended June 30		
	2015 Final Budget	2015 Actual	2014 Actual
EXPENDITURES (CONTINUED)			
Total instructional support	\$ 1,328,028	\$ 1,263,521	\$ 924,861
GENERAL ADMINISTRATION			
BOARD OF EDUCATION			
Purchased services	3,300	2,982	2,707
Total general administration	3,300	2,982	2,707
BUSINESS SERVICES			
FISCAL SERVICES			
Purchased services	6,000	4,940	5,364
	6,000	4,940	5,364
OTHER BUSINESS SERVICES			
Purchased services	2,700	2,664	2,697
Other	10,000	4,765	15,857
	12,700	7,429	18,554
Total business services	18,700	12,369	23,918
OPERATION AND MAINTENANCE			
OPERATIONS BUILDINGS SERVICES			
Salaries	33,000	32,199	38,843
Employee benefits	27,900	27,433	31,136
Purchased services	39,550	34,024	30,268
Supplies and materials	43,682	40,128	44,585
Other	2,800	1,067	230
	146,932	134,851	145,062
Total operation and maintenance	146,932	134,851	145,062

Alpena-Montmorency-Alcona Educational Service District

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

	Year ended June 30		
	2015 Final Budget	2015 Actual	2014 Actual
EXPENDITURES (CONTINUED)			
PUPIL TRANSPORTATION			
PUPIL TRANSPORTATION			
Salaries	\$ 8,500	\$ 6,533	\$ 8,011
Employee benefits	5,774	4,976	5,579
Purchased services	264,311	254,841	266,204
Supplies and materials	31,500	30,708	50,974
Other	160	95	39
	<u>310,245</u>	<u>297,153</u>	<u>330,807</u>
Total pupil transportation	<u>310,245</u>	<u>297,153</u>	<u>330,807</u>
CENTRAL SERVICES			
PLANNING AND RESEARCH			
Salaries	25,147	25,147	78,554
Employee benefits	14,125	14,125	37,155
Purchased services	2,284	2,284	804
Supplies and materials	-	-	45
Other	-	-	80
	<u>41,556</u>	<u>41,556</u>	<u>116,638</u>
STAFF/PERSONEL SERVICES			
Purchased services	<u>26,219</u>	<u>12,121</u>	<u>11,218</u>
	<u>26,219</u>	<u>12,121</u>	<u>11,218</u>
INFORMATION MANAGEMENT SERVICES			
Salaries	38,824	38,824	36,976
Employee benefits	21,305	21,226	18,708
Purchased services	12,319	12,379	15,734
Supplies and materials	500	255	
	<u>72,948</u>	<u>72,684</u>	<u>71,418</u>
Total central services	<u>140,723</u>	<u>126,361</u>	<u>199,274</u>
OTHER SUPPORT SERVICES			
Outgoing transfers	<u>5,621</u>	<u>5,349</u>	<u>5,621</u>
	<u>5,621</u>	<u>5,349</u>	<u>5,621</u>
Total other support services	<u>5,621</u>	<u>5,349</u>	<u>5,621</u>
Total supporting services	<u>4,466,109</u>	<u>4,077,445</u>	<u>3,977,864</u>

Alpena-Montmorency-Alcona Educational Service District

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

	Year ended June 30		
	2015 Final Budget	2015 Actual	2014 Actual
EXPENDITURES (CONTINUED)			
COMMUNITY SERVICES			
NON-PUBLIC SCHOOLS PUPILS			
Salaries	\$ 3,739	\$ 3,495	\$ -
Employee benefits	2,350	2,269	-
	<u>6,089</u>	<u>5,764</u>	<u>-</u>
OTHER COMMUNITY SERVICES			
Purchased services	500	78	155
Supplies and materials	215	215	503
	<u>715</u>	<u>293</u>	<u>658</u>
Total community services	<u>6,804</u>	<u>6,057</u>	<u>658</u>
INTERDISTRICT TRANSFERS			
TRANSFERS			
Act 18	1,229,695	1,218,588	1,117,091
Medicaid	231,174	227,617	216,289
Outreach	13,233	12,912	11,150
	<u>1,474,102</u>	<u>1,459,117</u>	<u>1,344,530</u>
Total interdistrict transfers	<u>1,474,102</u>	<u>1,459,117</u>	<u>1,344,530</u>
CAPITAL OUTLAY			
Site Improvements	5,000	-	17,829
Building Improvements	5,000	-	957
	<u>10,000</u>	<u>-</u>	<u>18,786</u>
Total capital outlay	<u>10,000</u>	<u>-</u>	<u>18,786</u>
Total expenditures	<u>7,071,792</u>	<u>6,632,817</u>	<u>6,590,561</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES			
	<u>352,644</u>	<u>479,472</u>	<u>746,618</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	-	-
Transfers to other funds	(350,000)	(350,101)	(363,947)
	<u>(350,000)</u>	<u>(350,101)</u>	<u>(363,947)</u>

Alpena-Montmorency-Alcona Educational Service District

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

	Year ended June 30		
	<u>Actual Final Budget</u>	<u>Actual Actual</u>	<u>Actual Actual</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	2,644	129,371	382,671
FUND BALANCES, beginning of the year	<u>3,502,402</u>	<u>3,885,073</u>	<u>3,502,402</u>
FUND BALANCES, end of the year	<u>\$ 3,505,046</u>	<u>\$ 4,014,444</u>	<u>\$ 3,885,073</u>

Alpena-Montmorency-Alcona Educational Service District

**DEBT SERVICE FUND
BALANCE SHEET**

	June 30	
	<u>2015</u>	<u>2014</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		
	2015 Final Budget	2015 Actual	2014 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>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	<u>\$ 8,452</u>	<u>\$ 20,781</u>
Total assets	<u><u>\$ 8,452</u></u>	<u><u>\$ 20,781</u></u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ -	\$ 2,092
Due to student activities	<u>8,452</u>	<u>18,689</u>
Total liabilities	<u>8,452</u>	<u>20,781</u>
Fund Balances		
Unassigned	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u><u>\$ 8,452</u></u>	<u><u>\$ 20,781</u></u>

Alpena-Montmorency-Alcona Educational Service District

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

	<u>Balances June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances June 30, 2015</u>
STUDENT ACTIVITIES				
Flower Fund	\$ 122	\$ 5,301	\$ 4,015	\$ 1,408
Greenhouse	10,770	11,429	18,005	4,194
Piper Fund	7,155	2,912	7,812	2,255
Living with ASD	454	-	-	454
Circle of Friends	188	-	47	141
	<u>\$ 18,689</u>	<u>\$ 19,642</u>	<u>\$ 29,879</u>	<u>\$ 8,452</u>

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FEDERAL FINANCIAL ASSISTANCE

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**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, 2015, 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 21, 2015, 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 21, 2015

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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, 2015, 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 21, 2015.

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 21, 2015

**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, 2015. 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, 2015.

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 21, 2015

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Alpena-Montmorency-Alcona Educational Service District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended June 30, 2015

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Approved Grant 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-14/15		152010 14-15	\$ 13,033
			<u>13,033</u>
Total U.S. Department of Agriculture			<u>13,033</u>
<u>U.S. Department of Education</u>			
Passed through State of Michigan Department of Education:			
Title I Grants to Local Educational Agencies	84.010		
Title I Regional Assistance Grant 14/15		151570 14-15	5,687
			<u>5,687</u>
Special Education - Grants to States Enhancing Opportunities ESOD	* 84.027		
Idea ESOD Initiated-13/14		140480 EOSD	45,000
Idea ESOD Initiated-14/15		150480 EOSD	45,000
			<u>90,000</u>
Special Education - Grants to States Transition Coordinator	* 84.027		
Idea Transition Coordinator-13/14		140490 TC	50,000
Idea Transition Coordinator-14/15		150490 TC	50,000
			<u>100,000</u>
Special Education - Grants to States Special Ed Flowthrough	* 84.027		
Special education - Flow-through-12/13		130450 12-13	1,368,795
Special education - Flow-through-13/14		140450 13-14	1,334,245
Special education - Flow-through-14/15		150450 14-15	1,337,825
			<u>4,040,865</u>
Special Education - Preschool Grants	* 84.173		
Special Education - Preschool-13/14		140460 13-14	34,612
Special Education - Preschool-14/15		150460 14-15	34,504
			<u>69,116</u>

* - Major Program

(Memo Only) Prior Year Expenditures	Accrued or (Unearned) Revenue at June 30, 2014	Current Year Receipts (Cash Basis)	Current Year Federal Expenditures	Accrued or (Unearned) Revenue at June 30, 2015
\$ -	\$ -	\$ 13,033	\$ 13,033	\$ -
-	-	13,033	13,033	-
-	-	13,033	13,033	-
-	-	2,490	5,687	3,197
-	-	2,490	5,687	3,197
45,000	3,518	3,518	-	-
-	-	42,000	45,000	3,000
45,000	3,518	45,518	45,000	3,000
50,000	5,464	5,464	-	-
-	-	42,770	50,000	7,230
50,000	5,464	48,234	50,000	7,230
1,368,795	202	202	-	-
1,251,701	237,120	319,664	82,544	-
-	-	900,000	1,051,954	151,954
2,620,496	237,322	1,219,866	1,134,498	151,954
34,612	7,664	7,664	-	-
-	-	29,100	34,504	5,404
34,612	7,664	36,764	34,504	5,404

See accompanying notes to schedule of expenditures of federal awards.

Alpena-Montmorency-Alcona Educational Service District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended June 30, 2015

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Approved Grant Award Amount</u>
<u>U.S. Department of Education - (continued)</u>			
Passed through State of Michigan Department of Education:			
Special Education- Grants for Infants and Families	84.181		
Infant and Toddler Formula-12/13		131340 12-13	\$ 63,297
Infant and Toddler Formula-13/14		141340 13-14	67,841
Infant and Toddler Formula-14/15		151340 14-15	66,584
			<u>197,722</u>
Total Passed through Michigan Department of Education			<u>4,503,390</u>
Passed through Macomb ISD			
Special Education- Grants to States	* 84.027		
Michigan's Integrated Behavior and Learning Support Initiative			
MTSS		MIBLSI-MTSS	3,541
Regional MIBLSI		MIBLSI-MTSS	141,274
			<u>144,815</u>
Passed through Wayne RESA:			
Title II, Part D Regular - Enhancing Education through Technology	84.318		
PRIME		114240-RDI2	2,000
PRIME		114240-RDI2	1,000
PRIME		114240-RDI2	1,000
			<u>4,000</u>
Passed through Eastern Upper Peninsula ISD:			
Title II, Part D Regular - Enhancing Education through Technology	84.366		
Regional Data Initiatives Continuation		114240-RDI2	3,000
			<u>3,000</u>
Total U.S. Department of Education			<u>4,655,205</u>

* - Major Program

(Memo Only) Prior Year Expenditures	Accrued or (Unearned) Revenue at June 30, 2014	Current Year Receipts (Cash Basis)	Current Year Federal Expenditures	Accrued or (Unearned) Revenue at June 30, 2015
\$ 63,297	\$ 24,743	\$ 24,743	\$ -	\$ -
14,618	14,618	65,218	53,223	2,623
-	-	-	55,722	55,722
<u>77,915</u>	<u>39,361</u>	<u>89,961</u>	<u>108,945</u>	<u>58,345</u>
2,828,023	293,329	1,442,833	1,378,634	229,130
2,658	(883)	-	883	-
-	-	67,507	112,330	44,823
<u>2,658</u>	<u>(883)</u>	<u>67,507</u>	<u>113,213</u>	<u>44,823</u>
-	(2,000)	-	2,000	-
-	(1,000)	-	1,000	-
-	-	1,000	1,000	-
<u>-</u>	<u>(3,000)</u>	<u>1,000</u>	<u>4,000</u>	<u>-</u>
898	(2,102)	-	2,102	-
<u>898</u>	<u>(2,102)</u>	<u>-</u>	<u>2,102</u>	<u>-</u>
2,831,579	287,344	1,511,340	1,497,949	273,953

See accompanying notes to schedule of expenditures of federal awards.

Alpena-Montmorency-Alcona Educational Service District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2015

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Approved Grant 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	\$ 25,218
			<u>25,218</u>
Total U.S. Department of Health and Human Services			<u>25,218</u>
Total Federal Awards			<u>\$ 4,693,456</u>

* - Major Program

<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued or (Unearned) Revenue at June 30, 2014</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Current Year Federal Expenditures</u>	<u>Accrued or (Unearned) Revenue at June 30, 2015</u>
\$ -	\$ -	\$ 25,218	\$ 25,218	\$ -
-	-	25,218	25,218	-
-	-	25,218	25,218	-
<u>\$ 2,831,579</u>	<u>\$ 287,344</u>	<u>\$ 1,549,591</u>	<u>\$ 1,536,200</u>	<u>\$ 273,953</u>

See accompanying notes to schedule of expenditures of federal awards.

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, 2015. 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, 2015 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, 2015, 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, 2015, the Alpena-Montmorency-Alcona Educational Service District expended 90% 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	\$ 24,822
Special Revenue Funds:	
Special Education Fund	<u>1,511,378</u>
Total Federal Revenues	<u>\$ 1,536,200</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 1,536,200</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>\$1,455,866</u>
Current year receipts passed through Michigan Department of Education: U.S. Department of Education	<u>\$1,455,866</u>

NOTE 6--RECEIPTS.

Current year receipts represent cash/payments-in-kind received from Federal sources during the period July 1, 2014 through June 30, 2015.

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

REPORT ON PRIOR AUDIT FINDINGS

For the year ended June 30, 2015

Program

Finding

Questioned
Costs

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, 2015

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

Straley Lamp & Kraenzlein P.C.



Certified Public Accountants

Philip T. Straley, CPA/PFS
Bernard R. Lamp, CPA
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Jeffrey A. Taphouse, CPA
John D. Faulman, CPA
Andrew R. Lamp, CPA
Donald C. Levren

Gordon A. Nethercut, CPA-Retired

AUDIT COMMUNICATIONS

To the Board of Education
Alpena-Montmorency-Alcona Educational Service District
Alpena, Michigan 49707

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 for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letters dated July 7, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Alpena-Montmorency-Alcona Educational Service District are described in Note 1 to the financial statements. As described in Note 8 to the financial statements, the Alpena-Montmorency-Alcona Educational Service District changed accounting policies related to accounting and reporting for pensions by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68 "*Accounting and Financial Reporting for Pensions*" in 2015. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Net Position and Statement of Activities – Governmental Activities, as described in Note 12. We noted no transactions entered into by the Alpena-Montmorency-Alcona Educational Service District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Alpena-Montmorency-Alcona Educational Service District financial statements were:

Management's estimate of the depreciation expense is based on management's assumptions about the useful lives of its fixed assets. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole;

Management's estimate of its pension liability which is based upon actuarial valuations which considers such assumptions as the long-term expected return on plan assets, discount rates, future employee wages, inflation, mortality rates, and cost of living adjustments.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No adjustments were made to the financial statements, or passed but not made, during the audit process.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 21, 2015.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

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

Recent Pronouncements.

The Governmental Accounting Standards Board and Michigan Department of Education, in its continuing process of updating the accounting principles that all governments must adhere to, has issued the following recent pronouncements that will have an impact on the way the Alpena-Montmorency-Alcona Educational Service District maintains its financial records:

- A. GASB Statement No. 68, Accounting and Reporting for Pensions.** This statement establishes new accounting and financial reporting requirements for most governments that provide their employees with pension benefits. Statement No. 68 requires employers report net pension benefits as a liability on the Statement of Net Position. The standard requires immediate recognition of the pension expense, including annual service cost and interest, and the effect of changes in benefit terms on the net pension liability. Cost-sharing employers are required 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 also requires expanded note disclosures and required supplementary information covering the past 10 years for the net pension liability. Statement 68 is effective for fiscal years beginning after June 15, 2014. This statement was adopted by the School District with the June 30, 2015 financial statements.
- B. Summary of Statement No. 72, Fair Value Measurement and Application.** This Statement generally requires investments to be measured at fair value. An *investment* is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) of the investment. At this time, this statement is not expected to impact the School District. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged.
- C. Summary of Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.** The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows

of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

A cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net OPEB liability (of all employers for benefits provided through the OPEB plan) – the collective net OPEB liability. This statement largely mirrors recent changes to pension accounting and reporting and when implemented, this statement is expected to have a significant effect on the School District's entity-wide financial statements. This Statement is effective for fiscal years beginning after June 15, 2017.

Restriction on Use

This report is intended solely for the information and use of the Alpena-Montmorency-Alcona Educational Service District Board of Education, Michigan Department of Education, Management, and others within the governmental unit and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the staff of the Alpena-Montmorency-Alcona Educational Service District for their assistance during the audit.

We commend the School District for its excellent recordkeeping system and appreciate the opportunity to serve the Alpena-Montmorency-Alcona Educational Service District. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

Very truly yours,

Straley Lamp & Kraenzlein P.C.

October 21, 2015