Straley Lamp & Kraenzlein P.C.
Certified Public Accountants

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# COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letters dated July 31, 2018. Professional standards also require that we communicate to you the following information related to our audit.

## Our Responsibilities under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards* and the Uniform Guidance

As stated in our engagement letter dated May 31, 2018, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Alpena-Montmorency-Alcona Educational Service District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the Alpena-Montmorency-Alcona Educational Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the Alpena-Montmorency-Alcona Educational Service District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the Alpena-Montmorency-Alcona Educational Service District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it will not provide a legal determination on the Alpena-Montmorency-Alcona Educational Service District's' compliance with those requirements.

Our responsibility for the supplementary information accompanying the financial statement, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Significant Audit Matters**

*Qualitative Aspects of Accounting Practic*es

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 1 to the financial statements, the Alpena-Montmorency-Alcona Educational Service District changed accounting policies related to recording and disclosing of OPEB by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in 2018. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reporting in the Government-wide financial statements. 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, OPEB liabilities, deferred inflows of resources, and deferred outflows of resources 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, clear, and free from bias.

**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. The adjustments, if any, identified during the audit have been communicated to management and management has posted all adjustments, if required. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. There were no uncorrected misstatements that were more than trivial.

**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 1, 2018.

## 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.

## Emphasis of Matters in Independent Auditor's Report

Our report will include the following emphasis of matter paragraph:

**Adoption of New Accounting Standards.** As described in Note 1 to the financial statements, during the year ended June 30, 2018, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

## Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, Budgetary Comparison Schedules and Schedules of Net Pension Liability and Pension Contributions and Schedule of Net OPEB Liability and OPEB Contributions, which is 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.

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.

## Uniform Guidance – Implementation of Federal Grant Procurement Standards

In May 2017, the federal government granted an additional one-year delay for implementation of the procurement standards under the Uniform Guidance. Procurement standards apply to entities that receive Federal Funding. The grace period extended through December 25, 2017. Therefore, entities with fiscal years beginning on or after December 26, 2017 must have procurement standards, for federal expenditures, that meet the more stringent requirements of 2 CFR 200.317 to 326. For school districts, it will apply to fiscal year ending 2019 and therefore, must be in place starting July 1, 2018. It is imperative that your procurement policies – whatever they are documented as – be followed. The Uniform Guidance and the old guidance in the OMB Circulars provide minimum requirements that must be covered by an entity's procurement policies. If an entity's policies are stricter than the federal rules, the entity policies still must be followed. As you adopt new procurement policies, we also recommend that you consider separate policies for federal and non-federal expenditures to ease the administrative burden of certain federal requirements.

Michigan Department of Education has put out sample procedures covering all the required items, including procurement, on their website.

**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:

**Recently Adopted GASB Statements:**

A. **GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB).** 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 Educational Service District's entity-wide financial statements. This Statement is effective for fiscal years beginning after June 15, 2017 (the AMA-ESD June 30, 2018 fiscal year).

B. **GASB Statement No. 86 – Certain Debt Extinguishment Issues.** Statement No. 7, *Advance Refunding's Resulting in Defeasance of Debt*, requires that debt be considered defeased in substance (removed from the balance sheet but not cancelled) when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. This new Statement establishes essentially the same requirements for when a government placed cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt.

   One of the criteria for determining an in-substance defeasance is that the trust hold only monetary assets that are essentially risk-free.

   The requirements of this Statement are effective for reporting periods beginning after June 15, 2017, (the AMA-ESD June 30, 2018 fiscal year). Earlier application is encouraged.

**Upcoming GASB Statements that will impact the AMA-ESD:**

C. **GASB Statement No. 83 – Certain Asset Retirement Obligations.** This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

   This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of their useful lives. This statement does not apply to landfill closure or post-closure costs.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred.

This Statement is effective for reporting periods after June 15, 2018, (the AMA-ESD June 30, 2019 fiscal year).

**D. GASB Statement No. 84 – Fiduciary Activities.** This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, (the AMA-ESD June 30, 2020 fiscal year).

**E. GASB Statement No. 87 – Leases.** The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease receivable as a deferred inflow of resources, thereby enhancing the relevance and consistency of information about government leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

**F. GASB Statement No. 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.** This Statement improves the information that is disclosed in notes to the District's financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities districts should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for the fiscal year ending June 20, 2019.

**G. GASB Statement No. 89 – Accounting for Interest Cost Incurred before the End of a Construction Period.** This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement.

The requirements of this Statement are effective for fiscal year ending June 30, 2021.

**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 1, 2018

# ALPENA-MONTMORENCY-ALCONA
# EDUCATIONAL SERVICE DISTRICT

Audited Financial Statements and
Other Supplementary Financial Information

Year Ended June 30, 2018

**STRALEY LAMP AND KRAENZLEIN P.C.**

**ALPENA – MONTMORENCY – ALCONA**
**EDUCATIONAL SERVICE DISTRICT**
**2118 US 23 South**
**Alpena, Michigan 49707**
**(989) 354-3101**



**INDEPENDENT AUDITORS**........................................................ Straley Lamp & Kraenzlein P.C.

**LEGAL COUNSEL – GENERAL ISSUES**............................................ Thrun Law Firm, P.C.

**LEGAL COUNSEL – SPECIAL EDUCATION ISSUES**..................................Clark Hill, P.L.C.

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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, 2018, 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, 2018 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Adoption of New Accounting Standards*

As described in Note 14 to the financial statements, during the year ended June 30, 2018, the Educational Service District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinions are 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, major funds budgetary comparison schedules, the schedule of the proportionate share of the net pension liability, and the schedule of the pension contributions, schedule of the proportionate share of the net OPEB liability, and the schedule of the OPEB liabilities as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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 other supplemental information as identified in the table of contents is 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is also not a required part of the basic financial statements.

The other supplemental information and the schedule of expenditures of federal awards is 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, other supplemental information and schedule of expenditures of federal awards is 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 1, 2018 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 1, 2018

The following is management's discussion and analysis of the financial position and results of operations for the fiscal year ended June 30, 2018. 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 (MEDIA)
(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
OPEB 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.

These two statements report the Educational Service District's net position and how they have changed. Net position – the difference between assets, deferred outflow of resources and liabilities, and deferred inflow of resources 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, condition of school facilities, student achievement and the safety of the schools to assess the overall health of the 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.

**<u>Reporting the Educational Service District's Most Significant Funds – Fund Financial Statements</u>**

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.

**<u>The Educational Service District as Trustee – Reporting the Educational Service District's Fiduciary Responsibilities</u>**

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.

**<u>The Educational Service District as a Whole</u>**

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, 2018 and 2017:

TABLE 1

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| Current and other assets | $ 7,358,356 | $ 7,344,539 |
| Property and equipment | 1,084,132 | 1,098,944 |
| Total assets | 8,442,488 | 8,443,483 |
| **DEFERRED OUTFLOWS OF RESOURCES** | 3,090,524 | 1,472,019 |
| **LIABILITIES** | | |
| Current liabilities | 1,740,429 | 1,772,498 |
| Long-term liabilities | 15,071,557 | 10,201,092 |
| Total liabilities | 16,811,986 | 11,973,590 |
| **DEFERRED INFLOWS OF RESOURCES** | 1,266,061 | 473,971 |
| **NET POSITION** | | |
| Invested in capital assets | 1,084,132 | 1,098,944 |
| Restricted | 4,393,377 | 4,500,081 |
| Unrestricted | (12,022,544) | (12,013,579) |
| Total net position | $ (6,545,035) | $ (6,414,554) |

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 a deficit of $(6,545,035) at June 30, 2018. Capital assets net position of $1,084,132 compares the original cost, less deprecation of the Educational Service District's capital assets. Restricted net position consisted of $4,393,377 as restricted for special education purposes. The remaining $(12,022,544) deficit net position was unrestricted.

The negative $(6,545,035) in total available net position of governmental activities represents the *accumulated* results of all past years' operations. The net deficiency position of the Educational Service District has grown significantly from a year ago, directly as a result of the adoption of GASB Statement Number 75 and the recognition of long-term other post-employment benefits liabilities (OPEB). The adoption of GASB 75 and the impact of the statement are explored in more depth in Note 11. 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 2018 as compared to 2017.

TABLE 2

| | 2018 | 2017 |
|---|---|---|
| **REVENUE** | | |
| Program revenue: | | |
| Charges for services | $ 450,289 | $ 372,640 |
| Operating grants | 2,216,226 | 1,969,305 |
| General revenue: | | |
| Property taxes | 4,177,044 | 4,146,028 |
| State aid | 3,502,093 | 3,556,189 |
| Investment earnings | 93,015 | 61,255 |
| Miscellaneous | 12,141 | 18,782 |
| Total revenue | $ 10,450,808 | $ 10,124,199 |
| **FUNCTIONS/PROGRAM EXPENSES** | | |
| Instruction | $ 1,858,489 | $ 1,798,126 |
| Support services | 6,475,972 | 6,330,708 |
| Community services | 136,489 | 117,579 |
| Interdistrict transfers | 1,922,493 | 1,576,838 |
| Payment to not for profit agencies | 48,554 | 31,749 |
| Depreciation (unallocated) | 139,292 | 127,182 |
| Total expenses | 10,581,289 | 9,982,182 |
| **INCREASE IN NET POSITION** | $ (130,481) | $ 142,017 |

As reported in the statement of activities, the cost of all of our governmental activities this year was $10,581,289. Certain activities were partially funded from those who benefited from the programs $450,289, or by other governments and organizations that subsidized certain programs with grants and contributions $2,216,226. The Educational Service District paid for the remaining "public benefit" portion of our governmental activities with $4,177,044 in taxes, $3,502,093 in state aid, $93,015 of investment earnings and with miscellaneous other revenues of $12,141.

The Alpena-Montmorency-Alcona Educational Service District experienced a decrease in net position of $(130,481). During the year, the District had capital additions of $128,311, offset by depreciation expense of $139,292.

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 Educational Service 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 $5,617,927, which is an increase of $45,886 from last year. The primary reason for the increase is additional revenue generated in the General Fund through state aid and the increase in indirect costs.

The General Fund balance available to fund general operations remains strong at $1,185,494, an increase of $147,286 from the prior year. The increase in fund balance can be attributed to additional revenue generated in both state sources and reimbursements/incoming transfers along with a decrease in cost in some staffing positions due to retirements.

The Special Education Fund which is a restricted fund and exists to support Special Education and Early Intervening programs show an excellent fund balance of $4,432,433, a decrease of $(101,400) from the prior year. The decrease in fund balance can be attributed to an increase in support service expenditures including transportation costs and payouts to districts for classroom costs.

## 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, 2017. 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 14, 2018. (A schedule showing the Educational Service District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements).

A large portion of Educational Service District funding is in the form of state and federal grants. It is common to receive notification of grant awards subsequent to the adoption of the original budget. Many grants follow the State's fiscal year and are not awarded until October 1 of each year. Grant awards can vary significantly from original estimates. These grant awards were one of the main reasons to necessitate budget amendments throughout the 2017-2018 fiscal year end.

## Capital Assets and Debt Administration

At June 30, 2018, the Educational Service District had $1,084,132 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 $(14,812) from last year.

TABLE 3

| | 2018 | 2017 |
|---|---|---|
| Assets not being depreciated – Land | $ 152,248 | $ 152,248 |
| Land improvements | 193,504 | 173,514 |
| Building improvements | 2,376,596 | 2,348,032 |
| Office and computer equipment | 909,517 | 844,504 |
| Vehicles | 80,141 | 100,573 |
| Total capital assets | 3,712,006 | 3,618,871 |
| Less accumulated depreciation | (2,627,874) | (2,519,927) |
| Net capital assets | $ 1,084,132 | $ 1,098,944 |

## 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 2018-19 fiscal year budgets. The 2018-19 fiscal year budgets were adopted in June, 2018 based on property valuations and state and federal revenue estimates available at that time. The Educational Service District (ESD) reform legislation requires our constituent Boards of Education to adopt a resolution offering support for, or opposition to (disapproval) the ESD'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 2018-19 fiscal year budgets.

The Educational Service District, like all local governments and schools, has seen a small increase in local property tax revenue attributable to 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 November, 2016 for a ten year millage renewal in the Special Education Fund. This funding is the foundation to provide stability to the Special Education and Early Intervening 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 2018-19 should remain stable compared to previous years. The outlook for federal sources will be stagnant. Once all grants, pupil counts, and state aid calculations are received, state law requires the Educational Service District to amend the budget if actual resources are not sufficient to fund original appropriations.

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

The General Fund expects a decrease in the fund balance in 2018-2019 due to an increase in service along with the need for facility upgrades. The Special Education Fund anticipates a decrease in fund balance in 2018-2019 due to additional service needs being provided to students and local schools.

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. The Educational Service District has cooperative and consortium agreements in many areas including Business Services, Technology, Data/Instructional Technology, Math Consulting and numerous other programs in Special Education, Preschool and Early Intervention programs.

The AMA-ESD approved a new strategic plan in 2018 to provide innovative and responsive service through leadership, collaboration, and support. Focus areas are service delivery, accreditation, behavior, literacy, human resources, and facilities.

**Contacting the Educational Service District's Financial Management**

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

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

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# BASIC FINANCIAL STATEMENTS

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

Statement of Net Position

June 30, 2018

| | | Governmental Activities |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ | 521,157 |
| Taxes receivable | | 37,077 |
| Accounts receivable | | 7,862 |
| Due from other governmental units | | 1,043,339 |
| Interest receivable on investments and deposits | | 25,634 |
| Investments | | 5,672,689 |
| Prepaid expenses | | 50,598 |
| Capital assets not being depreciated | | 152,248 |
| Capital assets being depreciated - net of depreciation | | 931,884 |
| Total assets | | 8,442,488 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Related to OPEB | | 214,031 |
| Related to pensions | | 2,876,493 |
| Total deferred outflows of resources | | 3,090,524 |
| **LIABILITIES** | | |
| Accounts payable | | 175,237 |
| Due to other governmental units | | 91,648 |
| Accrued expenditures | | 242,053 |
| Salaries payable | | 469,831 |
| Unearned revenue | | 761,660 |
| Long-term liabilities | | |
| Net OPEB liability | | 3,831,803 |
| Net pension liability | | 11,239,754 |
| Total liabilities | | 16,811,986 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Related to OPEB | | 129,542 |
| Related to pensions | | 678,488 |
| State aid funding for pension | | 458,031 |
| Total deferred inflows of resources | | 1,266,061 |
| **NET POSITION** | | |
| Investment in capital assets | | 1,084,132 |
| Restricted: | | |
| Special Education | | 4,393,377 |
| Unrestricted (deficit) | | (12,022,544) |
| Total net position | $ | (6,545,035) |

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

## ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

Statement of Activities

June 30, 2018

| | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants | Net (Expense) Revenue and Changes in Net Position |
|---|---|---|---|---|
| **FUNCTION / PROGRAMS** | | | | |
| Instruction | $ 1,858,489 | $ - | $ 72,409 | $ (1,786,080) |
| Supporting services | 6,475,972 | 450,289 | 2,090,689 | (3,934,994) |
| Community services | 136,489 | - | 53,128 | (83,361) |
| Interdistrict transfers | 1,922,493 | - | - | (1,922,493) |
| Payment to not-for-profit entities | 48,554 | - | - | (48,554) |
| Depreciation - unallocated | 139,292 | - | - | (139,292) |
| Total Governmental Activities | 10,581,289 | 450,289 | 2,216,226 | (7,914,774) |
| General Revenues: | | | | |
| Property taxes, levied for general purposes | | | | 408,328 |
| Property taxes, levied for special education | | | | 3,768,716 |
| State aid | | | | 3,502,093 |
| Investment earnings | | | | 93,015 |
| Miscellaneous | | | | 12,141 |
| Total general revenues | | | | 7,784,293 |
| Change in net position | | | | (130,481) |
| Net position - beginning of year, as previously stated | | | | (2,532,059) |
| Prior period adjustment | | | | (3,882,495) |
| Net position - beginning of year, as restated | | | | (6,414,554) |
| Net position - end of the year | | | | $ (6,545,035) |

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

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

Governmental Funds - Balance Sheet

June 30, 2018

| | General Fund | Special Education Fund | Total Governmental Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 223,612 | $ 297,545 | $ 521,157 |
| Taxes receivable | 3,979 | 33,098 | 37,077 |
| Accounts receivable | 4,381 | 3,481 | 7,862 |
| Due from other funds | - | 476,190 | 476,190 |
| Due from other governmental units | 392,963 | 650,376 | 1,043,339 |
| Interest receivable on investments and deposits | 8,858 | 16,776 | 25,634 |
| Investments | 2,107,974 | 3,564,715 | 5,672,689 |
| Prepaid expenses | 11,542 | 39,056 | 50,598 |
| Total assets | $ 2,753,309 | $ 5,081,237 | $ 7,834,546 |
| **LIABILITIES AND FUND BALANCES** | | | |
| Liabilities | | | |
| Accounts payable | $ 153,457 | $ 21,780 | $ 175,237 |
| Due to other funds | 476,190 | - | 476,190 |
| Due to other governmental units | 62,381 | 29,267 | 91,648 |
| Accrued expenditures | 35,110 | 206,943 | 242,053 |
| Salaries payable | 79,017 | 390,814 | 469,831 |
| Unearned revenue | 761,660 | - | 761,660 |
| Total liabilities | 1,567,815 | 648,804 | 2,216,619 |
| Fund balances | | | |
| Nonspendable | 11,542 | 39,056 | 50,598 |
| Restricted | - | 4,393,377 | 4,393,377 |
| Unassigned | 1,173,952 | - | 1,173,952 |
| Total fund balances | 1,185,494 | 4,432,433 | 5,617,927 |
| Total liabilities and fund balances | $ 2,753,309 | $ 5,081,237 | $ 7,834,546 |

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

Governmental Funds - Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Position

June 30, 2018

| | | |
|---|---|---|
| Total Governmental Fund Balances | | $ 5,617,927 |
| 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 | 3,559,758 | |
| Less: Accumulated depreciation | (2,627,874) | |
| | | 1,084,132 |
| Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities | | |
| Net OPEB liability and related deferred inflows and outflows | | (3,747,314) |
| Net pension liability and related deferred inflows and outflows | | (9,041,749) |
| Revenue in support of pension contributions made subsequent to the measurement date is reported as deferred inflow of resources in the statement of net position and is not reported in the funds. | | (458,031) |
| Total Net Position - Governmental Activities | | $ (6,545,035) |

Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balance

Year ended June 30, 2018

| | General Fund | Special Education Fund | Total Governmental Funds |
|---|---|---|---|
| **REVENUES** | | | |
| Local sources | $ 437,587 | $ 4,210,331 | $ 4,647,918 |
| State sources | 2,402,847 | 1,620,874 | 4,023,721 |
| Federal sources | 37,750 | 1,716,719 | 1,754,469 |
| Other local revenue | 409,844 | 65,738 | 475,582 |
| Other sources | 1,750 | 9,231 | 10,981 |
| Total revenues | 3,289,778 | 7,622,893 | 10,912,671 |
| **EXPENDITURES** | | | |
| Instruction | 986,741 | 912,069 | 1,898,810 |
| Supporting services | 2,143,259 | 4,716,290 | 6,859,549 |
| Community services | 118,329 | 19,050 | 137,379 |
| Payments to other governmental agencies | 286,780 | 1,635,713 | 1,922,493 |
| Facilities acquisition | 24,063 | 24,491 | 48,554 |
| Total expenditures | 3,559,172 | 7,307,613 | 10,866,785 |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | (269,394) | 315,280 | 45,886 |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Transfers from other funds | 416,680 | - | 416,680 |
| Transfers to other funds | - | (416,680) | (416,680) |
| | 416,680 | (416,680) | - |
| **EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES** | 147,286 | (101,400) | 45,886 |
| **FUND BALANCES,** beginning of the year | 1,038,208 | 4,533,833 | 5,572,041 |
| **FUND BALANCES,** end of the year | $ 1,185,494 | $ 4,432,433 | $ 5,617,927 |

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

Governmental Funds - Reconciliation of the Statement of Revenues
Expenditures, and Changes in Fund Balances of the Governmental Funds
to the Statement of Activities

Year ended June 30, 2018

| | | |
|---|---|---|
| Total net change in fund balances - governmental funds | | $ 45,886 |
| 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 | $ 128,311 | |
| Loss on disposal of assets not fully depreciated | (3,831) | |
| Depreciation expense | (139,292) | |
| | | (14,812) |
| Some employee costs do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. | | |
| Net change in OPEB expense | | 135,181 |
| Net change in pension expense | | (296,736) |
| Change in net position of governmental activities | | $ (130,481) |

## ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

Fiduciary Funds - Agency Fund (Student Activties)
Statement of Fiduciary Assets and Liabilities

June 30, 2018

| | | Agency Fund |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ | 20,640 |
| Total assets | $ | 20,640 |
| **LIABILITIES** | | |
| Due to student activities | $ | 20,640 |
| Total liabilities | $ | 20,640 |

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

## 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, 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 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.

**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.

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

**C. Basis of Presentation.**

**Government-wide Financial Statements.** The statement of net position and the statement of activities display information about the 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.

**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.

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

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, 2018, 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. Investments are stated at fair value except for the investments in MILAF, which are valued at amortized costs. 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.

**Receivables.** All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The Educational Service District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year.

Amounts due from other governments include State Aid and amounts due from grantors for specific programs. State Aid payments to be received by the District in July and August are recorded as a receivable and revenue of the previous fiscal year. Program grants are recorded as receivables and revenues at the time reimbursable project costs are incurred.

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

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

**Prepaid Assets.** Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

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

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

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

| Description | Governmental Activities Estimated Lives |
|---|---|
| Land improvements | 20 years |
| Buildings and improvements | 50 years |
| Office equipment | 5 – 20 years |
| Computer equipment | 5 years |
| Vehicles | 8 years |

**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.

**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.

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

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

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

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

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

**Economic Dependency.** The Educational Service District received approximately 33.5% 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).

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

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 classifications could be used.

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

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

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

**Reclassification.** Certain items reported in the June 30, 2017 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, 2018, the Educational Service District incurred expenditures that exceeded the amounts appropriated. P.A. 621 provides that an Educational Service District shall not incur expenditures in excess of the amount appropriated. Minor immaterial violations, if any, are disclosed in budgetary comparison schedules in the required supplemental information.

## NOTE 3 - DEPOSITS AND INVESTMENTS.

The components of deposits and investments are reported in the financial statements as follows:

| | Governmental Activities | Fiduciary Funds | Total |
|---|---|---|---|
| Cash and cash equivalents: | | | |
| Cash - Petty cash | $ 250 | $ - | $ 250 |
| Cash - Checking/Savings | 17,346 | 20,640 | 37,986 |
| Municipal NOW accounts | 247,753 | - | 247,753 |
| MILAF Cash Management Funds | 255,808 | - | 255,808 |
| | $ 521,157 | $ 20,640 | $ 541,797 |
| Investments: | | | |
| Certificate of Deposits/CDARS | $ 4,720,506 | $ - | $ 4,720,506 |
| MILAF Max Plus | 709,183 | - | 709,183 |
| MILAF CD | 243,000 | - | 243,000 |
| | $ 5,672,689 | $ - | $ 5,672,689 |

As of June 30, 2018, the Educational Service District had the following investments:

| Investment Type | Not Measured at Fair Value | Fair Value | Weighted Average Maturity (Years) | Standard & Poor's Rating | Percentage |
|---|---|---|---|---|---|
| Certificates of Deposit/CDARS | $ - | $ 4,720,506 | 0.5652 | N/A | 83.2% |
| MILAF Max Plus | 709,183 | - | 0.0000 | AAAm | 12.5% |
| MILAF CD | 243,000 | - | 0.0480 | N/A | 4.3% |
| Total | $ 952,183 | $ 4,720,506 | | | |
| Portfolio weighted average maturity | | | | | 100% |

1 day maturity equals .0027, 1 year equals 1.0000

**Fair Value Measurements.** Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which required an entity to maximize the use of observable and minimize the use of unobservable inputs.

There are three (3) levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical securities

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

Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

**NOTE 3 - DEPOSITS AND INVESTMENTS.** (continued)

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy.

| | Fair Value Measurements | | | | |
|---|---|---|---|---|---|
| | Investments not measured at fair value | Level | | | Total |
| | | Level 1 | Level 2 | Level 3 | |
| Certificates of Deposit | $ - | $ - | $ 4,720,506 | $ - | $ 4,720,506 |
| MILAF Max Plus | 709,183 | - | - | - | 709,183 |
| MILAF CD | 243,000 | - | - | - | 243,000 |
| | $ 952,183 | $ - | $ 4,720,506 | $ - | $ 5,672,689 |

**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, 2018, 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, 2018, $40,800 of the Educational Service District's bank balance of $308,045 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial Credit Risk – Agency Deposits.** As of June 30, 2018, the Educational Service District's agency bank balance of $20,640 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, 2018, there was $1,211,518 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 $5,672,689.

**NOTE 3 - DEPOSITS AND INVESTMENTS.** (continued)

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, 2018: Flagstar Bank, First Federal of Northern Michigan, CDARS a service of Promontory International Network LLC, Michigan Liquid Asset Fund, HPC Credit Union, Huntington National 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, 2018 are as follows:

| Fund | Receivable | Payable |
|---|---|---|
| General Fund | $ - | $ 476,190 |
| Special Education Fund | 476,190 | - |
| Totals | $ 476,190 | $ 476,190 |

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.

## NOTE 5 - CAPITAL ASSETS.

Capital assets activity for the fiscal year ended June 30, 2018 was as follows:

| | Balances June 30, 17 | Additions | Disposals and Adjustments | Balances June 30, 18 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 152,248 | $ - | $ - | $ 152,248 |
| Capital assets being depreciated: | | | | |
| Land improvements | 173,514 | 19,990 | - | 193,504 |
| Building and improvements | 2,348,032 | 28,564 | - | 2,376,596 |
| Office and computer | 844,504 | 79,757 | (14,744) | 909,517 |
| Vehicles | 100,573 | - | (20,432) | 80,141 |
| | 3,466,623 | 128,311 | (35,176) | 3,559,758 |
| Less accumulated depreciation: | | | | |
| Land improvements | (128,966) | (7,126) | - | (136,092) |
| Buildings and improvements | (1,463,024) | (72,924) | - | (1,535,948) |
| Office and computer | (831,195) | (59,242) | 14,744 | (875,693) |
| Vehicle | (96,742) | - | 16,601 | (80,141) |
| | (2,519,927) | (139,292) | 31,345 | (2,627,874) |
| | 946,696 | (10,981) | (3,831) | 931,884 |
| Net capital assets | $ 1,098,944 | $ (10,981) | $ (3,831) | $ 1,084,132 |

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

## NOTE 6 - OPERATING LEASES.

The Educational Service District has four leases for vehicles. One lease commenced October 2016 and ended on November 2017. The second lease commenced October 2016 and is ending on December 2019, and the other two leases commenced December 2017 and are ending February 2021. The Educational Service District makes rent payments on a monthly basis of $363, $293, $321, and $315, respectively.

The total rental expense under all operating leases during the years ended June 30, 2018 were $7,005.

The remaining minimum lease payments under operating leases as of June 30, 2018 are as follows:

| Year ending June 30: | |
|---|---|
| 2019 | $11,139 |
| 2020 | $ 9,382 |
| 2021 | $ 5,084 |
| Total remaining minimum lease payments | $25,605 |

## NOTE 7 - FUND BALANCE RESERVATIONS AND DESIGNATIONS.

Amounts of the various fund balances nonspendable or restricted at June 30 are as follows:

| | 2018 | 2017 |
|---|---|---|
| General Fund | | |
| Nonspendable for prepaid | $ 11,542 | $ 10,768 |
| Total General Fund | $ 11,542 | $ 10,768 |
| Special Educational Fund | | |
| Nonspendable for prepaid | $ 39,056 | $ 33,752 |
| Restricted for special education | 4,393,377 | 4,500,081 |
| Total Special Education Fund | $ 4,432,433 | $ 4,533,833 |

## NOTE 8 - 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 2017-2018 school year in the Educational Service District was established at $1,875,859,861. General Education Millage of .2139 and Special Education Millage of 1.9743 mills have been approved by the voters of the district.

## NOTE 9 - TAX ABATEMENTS.

The Educational Service District may receive reduced tax revenues as a result of Industrial Facilities Tax exemptions (PA 198 of 14974) or Brownfield Redevelopment Agreements granted by cities within the boundaries of the Educational Service District. Industrial facility exemptions are intended to promote construction of new industrial facilities or to rehabilitate historical facilities. Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties. Accordingly, such agreements meet the criteria of “tax abatements” under GASB Statement No. 77.

For the fiscal year ended June 30, 2018, the Educational Service District’s tax revenues were reduced by approximately $12,400 under these programs. The Educational Service District is not reimbursed for lost revenue caused by tax abatements. There were no abatements made by the Educational Service District.

## NOTE 10 - DEFINED BENEFIT PENSION PLAN.

### A. Plan Description.

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

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System. The System's financial statements are available at www.michigan.gov/mpsers-cafr.

### Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan.

Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.5%. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but as permanently reduced to .5% for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Members are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100% of the participant's final average compensation, with an increase of 2% each year thereafter.

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits, but with an actuarial reduction.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3%. For some members who do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

### Contributions

Public Act 300 of 1980, as amended, required the Educational Service District to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by state statute and may be amended only by action of the state legislature. Under these provisions, each district's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

The Educational Service District's contributions are determined based on employee elections. There are seven different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS.

**NOTE 10 - DEFINED BENEFIT PENSION PLAN.** (continued)

The range of rates are as follows:

| | |
|---|---|
| October 1, 2016 – February 1, 2018 | 15.27% - 19.03% |
| February 1, 2018 – August 31, 2018 | 13.54% - 19.74% |

Depending on the plan selected, plan member contributions range from 0% up to 7% of gross wages. Plan members electing into the defined contributions plan are not required to make additional contributions.

The Educational Service District's required and actual contributions to the plan for the year ended June 30, 2018 were $1,125,541. The Educational Service District's required and actual contributions include an allocation of $458,031 in revenue received from the State of Michigan, and remitted to the System, to the fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended June 30, 2018.

**B. Pension Liabilities.**

At June 30, 2018, the Educational Service District reported a liability of $11,239,754 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The Educational Service District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017 the Educational Service District's proportion was 0.0434%, which was an increase of .0025% from its proportion measured as of September 30, 2016.

**C. Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.**

For the year ended June 30, 2018, the Educational Service District recognized pension expense of $1,295,859. At June 30, 2018, the Educational Service District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**NOTE 10 - DEFINED BENEFIT PENSION PLAN.** (continued)

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 97,681 | $ 55,151 |
| Changes of assumptions | 1,231,404 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 537,334 |
| Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions | 600,520 | 86,003 |
| Reporting Unit contributions subsequent to the measurement date | 946,888 | - |
| **Total** | **$ 2,876,493** | **$ 678,488** |

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Year
(To be Recognized in Future Pension Expenses)

| Year Ending September 30 | Amount |
|---|---|
| 2018 | $ 335,605 |
| 2019 | $ 537,868 |
| 2020 | $ 333,245 |
| 2021 | $ 44,399 |

**Actuarial Assumptions**

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

**NOTE 10 - DEFINED BENEFIT PENSION PLAN.** (continued)

Additional information as of the latest actuarial valuation follows:

**Summary of Actuarial Assumptions**

| | |
|---|---|
| Valuation Date: | September 30, 2016 |
| Actuarial Cost Method: | Entry Age, Normal |
| Wage Inflation Rate: | 3.5% |
| Investment Rate of Return: | |
| - MIP and Basic Plans (Non-Hybrid): | 7.5% |
| - 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-Compounded for MIP Members |

Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

*Notes:*

- *Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, 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: [4.5188 for non-university employers 1.1222 for university employers].*
- *Recognition period for assets in years is 5.000.*
- *Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report. (www.michigan.gov/mpsers-cafr)*

**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, 2017, are summarized in the following table:

**NOTE 10 - DEFINED BENEFIT PENSION PLAN.** (continued)

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return* |
|---|---|---|
| Domestic equity pools | 28.0% | 5.6% |
| % alternative investment pools | 18.0% | 8.7% |
| International equity | 16.0% | 7.2% |
| Fixed income pools | 10.5% | (0.1)% |
| Real estate and infrastructure pools | 10.0% | 4.2% |
| Absolute return pools | 15.5% | 5.0% |
| Short term investment pools | 2.0% | (0.9)% |
| TOTAL | 100.0% | |

**Long term rate of return does not include 2.3% inflation.*

**Discount Rate**

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 7.5% (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 Educational Service District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the Educational Service District's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for the Hybrid Plan), as well as what the Educational Service District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

| 1% Decrease (Non-Hybrid/Hybrid) 6.5% / 6.0% | Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 7.5% / 7.0% | 1% Decrease (Non-Hybrid/Hybrid) 8.5% / 8.0% |
|---|---|---|
| $ 14,641,662 | $ 11,239,754 | $ 8,375,565 |

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR, available at www.michigan.gov/mpsers-cafr.

**Payable to the Pension Plan.** At year end, the Educational Service District is current on all required pension plan payments. Amounts accrued at year end for accounting purposes are reported in the financial statements as accrued expenses. These amounts represent current payments for June paid in July, accruals for summer pay (primarily for teachers) and the contributions due funded from state aid revenue section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization rate contributions.

## NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB).

### Plan Description

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

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

### Benefits Provided

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

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

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

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB).** (continued)

**Contributions**

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

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2017.

| Benefit Structure | Member | Employer |
|---|---|---|
| Premium Subsidy | 3.00% | 5.91% |
| Personal Healthcare Fund (PHF) | 0.00% | 5.69% |

Required contributions to the OPEB plan from the Educational Service District were $336,879 for the year ended September 30, 2017.

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

At June 30, 2018, the Educational Service District reported a liability of $3,831,803 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The Educational Service District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the Educational Service District's proportion was .04327 percent.

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB).** (continued)

For the year ending June 30, 2018, the Educational Service District recognized OPEB expense of $256,340. At June 30, 2018, the Educational Service District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between actual and expected experience | $ - | $ 40,797 |
| Changes of Assumptions | - | - |
| Net difference between projected and actual earnings on OPEB plan investments | - | 88,745 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 181 | - |
| Employer contributions subsequent to the measurement date | 213,850 | - |
| **Total** | $ 214,031 | $ 129,542 |

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Year
(To be Recognized in Future OPEB Expenses)

| Year Ending September 30 | Amount |
|---|---|
| 2019 | $ (25,868) |
| 2020 | $ (25,868) |
| 2021 | $ (25,868) |
| 2022 | $ (25,868) |
| 2023 | $ (25,889) |

**Actuarial Assumptions**

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

Additional information as of the latest actuarial valuation follows:

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB).** (continued)

**Summary of Actuarial Assumptions**

| | |
|---|---|
| Valuation Date: | September 30, 2015 |
| Actuarial Cost Method: | Entry Age, Normal |
| Wage Inflation Rate: | 3.5% |
| Investment Rate of Return: | 7.5% |
| Projected Salary Increases: | 3.5 – 12.3%, including wage inflation at 3.5% |
| Healthcare Cost Trend Rate: | 7.5% Year 1 graded to 3.5 % Year 12 |
| Mortality: | RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females. |
| Other Assumptions: | |
| Opt Out Assumptions | 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan. |
| Survivor Coverage | 80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree's death. |
| Coverage Election at Retirement | 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents. |

*Notes:*

- *Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.*
- *Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [5.4744 for non-university employers or 1.4186 for university employers]*
- *Recognition period for assets in years is 5.0000.*
- *Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.*

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB).** (continued)

### Long-Term Expected Return on Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2017, are summarized in the following table:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return* |
|---|---|---|
| Domestic Equity Pools | 28.0% | 5.6% |
| % Alternative Investment Pools | 18.0% | 8.7% |
| International Equity | 16.0% | 7.2% |
| Fixed Income Pools | 10.5% | (0.1)% |
| Real Estate and Infrastructure Pools | 10.0% | 4.2% |
| Absolute Return Pools | 15.5% | 5.0% |
| Short Term Investment Pools | 2.0% | (0.9)% |
| TOTAL | 100.0% | |

**Long term rates of return are net of administration expenses and 2.3% inflation.*

### Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. 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 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB).** (continued)

**Sensitivity of Educational Service District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate**

The following presents Educational Service District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the Educational Service District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

| 1% Decrease 6.5% | Current Discount Rate 7.5% | 1% Increase 8.5% |
|---|---|---|
| $ 4,488,149 | $ 3,831,803 | $ 3,274,771 |

**Sensitivity of Educational Service District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate**

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

| 1% Decrease 6.5% | Current Healthcare Cost Trend Rate 7.5% | 1% Increase 8.5% |
|---|---|---|
| $ 3,245,022 | $ 3,831,803 | $ 4,498,052 |

**OPEB Plan Fiduciary Net Position**

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2017 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

**NOTE 12 - INTERFUND TRANSFERS.**

The Special Education transferred $416,680 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 13 - 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.

**NOTE 13 - RISK MANAGEMENT.** (continued)

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 14 - 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.

**NOTE 15 - CHANGE IN ACCOUNTING PRINCIPLE.**

The financial statements have been restated to incorporate the requirements of Governmental Accounting Standards Board (GASB) Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*– as follows:

| | |
|---|---|
| Beginning net position as previously reported at July 1, 2017 | $ (2,532,059) |
| Change in accounting principle: | |
| Net OPEB liability (at measurement date of 10/01/16) | (4,041,703) |
| Deferred outflows between measurement date and reporting date of OPEB plan | 159,208 |
| Net change in accounting principle | (3,882,495) |
| Net position as restated, July 1, 2017 | $ (6,414,554) |

**NOTE 16 - SUBSEQUENT EVENTS.**

Management has evaluated subsequent events through October 1, 2018, the date on which the financial statements were available to be issued.

# REQUIRED SUPPLEMENTARY INFORMATION

## ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

Required Supplemental Information
Budgetary Comparison Schedule - General Fund

Year ended June 30, 2018

| | Budget Amounts Original | Budget Amounts Final | Actual | Variance with Final Budget |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Local sources | $ 428,197 | $ 434,747 | $ 437,587 | $ 2,840 |
| State sources | 3,162,790 | 3,164,536 | 2,402,847 | (761,689) |
| Federal sources | 41,788 | 36,488 | 37,750 | 1,262 |
| Incoming transfers | 1,208,988 | 831,750 | 828,274 | (3,476) |
| Total revenues | 4,841,763 | 4,467,521 | 3,706,458 | (761,063) |
| **EXPENDITURES** | | | | |
| **Instructional Services** | | | | |
| Instructional services | 628,174 | 563,729 | 533,728 | 30,001 |
| Great Start grant | 312,958 | 312,958 | 197,308 | 115,650 |
| Math/Science grant | 156,345 | 156,345 | 76,559 | 79,786 |
| Great Start readiness | 1,944,161 | 1,944,161 | 1,435,059 | 509,102 |
| | 3,041,638 | 2,977,193 | 2,242,654 | 734,539 |
| **Administrative and Support Services** | | | | |
| Leadership / governance | 364,781 | 380,898 | 377,063 | 3,835 |
| Business / compliance | 863,069 | 576,732 | 565,830 | 10,902 |
| Operation and maintenance | 132,037 | 147,037 | 90,077 | 56,960 |
| Technology services | 315,863 | 298,767 | 283,548 | 15,219 |
| | 1,675,750 | 1,403,434 | 1,316,518 | 86,916 |
| Total expenditures | 4,717,388 | 4,380,627 | 3,559,172 | 821,455 |
| **CURRENT CHANGE IN FUND BALANCE** | 124,375 | 86,894 | 147,286 | 60,392 |
| **FUND BALANCES,** beginning of the year | 1,038,208 | 1,038,208 | 1,038,208 | - |
| **FUND BALANCES,** end of the year | $ 1,162,583 | $ 1,125,102 | $ 1,185,494 | $ 60,392 |

## ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

Required Supplemental Information
Budgetary Comparison Schedule - Special Education Fund

Year ended June 30, 2018

| | Budget Amounts Original | Budget Amounts Final | Actual | Variance with Final Budget |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Local sources | $ 4,129,227 | $ 4,180,369 | $ 4,210,331 | $ 29,962 |
| State sources | 1,663,365 | 1,618,443 | 1,620,874 | 2,431 |
| Federal sources | 2,215,084 | 1,836,577 | 1,716,719 | (119,858) |
| Incoming transfers / other | 69,181 | 69,231 | 74,969 | 5,738 |
| Total revenues | 8,076,857 | 7,704,620 | 7,622,893 | (81,727) |
| **EXPENDITURES** | | | | |
| **Direct Instruction** | | | | |
| Pied Piper - MoCI | 343,013 | 346,691 | 353,448 | (6,757) |
| Pied Piper - SCI | 440,752 | 439,466 | 409,220 | 30,246 |
| ECDD classroom | 266,030 | 158,019 | 149,401 | 8,618 |
| | 1,049,795 | 944,176 | 912,069 | 32,107 |
| **Instructional Support** | | | | |
| Psychological services | 703,415 | 541,570 | 539,144 | 2,426 |
| Hearing impaired | 10,000 | - | - | - |
| Learning disabilities | 121,037 | 117,949 | 117,358 | 591 |
| Cognitively impaired | 239,278 | 238,877 | 234,980 | 3,897 |
| Autistic impaired | 143,246 | 145,778 | 145,818 | (40) |
| Speech therapy | 729,558 | 674,253 | 660,711 | 13,542 |
| Social work | 137,106 | 94,304 | 93,332 | 972 |
| Early intervening | 370,856 | 392,235 | 384,377 | 7,858 |
| Occupational therapy | 154,137 | 153,400 | 151,534 | 1,866 |
| Physical therapy | 75,500 | 77,578 | 77,258 | 320 |
| Improvement of instruction | 66,910 | 60,550 | 12,249 | 48,301 |
| Regional MIBLSI | 188,734 | 188,734 | 145,895 | 42,839 |
| Vision consultant | 7,653 | - | - | - |
| ECDD consultant | 140,429 | 140,196 | 139,807 | 389 |
| Early on consultant | 79,718 | 79,717 | 54,373 | 25,344 |
| Emotionally impaired | 278,675 | 285,308 | 277,902 | 7,406 |
| Transition services | 57,623 | 58,623 | 57,417 | 1,206 |
| | 3,503,875 | 3,249,072 | 3,092,155 | 156,917 |
| **Administrative** | | | | |
| Planning, monitoring, data collection | 945,782 | 931,262 | 919,332 | 11,930 |
| Board of education | 65,000 | 77,500 | 74,299 | 3,201 |
| | 1,010,782 | 1,008,762 | 993,631 | 15,131 |

Required Supplemental Information
Budgetary Comparison Schedule - Special Education Fund

Year ended June 30, 2018

| | Budget Amounts Original | Budget Amounts Final | Actual | Variance with Final Budget |
|---|---|---|---|---|
| **Other Costs** | | | | |
| Operation and maintenance | $ 166,770 | $ 145,950 | $ 137,224 | $ 8,726 |
| Capital outlay | 80,490 | 90,490 | 44,766 | 45,724 |
| Local P.A.C. | 750 | 450 | 199 | 251 |
| Pupil transportation | 497,725 | 508,135 | 481,889 | 26,246 |
| Outgoing transfers / other | 1,876,500 | 2,065,548 | 2,062,360 | 3,188 |
| | 2,622,235 | 2,810,573 | 2,726,438 | 84,135 |
| Total expenditures | 8,186,687 | 8,012,583 | 7,724,293 | 288,290 |
| **CURRENT CHANGE IN FUND BALANCE** | (109,830) | (307,963) | (101,400) | 206,563 |
| **FUND BALANCES,** beginning of the year | 4,533,833 | 4,533,833 | 4,533,833 | - |
| **FUND BALANCES,** end of the year | $ 4,424,003 | $ 4,225,870 | $ 4,432,433 | $ 206,563 |

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

Required Supplemental Information

Schedule of 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)

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| A. Reporting unit's proportion of net pension liability (%) | 0.04337% | 0.04089% | 0.03987% | 0.04079% |
| B. Reporting unit's proportionate share of net pension liability | $ 11,239,754 | $ 10,201,092 | $ 9,737,628 | $ 8,984,285 |
| C. Reporting unit's covered-employee payroll | $ 3,724,155 | $ 3,489,653 | $ 3,332,201 | $ 3,491,221 |
| D. Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%) | 301.81% | 292.32% | 292.23% | 257.34% |
| E. Plan fiduciary net position as a percentage of total pension liability | 64.21% | 63.27% | 63.17% | 66.20% |

Changes in benefit terms: There were no changes of benefit terms in 2017.

Changes in benefit assumptions: There were no changes of benefit assumptions in 2017.

Changes in size or composition of the covered population: There were not significant changes in size or composition of the covered population in 2017.

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 Pension Contributions

Michigan Public School Employees Retirement Plan

Last 10 Reporting Unit Fiscal Years (Amounts determined as of 6/30 of each year)

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| A. Statutorily required contributions | $ 1,125,541 | $ 1,005,246 | $ 652,087 | $ 732,077 |
| B. Contributions in relation to statutorily required contributions* | $ 1,125,541 | $ 1,005,246 | $ 651,815 | $ 732,341 |
| C. Contribution deficiency (excess) | $ - | $ - | $ 272 | $ (264) |
| D. Reporting unit's covered-employee payroll | $ 3,839,093 | $ 3,654,344 | $ 3,283,152 | $ 3,337,124 |
| E. Contributions as a percentage of covered-employee payroll | 29.32% | 27.51% | 19.85% | 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.

Changes in benefit terms: There were no changes of benefit terms in 2018.

Changes in benefit assumptions: There were no changes of benefit assumptions in 2018.

Changes in size or composition of the covered population:  There were not significant changes in size or composition of the covered population in 2018.

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.

Required Supplemental Information
Schedule of the Proportionate Share of the Net OPEB Liability

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

| | **2017** |
|---|---|
| A. Reporting unit's proportion of net OPEB liability (%) | 0.04327% |
| B. Reporting unit's proportionate share of net OPEB liability | $ 3,831,803 |
| C. Reporting unit's covered-employee payroll (OPEB)* | $ 3,839,093 |
| D. Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll (%) | 99.81% |
| E. Plan fiduciary net position as a percentage of total OPEB liability | 36.39% |

*The employer’s covered payroll is defined by GASB 82, *Pension Issues—an amendment to GASB Statements No. 67, No. 68, and No. 73* , as payroll on which contributions to a pension plan are based; and by GASB 85, *Omnibus 2017* , as payroll on which contributions to the OPEB plan are based. For university employers, covered payroll for both pension and OPEB is the greater of 1) university payroll on which contributions to the plan are based or 2) the required minimum payroll amount required by PA 136 of 2016. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

Changes in benefit terms: There were no changes of benefit terms in 2017.

Changes in benefit assumptions: There were no changes of benefit assumptions in 2017.

Changes in size or composition of the covered population:  There were not significant changes in size or composition of the covered population in 2018.

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 fiscal year ending June 30, 2017.

Required Supplemental Information
Schedule of OPEB Contributions

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

| | 2018 |
|---|---|
| A. Statutorily required OPEB contributions | $ 293,094 |
| B. OPEB Contributions in relation to statutorily required contributions* | $ 293,119 |
| C. Contribution deficiency (excess) | $ (25) |
| D. Reporting unit's covered-employee payroll (OPEB)** | $ 3,839,093 |
| E. OPEB contributions as a percentage of covered-employee payroll | 7.64% |

*Contributions in relation to statutorily required OPEB contributions are the contributions an employer actually made to the OPEB Plan, as distinct from the statutorily required contributions.

**The employer’s covered payroll is defined by GASB 82, *Pension Issues—an amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based; and by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For university employers, covered payroll for both pension and OPEB is the greater of 1) university payroll on which contributions to the plan are based or 2) the required minimum payroll amount required by PA 136 of 2016. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

Changes in benefit terms: There were no changes of benefit terms in 2018.

Changes in benefit assumptions: There were no changes of benefit assumptions in 2018.

Changes in size or composition of the covered population:  There were not significant changes in size or composition of the covered population in 2017.

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 fiscal year ending June 30, 2018.

# OTHER SUPPLEMENTAL INFORMATION

## INDIVIDUAL FUND STATEMENTS

## ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

General Fund
Balance Sheet

| | June 30 2018 | June 30 2017 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 223,612 | $ 262,948 |
| Taxes receivable | 3,979 | 6,608 |
| Accounts receivable | 4,381 | 12,096 |
| Due from other governmental units | 392,963 | 358,376 |
| Interest receivable on investments and deposits | 8,858 | 5,835 |
| Investments | 2,107,974 | 1,579,752 |
| Prepaid expenses | 11,542 | 10,768 |
| Total assets | $ 2,753,309 | $ 2,236,383 |
| **LIABILITIES AND FUND BALANCES** | | |
| Liabilities | | |
| Accounts payable | $ 153,457 | $ 130,643 |
| Due to other funds | 476,190 | 34,356 |
| Due to other governmental units | 62,381 | 48,470 |
| Accrued expenditures | 35,110 | 38,908 |
| Salaries payable | 79,017 | 70,903 |
| Unearned revenue | 761,660 | 874,895 |
| Total liabilities | 1,567,815 | 1,198,175 |
| Fund Balances | | |
| Nonspendable | 11,542 | 10,768 |
| Unassigned | 1,173,952 | 1,027,440 |
| Total fund balances | 1,185,494 | 1,038,208 |
| Total liabilities and fund balances | $ 2,753,309 | $ 2,236,383 |

## ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances

| | Year ended June 30 | | |
|---|---|---|---|
| | 2018 Final Budget | 2018 Actual | 2017 Actual |
| **REVENUES** | | | |
| **LOCAL SOURCES** | | | |
| Property tax levy | $ 398,447 | $ 401,245 | $ 395,470 |
| Penalties and interest on delinquent taxes | 550 | 564 | 273 |
| Revenue in lieu of taxes | 2,750 | 2,832 | 2,921 |
| Tuition - Camp Wilderness | - | - | 800 |
| Earnings on investments and deposits | 24,000 | 24,043 | 16,616 |
| Conference fees | 1,500 | 1,638 | 5,922 |
| Private sources (contributions) | 3,000 | 2,982 | 5,233 |
| USF reimbursement | 1,600 | 1,451 | 7,495 |
| Miscellaneous | 2,900 | 2,832 | 2,984 |
| Total local sources | 434,747 | 437,587 | 437,714 |
| **STATE SOURCES** | | | |
| State aid | | | |
| Unrestricted | 369,849 | 369,849 | 369,849 |
| Restricted | 2,774,603 | 2,025,125 | 1,641,708 |
| Restricted - received through another district | 15,835 | 3,624 | 10,011 |
| Unrestricted - received through another district | - | - | 6,606 |
| State payments in lieu of taxes | 4,249 | 4,249 | 6,869 |
| Total state sources | 3,164,536 | 2,402,847 | 2,035,043 |
| **FEDERAL SOURCES** | | | |
| Trusted Advisors | 24,500 | 24,500 | - |
| Child & Adult Food Program | 11,700 | 12,962 | 17,484 |
| Race to the Top - Early Learning Challenge | 288 | 288 | 16,180 |
| Total federal sources | 36,488 | 37,750 | 33,664 |
| **OTHER LOCAL REVENUE** | | | |
| Tuition payments from other public schools | - | - | - |
| Compensation received in payment for services provided to other public schools | 410,000 | 409,844 | 356,272 |
| Other distributions received from other public schools | - | - | 1,250 |
| Total other local revenue | 410,000 | 409,844 | 357,522 |
| **OTHER SOURCES** | | | |
| Proceeds from the sale of capital assets | 1,750 | 1,750 | - |
| Total other sources | 1,750 | 1,750 | - |
| Total revenues | 4,047,521 | 3,289,778 | 2,863,943 |

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

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances

| | Year ended June 30 | | |
|---|---|---|---|
| | 2018 Final Budget | 2018 Actual | 2017 Actual |
| **EXPENDITURES** | | | |
| **INSTRUCTION** | | | |
| PRE-SCHOOL | | | |
| Salaries | $ 295,071 | $ 234,546 | $ 148,639 |
| Employee benefits | 189,662 | 130,225 | 90,093 |
| Purchased services | 636,813 | 483,002 | 487,533 |
| Supplies and materials | 56,961 | 32,301 | 27,173 |
| Other | 5,491 | 3,905 | 425 |
| Outgoing transfers | 129,161 | 102,762 | 99,136 |
| | 1,313,159 | 986,741 | 852,999 |
| Total instruction | 1,313,159 | 986,741 | 852,999 |
| **SUPPORTING SERVICES** | | | |
| **PUPIL SERVICES** | | | |
| GUIDANCE SERVICES | | | |
| Salaries | 5,049 | 3,060 | 1,919 |
| Employee benefits | 2,272 | 1,408 | 843 |
| Purchased services | 15,690 | 15,690 | 727 |
| Supplies and materials | - | - | 710 |
| | 23,011 | 20,158 | 4,199 |
| Total pupil services | 23,011 | 20,158 | 4,199 |
| **INSTRUCTIONAL STAFF SERVICES** | | | |
| IMPROVEMENT OF INSTRUCTION | | | |
| Salaries | 216,274 | 209,552 | 232,803 |
| Employee benefits | 148,554 | 142,763 | 148,349 |
| Purchased services | 146,267 | 54,993 | 43,078 |
| Supplies and materials | 5,226 | 4,696 | 11,029 |
| Other | 464 | 448 | 2,973 |
| Outgoing transfers | - | - | 190 |
| | 516,785 | 412,452 | 438,422 |
| INSTRUCTION RELATED TECHNOLOGY | | | |
| Salaries | 60,510 | 59,207 | 58,269 |
| Employee benefits | 50,966 | 50,167 | 40,480 |
| Purchased services | 3,325 | 2,040 | 1,956 |
| Supplies and materials | 1,060 | 567 | 3,932 |
| | 115,861 | 111,981 | 104,637 |

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances

| | Year ended June 30 | | |
|---|---|---|---|
| | 2018 Final Budget | 2018 Actual | 2017 Actual |
| **EXPENDITURES (CONTINUED)** | | | |
| SUPERVISION/DIRECTION OF INSTRUCTIONAL STAFF | | | |
| Salaries | $ 227,933 | $ 126,266 | $ 93,378 |
| Employee benefits | 143,608 | 80,401 | 54,715 |
| Purchased services | 12,364 | 3,779 | 36,612 |
| Supplies and materials | 7,388 | 4,447 | 585 |
| Other | - | - | 110 |
| | 391,293 | 214,893 | 185,400 |
| ACADEMIC STUDENT ASSESSMENT | | | |
| Salaries | - | - | 1,600 |
| Supplies and materials | 5,752 | 2,099 | - |
| | 5,752 | 2,099 | 1,600 |
| Total instructional staff services | 1,029,691 | 741,425 | 730,059 |
| **GENERAL ADMINISTRATION** | | | |
| BOARD OF EDUCATION | | | |
| Salaries | 4,000 | 3,025 | 3,488 |
| Employee benefits | 306 | 232 | 267 |
| Purchased services | 67,070 | 67,547 | 40,174 |
| Supplies and materials | 3,295 | 3,233 | 2,117 |
| Other | 9,225 | 9,571 | 11,721 |
| | 83,896 | 83,608 | 57,767 |
| EXECUTIVE ADMINISTRATION | | | |
| Salaries | 80,430 | 80,340 | 122,988 |
| Employee benefits | 55,186 | 54,997 | 70,356 |
| Purchased services | 6,500 | 5,115 | 6,900 |
| Supplies and materials | 4,500 | 4,028 | 1,604 |
| Other | 8,700 | 9,008 | 9,261 |
| | 155,316 | 153,488 | 211,109 |
| GRANT WRITER | | | |
| Salaries | 5,448 | 3,962 | - |
| Employee benefits | 3,083 | 2,277 | - |
| Purchased services | 29 | 97 | - |
| | 8,560 | 6,336 | - |
| Total general administration | 247,772 | 243,432 | 268,876 |

## ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances

| | Year ended June 30 | | |
|---|---|---|---|
| | 2018 Final Budget | 2018 Actual | 2017 Actual |
| **EXPENDITURES (CONTINUED)** | | | |
| **BUSINESS SERVICES** | | | |
| FISCAL SERVICES | | | |
| Salaries | $ 338,618 | $ 329,531 | $ 326,596 |
| Employee benefits | 222,847 | 217,386 | 200,521 |
| Purchased services | 20,250 | 20,149 | 17,942 |
| Supplies and materials | 3,500 | 3,035 | 2,562 |
| Other | 2,500 | 2,240 | 2,298 |
| | 587,715 | 572,341 | 549,919 |
| INTERNAL SERVICES | | | |
| Purchased services | 1,796 | 790 | 1,396 |
| | 1,796 | 790 | 1,396 |
| OTHER BUSINESS SERVICES | | | |
| Purchased services | 756 | 756 | 726 |
| Other | 6,500 | 6,422 | 4,651 |
| | 7,256 | 7,178 | 5,377 |
| Total business services | 596,767 | 580,309 | 556,692 |
| **OPERATIONS AND MAINTENANCE** | | | |
| OPERATIONS BUILDINGS SERVICES | | | |
| Salaries | 412 | 411 | 372 |
| Employee benefits | 184 | 184 | 188 |
| Purchased services | 112,014 | 104,130 | 43,557 |
| Supplies and materials | 24,450 | 20,767 | 15,715 |
| Outgoing transfers | 10,000 | 8,289 | 22,500 |
| | 147,060 | 133,781 | 82,332 |
| Total operations and maintenance | 147,060 | 133,781 | 82,332 |
| **PUPIL TRANSPORTATION** | | | |
| PUPIL TRANSPORTATION | | | |
| Purchased services | 150 | - | 12 |
| Outgoing transfers | 45,000 | 45,150 | 47,740 |
| | 45,150 | 45,150 | 47,752 |
| Total pupil transportation | 45,150 | 45,150 | 47,752 |

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

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances

| | Year ended June 30 | | |
|---|---|---|---|
| | 2018 Final Budget | 2018 Actual | 2017 Actual |
| **EXPENDITURES (CONTINUED)** | | | |
| **CENTRAL SERVICES** | | | |
| PLANNING, RESEARCH, DEVELOPMENT AND EVALUATION | | | |
| Purchased services | $ 2,375 | $ 2,375 | $ 2,375 |
| | 2,375 | 2,375 | 2,375 |
| COMMUNICATION SERVICES | | | |
| Purchased services | 6,823 | 5,702 | 342 |
| | 6,823 | 5,702 | 342 |
| STAFF/PERSONNEL SERVICES | | | |
| Salaries | 71,250 | 71,250 | 99,238 |
| Employee benefits | 53,762 | 53,365 | 55,303 |
| Purchased services | 21,953 | 16,641 | 10,543 |
| Supplies and materials | 500 | 282 | 141 |
| Other | 268 | 268 | 88 |
| | 147,733 | 141,806 | 165,313 |
| INFORMATION MANAGEMENT SERVICES | | | |
| Salaries | 100,330 | 100,030 | 57,720 |
| Employee benefits | 66,720 | 66,698 | 35,744 |
| Purchased services | 66,205 | 58,900 | 18,023 |
| Supplies and materials | 5,000 | 3,233 | 6,273 |
| Capital outlay | 5,000 | 260 | - |
| Outgoing transfer | - | - | 9,781 |
| | 243,255 | 229,121 | 127,541 |
| Total central services | 400,186 | 379,004 | 295,571 |
| Total supporting services | 2,489,637 | 2,143,259 | 1,985,481 |
| **COMMUNITY SERVICES** | | | |
| COMMUNITY SERVICES DIRECTION | | | |
| Salaries | 41,389 | 16,535 | 17,795 |
| Employee benefits | 24,201 | 9,959 | 9,528 |
| Purchased services | 29,013 | 20,225 | 11,611 |
| Supplies and materials | 1,979 | 1,510 | 493 |
| Other | 3,080 | 494 | 1,820 |
| | 99,662 | 48,723 | 41,247 |

## ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances

| | Year ended June 30 | | |
|---|---|---|---|
| | 2018 Final Budget | 2018 Actual | 2017 Actual |
| **EXPENDITURES (CONTINUED)** | | | |
| COMMUNITY ACTIVITIES | | | |
| Purchased services | $ 13,508 | $ 10,546 | $ 11,210 |
| Supplies and materials | 50,964 | 46,534 | 28,967 |
| Other | 10,272 | 6,890 | 5,981 |
| | 74,744 | 63,970 | 46,158 |
| CUSTODY AND CARE OF CHILDREN | | | |
| Purchased services | 1,678 | 1,071 | 948 |
| | 1,678 | 1,071 | 948 |
| OTHER COMMUNITY SERVICES | | | |
| Purchased services | - | - | 307 |
| Supplies and materials | 7,562 | 4,280 | 5,663 |
| Other | 313 | 285 | 3,342 |
| | 7,875 | 4,565 | 9,312 |
| Total community services | 183,959 | 118,329 | 97,665 |
| **PAYMENTS TO OTHER GOVERNMENTAL AGENCIES AND FACILITIES ACQUISITION** | | | |
| PAYMENTS TO OTHER PUBLIC SCHOOLS | | | |
| Outgoing transfer | 130,600 | 125,115 | 52,850 |
| | 130,600 | 125,115 | 52,850 |
| PAYMENTS TO NOT FOR PROFIT ENTITIES | | | |
| Outgoing transfer | 185,527 | 161,665 | 182,454 |
| | 185,527 | 161,665 | 182,454 |
| SITE IMPROVEMENT SERVICES | | | |
| Capital outlay | 60,245 | 9,995 | - |
| | 60,245 | 9,995 | - |
| BUILDING IMPROVEMENTS SERVICES | | | |
| Capital outlay | 17,500 | 14,068 | 13,595 |
| | 17,500 | 14,068 | 13,595 |
| Total payments to other governmental agencies and facilities acquisition | 393,872 | 310,843 | 248,899 |

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances

| | Year ended June 30 | | |
|---|---|---|---|
| | 2018 Final Budget | 2018 Actual | 2017 Actual |
| Total expenditures | $ 4,380,627 | $ 3,559,172 | $ 3,185,044 |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | (333,106) | (269,394) | (321,101) |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Transfers from other funds | 420,000 | 416,680 | 331,697 |
| Transfers to other funds | - | - | - |
| | 420,000 | 416,680 | 331,697 |
| **EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES** | 86,894 | 147,286 | 10,596 |
| **FUND BALANCES,** beginning of the year | 1,038,208 | 1,038,208 | 1,027,612 |
| **FUND BALANCES,** end of the year | $ 1,125,102 | $ 1,185,494 | $ 1,038,208 |

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

Special Education Fund
Balance Sheet

| | June 30 2018 | June 30 2017 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 297,545 | $ 74,497 |
| Taxes receivable | 33,098 | 58,151 |
| Accounts receivable | 3,481 | 5,052 |
| Due from other funds | 476,190 | 34,356 |
| Due from other governmental units | 650,376 | 649,125 |
| Interest receivable on investments and deposits | 16,776 | 6,463 |
| Investments | 3,564,715 | 4,281,116 |
| Prepaid expenses | 39,056 | 33,752 |
| Total assets | $ 5,081,237 | $ 5,142,512 |
| **LIABILITIES AND FUND BALANCES** | | |
| Liabilities | | |
| Accounts payable | $ 21,780 | $ 19,687 |
| Due to other governmental units | 29,267 | 19,755 |
| Accrued expenditures | 206,943 | 196,731 |
| Salaries payable | 390,814 | 372,506 |
| Total liabilities | 648,804 | 608,679 |
| Fund Balances | | |
| Nonspendable | 39,056 | 33,752 |
| Restricted | 4,393,377 | 4,500,081 |
| Total fund balances | 4,432,433 | 4,533,833 |
| Total liabilities and fund balances | $ 5,081,237 | $ 5,142,512 |

Special Education Fund
Statement of Revenues, Expenditures and Changes in Fund Balances

| | Year ended June 30 | | |
|---|---|---|---|
| | 2018 Final Budget | 2018 Actual | 2017 Actual |
| **REVENUES** | | | |
| **LOCAL SOURCES** | | | |
| Property taxes | $ 3,677,679 | $ 3,703,510 | $ 3,650,248 |
| Penalties and interest on delinquent taxes | 5,000 | 5,207 | 2,500 |
| Revenue in lieu of taxes | 27,500 | 25,984 | 27,118 |
| Earnings on investments and deposits | 61,000 | 63,201 | 41,865 |
| Medicaid fee for service | 407,190 | 409,920 | 318,253 |
| Miscellaneous | 2,000 | 2,509 | 1,797 |
| Total local sources | 4,180,369 | 4,210,331 | 4,041,781 |
| **STATE SOURCES** | | | |
| State aid | | | |
| Restricted | 1,562,720 | 1,565,151 | 1,544,632 |
| Vocational rehabilitation | 16,500 | 16,500 | 16,500 |
| State payments in lieu of taxes | 39,223 | 39,223 | 63,403 |
| Total state sources | 1,618,443 | 1,620,874 | 1,624,535 |
| **FEDERAL SOURCES** | | | |
| P.L. 94-142 Special Education | 1,508,201 | 1,445,846 | 1,329,683 |
| P.L. 94-142 Special Education preschool | 35,897 | 35,897 | 36,068 |
| P.L. 99-457 Infants and Toddlers | 89,322 | 71,617 | 52,727 |
| MIBLSI-MISD | 188,657 | 145,410 | 143,025 |
| Medicaid - Outreach | 14,500 | 17,949 | 17,863 |
| Total federal sources | 1,836,577 | 1,716,719 | 1,579,366 |
| **OTHER LOCAL REVENUE** | | | |
| Received from other public schools | 60,000 | 65,738 | 5,807 |
| Total other local revenues | 60,000 | 65,738 | 5,807 |
| **OTHER SOURCES** | | | |
| Adjustments to prior period expenditures | 3,981 | 3,981 | 1,317 |
| Proceeds from the sale of capital assets | 5,250 | 5,250 | 7,450 |
| Total other sources | 9,231 | 9,231 | 8,767 |
| Total revenues | 7,704,620 | 7,622,893 | 7,260,256 |

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

Special Education Fund
Statement of Revenues, Expenditures and Changes in Fund Balances

| | Year ended June 30 | | |
|---|---|---|---|
| | 2018 Final Budget | 2018 Actual | 2017 Actual |
| **EXPENDITURES** | | | |
| **INSTRUCTION** | | | |
| SPECIAL EDUCATION | | | |
| Salaries | $ 501,890 | $ 487,295 | $ 491,523 |
| Employee benefits | 406,055 | 391,892 | 399,586 |
| Purchased services | 20,931 | 20,664 | 26,610 |
| Supplies and materials | 15,300 | 12,218 | 8,726 |
| | 944,176 | 912,069 | 926,445 |
| Total instruction | 944,176 | 912,069 | 926,445 |
| **SUPPORTING SERVICES** | | | |
| **PUPIL SERVICES** | | | |
| GUIDANCE SERVICES | | | |
| Salaries | 26,905 | 22,230 | - |
| Employee benefits | 26,905 | 19,524 | - |
| Purchased services | 3,000 | 2,004 | - |
| Supplies and materials | 800 | 783 | - |
| | 57,610 | 44,541 | - |
| HEALTH SERVICES | | | |
| Salaries | 105,663 | 105,839 | 81,640 |
| Employee benefits | 75,895 | 75,159 | 51,676 |
| Purchased services | 48,750 | 47,573 | 64,503 |
| Supplies and materials | 1,050 | 602 | 1,217 |
| | 231,358 | 229,173 | 199,036 |
| PSYCHOLOGICAL SERVICES | | | |
| Salaries | 324,453 | 323,723 | 394,926 |
| Employee benefits | 204,417 | 204,207 | 241,716 |
| Purchased services | 7,700 | 6,988 | 4,956 |
| Supplies and materials | 5,000 | 4,226 | 5,922 |
| | 541,570 | 539,144 | 647,520 |
| SPEECH PATHOLOGY | | | |
| Salaries | 378,758 | 377,300 | 366,105 |
| Employee benefits | 252,686 | 251,330 | 221,571 |
| Purchased services | 19,750 | 9,828 | 14,367 |
| Supplies and materials | 4,500 | 3,632 | 5,253 |
| | 655,694 | 642,090 | 607,296 |
| SOCIAL WORK SERVICES | | | |
| Salaries | 55,960 | 55,232 | 26,567 |
| Employee benefits | 36,344 | 36,179 | 15,528 |
| Purchased services | 1,500 | 1,580 | 443 |
| Supplies and materials | 500 | 341 | 66 |
| | 94,304 | 93,332 | 42,604 |

Special Education Fund
Statement of Revenues, Expenditures and Changes in Fund Balances

| | Year ended June 30 | | |
|---|---|---|---|
| | 2018 Final Budget | 2018 Actual | 2017 Actual |
| **EXPENDITURES (CONTINUED)** | | | |
| TEACHER CONSULTANT | | | |
| Salaries | $ 536,098 | $ 532,008 | $ 504,899 |
| Employee benefits | 378,460 | 373,050 | 331,446 |
| Purchased services | 9,500 | 7,873 | 6,354 |
| Supplies and materials | 4,050 | 2,934 | 1,578 |
| | 928,108 | 915,865 | 844,277 |
| Total pupil services | 2,508,644 | 2,464,145 | 2,340,733 |
| **INSTRUCTIONAL SUPPORT** | | | |
| OTHER PUPIL SUPPORT SERVICES | | | |
| Salaries | 25,568 | 25,567 | 29,217 |
| Employee benefits | 17,814 | 17,814 | 17,529 |
| Purchased services | 12,750 | 12,570 | 12,500 |
| | 56,132 | 55,951 | 59,246 |
| IMPROVEMENT OF INSTRUCTION | | | |
| Salaries | 212,822 | 188,847 | 165,101 |
| Employee benefits | 138,444 | 120,297 | 104,773 |
| Purchased services | 224,754 | 202,475 | 179,268 |
| Supplies and materials | 36,400 | 15,079 | 7,573 |
| Outgoing transfers | 8,000 | 6,576 | 2,615 |
| | 620,420 | 533,274 | 459,330 |
| SUPERVISION/DIRECTION OF INSTRUCTIONAL STAFF | | | |
| Salaries | 460,586 | 453,653 | 430,443 |
| Employee benefits | 320,950 | 315,390 | 278,535 |
| Purchased services | 28,140 | 25,152 | 54,422 |
| Supplies and materials | 8,500 | 7,498 | 4,062 |
| Other | 545 | 450 | 439 |
| | 818,721 | 802,143 | 767,901 |
| Total instructional support | 1,495,273 | 1,391,368 | 1,286,477 |

Special Education Fund
Statement of Revenues, Expenditures and Changes in Fund Balances

| | Year ended June 30 | | |
|---|---|---|---|
| | 2018 Final Budget | 2018 Actual | 2017 Actual |
| **EXPENDITURES (CONTINUED)** | | | |
| **GENERAL ADMINISTRATION** | | | |
| BOARD OF EDUCATION | | | |
| Purchased services | $ 10,500 | $ 9,963 | $ 5,667 |
| Total general administration | 10,500 | 9,963 | 5,667 |
| **BUSINESS SERVICES** | | | |
| FISCAL SERVICES | | | |
| Purchased services | 6,000 | 4,802 | 5,349 |
| | 6,000 | 4,802 | 5,349 |
| OTHER BUSINESS SERVICES | | | |
| Purchased services | 3,000 | 2,450 | 2,310 |
| Other | 58,500 | 57,561 | 41,381 |
| | 61,500 | 60,011 | 43,691 |
| Total business services | 67,500 | 64,813 | 49,040 |
| **OPERATION AND MAINTENANCE** | | | |
| OPERATIONS BUILDINGS SERVICES | | | |
| Salaries | 15,002 | 15,080 | 40,657 |
| Employee benefits | 27,383 | 26,751 | 32,073 |
| Purchased services | 57,731 | 53,929 | 26,516 |
| Supplies and materials | 36,226 | 34,604 | 31,010 |
| Capital outlay | 6,608 | 6,608 | 3,836 |
| Other | 500 | 252 | 248 |
| | 143,450 | 137,224 | 134,340 |
| Total operation and maintenance | 143,450 | 137,224 | 134,340 |
| **PUPIL TRANSPORTATION** | | | |
| PUPIL TRANSPORTATION | | | |
| Salaries | 17,000 | 16,325 | 8,386 |
| Employee benefits | 9,274 | 9,636 | 5,532 |
| Purchased services | 434,711 | 415,503 | 287,327 |
| Supplies and materials | 40,000 | 33,831 | 26,178 |
| Other | 150 | 19 | 80 |
| | 501,135 | 475,314 | 327,503 |
| Total pupil transportation | 501,135 | 475,314 | 327,503 |

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

Special Education Fund
Statement of Revenues, Expenditures and Changes in Fund Balances

| | Year ended June 30 | | |
|---|---|---|---|
| | 2018 Final Budget | 2018 Actual | 2017 Actual |
| **EXPENDITURES (CONTINUED)** | | | |
| **CENTRAL SERVICES** | | | |
| PLANNING AND RESEARCH | | | |
| Salaries | $ 23,211 | $ 23,211 | $ 25,252 |
| Employee benefits | 15,940 | 15,940 | 15,408 |
| Purchased services | 1,010 | 1,010 | 1,545 |
| Other | - | - | 45 |
| | 40,161 | 40,161 | 42,250 |
| STAFF/PERSONEL SERVICES | | | |
| Purchased services | 30,340 | 17,288 | 17,770 |
| | 30,340 | 17,288 | 17,770 |
| INFORMATION MANAGEMENT SERVICES | | | |
| Salaries | 47,157 | 46,864 | 43,524 |
| Employee benefits | 27,850 | 27,554 | 24,702 |
| Purchased services | 16,850 | 11,354 | 13,963 |
| Supplies and materials | 500 | - | 18 |
| Capital outlay | 30,000 | 20,275 | - |
| | 122,357 | 106,047 | 82,207 |
| Total central services | 192,858 | 163,496 | 142,227 |
| **OTHER SUPPORT SERVICES** | | | |
| Outgoing transfers | 10,000 | 9,967 | 10,000 |
| | 10,000 | 9,967 | 10,000 |
| Total other support services | 10,000 | 9,967 | 10,000 |
| Total supporting services | 4,929,360 | 4,716,290 | 4,295,987 |
| **COMMUNITY SERVICES** | | | |
| COMMUNITY ACTIVITIES | | | |
| Other | 250 | - | - |
| | 250 | - | - |
| NON-PUBLIC SCHOOLS PUPILS | | | |
| Salaries | 11,081 | 11,081 | 11,255 |
| Employee benefits | 7,478 | 7,539 | 7,086 |
| | 18,559 | 18,620 | 18,341 |

Special Education Fund
Statement of Revenues, Expenditures and Changes in Fund Balances

| | 2018 Final Budget | 2018 Actual | 2017 Actual |
|---|---|---|---|
| | Year ended June 30 | | |
| **EXPENDITURES (CONTINUED)** | | | |
| OTHER COMMUNITY SERVICES | | | |
| Purchased services | $ 1,050 | $ 199 | $ 687 |
| Supplies and materials | 650 | 231 | 474 |
| | 1,700 | 430 | 1,161 |
| Total community services | 20,509 | 19,050 | 19,502 |
| **PAYMENTS TO OTHER GOVERNMENTAL AGENCIES AND FACILITIES ACQUISITION** | | | |
| PAYMENTS TO OTHER PUBLIC SCHOOLS | | | |
| Act 18 | 1,375,151 | 1,375,151 | 1,146,507 |
| Medicaid | 237,564 | 237,564 | 172,942 |
| Outreach | 7,833 | 7,833 | 16,273 |
| Early intervention services | 15,000 | 15,165 | 5,812 |
| | 1,635,548 | 1,635,713 | 1,341,534 |
| SITE IMPROVEMENT SERVICES | | | |
| Capital outlay | 45,245 | 9,995 | - |
| | 45,245 | 9,995 | - |
| BUILDING IMPROVEMENTS SERVICES | | | |
| Capital outlay | 17,745 | 14,496 | 18,154 |
| | 17,745 | 14,496 | 18,154 |
| Total payments to other governmental agencies and facilities acquisition | 1,698,538 | 1,660,204 | 1,359,688 |
| Total expenditures | 7,592,583 | 7,307,613 | 6,601,622 |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | 112,037 | 315,280 | 658,634 |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Transfers from other funds | - | - | - |
| Transfers to other funds | (420,000) | (416,680) | (331,697) |
| | (420,000) | (416,680) | (331,697) |
| **EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES** | (307,963) | (101,400) | 326,937 |
| **FUND BALANCES,** beginning of the year | 4,533,833 | 4,533,833 | 4,206,896 |
| **FUND BALANCES,** end of the year | $ 4,225,870 | $ 4,432,433 | $ 4,533,833 |

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

Agency Fund
Balance Sheet

| | June 30 2018 | June 30 2017 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 20,640 | $ 13,935 |
| Total assets | $ 20,640 | $ 13,935 |
| **LIABILITIES AND FUND BALANCES** | | |
| Liabilities | | |
| Due to student activities | $ 20,640 | $ 13,935 |
| Total liabilities | 20,640 | 13,935 |
| Fund Balances | | |
| Unassigned | - | - |
| Total fund balances | - | - |
| Total liabilities and fund balances | $ 20,640 | $ 13,935 |

## ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

Agency Fund
Statement of Receipts, Disbursements and Deposits Held

| | Balances June 30, 2017 | Additions | Reductions | Balances June 30, 2018 |
|---|---|---|---|---|
| **STUDENT ACTIVITIES** | | | | |
| Advances | $ 1,268 | $ 20,085 | $ (21,353) | $ - |
| Pop/Beverage Fund | 952 | 5,520 | (5,533) | 939 |
| Greenhouse | 3,853 | 6,189 | (5,386) | 4,656 |
| Piper Fund | 7,267 | 8,125 | (4,626) | 10,766 |
| Living with ASD | 454 | - | - | 454 |
| Circle of Friends | 141 | - | (80) | 61 |
| Huron Shores ED Tech Conference | - | 2,269 | (1,306) | 963 |
| Region 1 Conference | - | 5,851 | (3,060) | 2,791 |
| Aspiring Educator Scholarship | - | 1,096 | (1,086) | 10 |
| | $ 13,935 | $ 49,135 | $ (42,430) | $ 20,640 |

# FEDERAL FINANCIAL ASSISTANCE

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Straley Lamp & Kraenzlein P.C.
Certified Public Accountants

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Bernard R. Lamp, CPA
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J. Michael Kearly
Donald C. Levren

## 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

### Report on the Financial Statements

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, 2018, 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 1, 2018.

### 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.



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## 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 1, 2018

Straley Lamp & Kraenzlein P.C.
Certified Public Accountants

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

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

### Report on Compliance for Each Major Federal Program

We have audited the **Alpena-Montmorency-Alcona Educational Service District's** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of **Alpena-Montmorency-Alcona Educational Service District's** major federal programs for the year ended June 30, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **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 **Alpena-Montmorency-Alcona Educational Service District's** compliance.



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**Opinion on Each Major Federal Program**

In our opinion, **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, 2018.

**Report on Internal Control over Compliance**

Management of **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 **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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **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.

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

Straley Lamp & Kraenzlein P.C.

October 1, 2018

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

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2018

| Program Title/Project Number/Subrecipient Name | Grant/Project Number | Federal CFDA Number | Approved Awards Amount | (Memo Only) Prior Year Expenditure |
|---|---|---|---|---|
| U.S. Department of Agriculture | | | | |
| Passed through State of Michigan Department of Education: | | | | |
| Child and Adult Care Food Program | | 10.558 | | |
| Child and Adult Care Food Program 16/17 | 171920 | | $ 16,232 | $ 15,004 |
| Child and Adult Care Food Program 16/17 | 172010 | | 768 | 745 |
| Child and Adult Care Food Program 17/18 | 181920 | | 11,428 | - |
| Child and Adult Care Food Program 17/18 | 182010 | | 283 | - |
| | | | 28,711 | 15,749 |
| U.S. Department of Education | | | | |
| Passed through State of Michigan Department of Education: | | | | |
| Special Education Cluster: | | | | |
| Special Education - Grants to States | | * 84.027 | | |
| Special Ed Flowthrough | | | | |
| IDEA Special Education Flow-Through 15/16 | 160450 15-16 | | 1,331,784 | 1,331,784 |
| IDEA Special Education Flow-Through 16/17 | 170450 16-17 | | 1,378,578 | 678,693 |
| IDEA Special Education Flow-Through 17/18 | 180450 17-18 | | 1,367,944 | - |
| | | | 4,078,306 | 2,010,477 |
| Enhancing Opportunities ESOD | | | | |
| State initiated EOSD 16/17 | 170480 16-17 | | 45,000 | 45,000 |
| State initiated EOSD 17/18 | 180480 17-18 | | 45,000 | - |
| | | | 90,000 | 45,000 |
| Transition Coordinator | | | | |
| Transition Coordinator 16/17 | 170490 16-17 | | 50,000 | 50,000 |
| Transition Coordinator 17/18 | 180491 TC | | 50,000 | - |
| | | | 100,000 | 50,000 |
| Special Education - Preschool | | * 84.173 | | |
| IDEA Preschool Incentive 16/17 | 170460 16-17 | | 36,068 | 36,038 |
| IDEA Preschool Incentive 17/18 | 180460 17-18 | | 35,897 | - |
| | | | 71,965 | 36,038 |
| Total Special Education Cluster | | | 4,340,271 | 2,141,515 |

* - Major Program

| Revenue Accrued (Unearned) at June 30, 2017 | Current Year Receipts | Current Year Adjustments and Transfers | Current Year Expenditures | Revenue Accrued (Unearned) at June 30, 2018 | Current Year Cash Transferred To Subrecipients |
|---|---|---|---|---|---|
| $ - | $ 1,228 | $ - | $ 1,228 | $ - | $ - |
| - | 23 | - | 23 | - | - |
| - | 11,296 | - | 11,428 | 132 | - |
| - | 277 | - | 283 | 6 | - |
| - | 12,824 | - | 12,962 | 138 | - |
| 121,185 | 121,185 | - | - | - | - |
| 132,743 | 713,402 | - | 699,885 | 119,226 | - |
| - | 530,000 | - | 650,961 | 120,961 | - |
| 253,928 | 1,364,587 | - | 1,350,846 | 240,187 | - |
| 12,000 | 12,000 | - | - | - | - |
| - | 38,000 | - | 45,000 | 7,000 | - |
| 12,000 | 50,000 | - | 45,000 | 7,000 | - |
| 9,875 | 9,875 | - | - | - | - |
| - | 43,735 | - | 50,000 | 6,265 | - |
| 9,875 | 53,610 | - | 50,000 | 6,265 | - |
| 8,330 | 8,330 | - | - | - | - |
| - | 28,358 | - | 35,897 | 7,539 | - |
| 8,330 | 36,688 | - | 35,897 | 7,539 | - |
| 284,133 | 1,504,885 | - | 1,481,743 | 260,991 | - |

See Notes to Schedule of Expenditures of Federal Awards.

| Program Title/Project Number/Subrecipient Name | Grant/Project Number | Federal CFDA Number | Approved Awards Amount | (Memo Only) Prior Year Expenditure |
|---|---|---|---|---|
| U.S. Department of Education (Continued) | | | | |
| Passed through State of Michigan Department of Education: | | | | |
| Special Education - Grants for Infants and Families | | 84.181 | | |
| Infants & Toddlers Early On Grant 16/17 | 171340 16-17 | | $ 82,118 | $ 33,623 |
| Infants & Toddlers Early On Grant 17/18 | 181340 17-18 | | 89,322 | - |
| | | | 171,440 | 33,623 |
| Race to the Top - Early Learning Challenge | | 84.412 | | |
| RTT - Trust Advisors | 144720 16-17 | | 24,500 | - |
| | | | 24,500 | - |
| Passed through Early Childhood Investment Corporation: | | | | |
| Race to the Top - Early Learning Challenge | | 84.412 | | |
| Alcona GSRP | X90482 | | 4,409 | 4,219 |
| Wilson Preschool | X90483 | | 787 | 769 |
| Lincoln Preschool | X90484 | | 2,109 | 2,067 |
| Ella White GSRP | X90485 | | 4,388 | 4,359 |
| Hillman Fabulous Fours | X90516 | | 3,513 | 3,509 |
| Atlanta Preschool | X90517 | | 1,262 | 1,257 |
| | | | 16,468 | 16,180 |
| Total U.S. Department of Education | | | 4,552,679 | 2,191,318 |
| U.S. Department of Health and Human Services | | | | |
| Passed through Michigan Department of Social Services and Michigan Department of Public Health: | | | | |
| Medical Assistance Program | | 93.778 | | |
| Medicaid Administrative Outreach Claims | N/A | | 17,949 | - |
| | | | 17,949 | - |
| TOTAL FEDERAL AWARDS | | | $ 4,599,339 | $ 2,207,067 |

| Revenue Accrued (Unearned) at June 30, 2017 | Current Year Receipts | Current Year Adjustments and Transfers | Current Year Expenditures | Revenue Accrued (Unearned) at June 30, 2018 | Current Year Cash Transferred To Subrecipients |
|---|---|---|---|---|---|
| $ 17,353 | $ 17,353 | $ - | $ - | $ - | $ - |
| - | 64,321 | - | 71,616 | 7,295 | - |
| 17,353 | 81,674 | - | 71,616 | 7,295 | - |
| | | | | | |
| - | 24,500 | - | 24,500 | - | - |
| - | 24,500 | - | 24,500 | - | - |
| | | | | | |
| (190) | - | - | 190 | - | - |
| (18) | - | - | 18 | - | - |
| (42) | - | - | 42 | - | - |
| (29) | - | - | 29 | - | - |
| (4) | - | - | 4 | - | - |
| (5) | - | - | 5 | - | - |
| (288) | - | - | 288 | - | - |
| | | | | | |
| 301,198 | 1,611,059 | - | 1,578,147 | 268,286 | - |
| | | | | | |
| - | 17,949 | - | 17,949 | - | - |
| - | 17,949 | - | 17,949 | - | - |
| | | | | | |
| $ 301,198 | $ 1,641,832 | $ - | $ 1,609,058 | $ 268,424 | $ - |

See Notes to Schedule of Expenditures of Federal Awards.

## NOTE 1 - BASIS OF PRESENTATION.

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal award activity of the Alpena-Montmorency-Alcona Educational Service District under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 assets, or cash flows of the Alpena-Montmorency-Alcona Educational Service District.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUTNG POLICIES.

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

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

The Alpena-Montmorency-Alcona Educational Service District has formatted the Schedule to conform to the recommendations of the Michigan Department of Education. The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

## NOTE 3 - INDIRECT COST RATE.

The Alpena-Montmorency-Alcona Educational Service District has elected not to use the 10 percent de minimis indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

The Alpena-Montmorency-Alcona Educational Service District has used the approved indirect cost rate for federal award expenditures for fiscal year 2018 assigned by the Michigan Department of Education Office of State Aid and School Finance calculation of 12.05% for the year ended June 30, 2018.

## NOTE 4 - RELATIONSHIP TO GOVERNMENTAL FUND FINANCIAL STATEMENTS.

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

| | | Federal Revenues |
|---|---|---|
| General Fund | $ | 37,750 |
| Special Revenue Funds: | | |
| Special Education Fund | | 1,716,719 |
| Total Federal Revenues | $ | 1,754,469 |
| Federal Sources received not subject to the Uniform Guidance: | | |
| MIBLSI Information Specialist (IS) 16/17 | | (36,843) |
| MIBLSI Information Specialist (IS) 17/18 | | (108,568) |
| Total expenditures per the Schedule of Expenditures of Federal Awards (SEFA) | $ | 1,609,058 |

## NOTE 5 - 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 6 - 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) Cash Management System (CMS) | $ | 1,623,882 |
| Add items not on CMS report: | | |
| Amounts received through Michigan Department of Social Services and Michigan Department of Public Health | | |
| Medicaid Outreach | | 17,949 |
| Rounding | | 1 |
| Total current year receipts (cash basis) per the Schedule of Expenditures of Federal Awards (SEFA) | $ | 1,641,832 |

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

Schedule of Findings and Questioned Costs

For the year ended June 30, 2018

## SECTION I - SUMMARY OF AUDITORS' RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Alpena-Montmorency-Alcona Educational Service District were prepared in accordance with GAAP.

2. No material weakness in internal control relating to the audit of the financial statements is reported in the 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*.

3. No instances of noncompliance material to the financial statements of Alpena-Montmorency-Alcona Educational Service District were disclosed during the audit.

4. No material weaknesses relating to the audit of internal control over major federal award programs are reported in the Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.

5. The auditor's report on compliance for the major federal award programs for Alpena-Montmorency-Alcona Educational Service District expresses an unmodified opinion.

6. There are no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a).

7. The program tested as a major program was: Special Education Cluster, CFDA 84.027A and 84.173A

8. The dollar threshold for distinguishing Types A and B programs was $750,000.

9. Alpena-Montmorency-Alcona Educational Service District qualified as a low-risk auditee.

## SECTION II - FINANCIAL STATEMENT FINDINGS

None noted in the current year.

## SECTION III - FEDERAL PROGRAM AUDIT FINDINGS

None noted in the current year.

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

Report on Prior Audit Findings

For the year ended June 30, 2018

| Program | Finding | Questioned Costs |
|---|---|---|

There were no findings or questioned costs noted in the prior year.

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