

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

Audited Financial Statements and  
Other Supplementary Financial Information

Year Ended June 30, 2017

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

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

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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, 2017, 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, 2017 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, major funds budgetary comparison schedules, the schedule of the proportionate share of the net pension liability, and the schedule of the pension contributions, 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 3, 2017 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 Kamp & Kraenzlein P.C.*

October 3, 2017

# ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

## Management's Discussion and Analysis

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The following is management's discussion and analysis of the financial position and results of operations for the fiscal year ended June 30, 2017. 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

##### 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

# ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

## Management's Discussion and Analysis

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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.

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

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

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

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

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

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

### **The Educational Service District as a Whole**

Recall that the statement of net position provides the perspective of the Educational Service District as a whole. Table 1 provides a summary of the Educational Service District's net position as of June 30, 2017 and 2016:



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

Management's Discussion and Analysis

TABLE 1

	2017	2016
<b>ASSETS</b>		
Current and Other Assets	\$ 7,344,539	\$ 6,936,350
Property and Equipment	1,098,944	1,157,090
 Total assets	 8,443,483	 8,093,440
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
	1,472,019	875,846
<b>LIABILITIES</b>		
Current Liabilities	1,772,498	1,701,842
Long-term Liabilities	10,201,092	9,737,628
 Total liabilities	 11,973,590	 11,439,470
<b>DEFERRED INFLOWS OF RESOURCES</b>		
	473,971	203,892
<b>NET POSITION</b>		
Invested in capital assets	1,098,944	1,157,090
Restricted	4,500,081	4,170,131
Unrestricted	(8,131,084)	(8,001,297)
 Total net position	 \$ (2,532,059)	 \$ (2,674,076)

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 \$(2,532,059) at June 30, 2017. Capital assets net position of \$1,098,944 compares the original cost, less depreciation of the Educational Service District's capital assets. Restricted net position consisted of \$4,500,081 as restricted for special education purposes. The remaining \$(8,131,084) deficit net position was unrestricted.

The negative \$(2,532,059) 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 is similar to a year ago, but has grown significantly from several years prior, directly as a result of the adoption of GASB Statement Number 68 and the recognition of long-term pension liability. The adoption of GASB 68 and the impact of the statement are explored in more depth in Note 9. 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 2017 as compared to 2016.

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

Management's Discussion and Analysis

TABLE 2

	<u>2017</u>	<u>2016</u>
<b>REVENUE</b>		
Program Revenue:		
Charges for services	\$ 372,640	\$ 402,329
Operating grants	1,969,305	1,623,951
General revenue:		
Property taxes	4,146,028	5,305,719
State aid	3,556,189	2,212,305
Investment earnings	61,255	44,139
Miscellaneous	<u>18,782</u>	<u>7,609</u>
 Total revenue	 <u>\$ 10,124,199</u>	 <u>\$ 9,596,052</u>
 <b>FUNCTIONS/PROGRAM EXPENSES</b>		
Instruction	\$ 1,798,126	\$ 1,747,753
Support services	6,330,708	5,809,176
Community services	117,579	94,977
Interdistrict transfers	1,576,838	1,342,239
Payment to not for profit agencies	31,749	188,773
Depreciation (unallocated)	<u>127,182</u>	<u>114,163</u>
 Total expenses	 <u>9,982,182</u>	 <u>9,297,081</u>
 <b>INCREASE IN NET POSITION</b>	 <u>\$ 142,017</u>	 <u>\$ 298,971</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$9,664,131. Certain activities were partially funded from those who benefited from the programs \$372,640, or by other governments and organizations that subsidized certain programs with grants and contributions \$1,969,305. The Educational Service District paid for the remaining "public benefit" portion of our governmental activities with \$4,146,028 in taxes, \$3,238,138 in state aid, \$61,255 of investments earnings and with miscellaneous other revenues of \$18,782.

The Alpena-Montmorency-Alcona Educational Service District experienced an increase in net position of \$142,017. During the year, the District had capital additions of \$69,036, offset by depreciation expense of \$127,182.

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.

# ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

## Management's Discussion and Analysis

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### **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 \$5,572,041, which is an increase of \$337,533 from last year. The primary reason for the increase is additional revenue generated in the General Fund and Special Education Fund was revenue through state reimbursements, aid and the usage of federal grants in the Special Education Fund.

The General Fund balance available to fund general operations costs for administrative and support services remains stable at \$1,038,208, an increase of \$10,596 from the prior year. The increase in fund balance can be attributed to additional revenue generated in both state and local sources.

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 \$4,533,833, an increase of \$326,937 from the prior year. The increase in fund balance can be attributed to additional state aid and federal support.

### **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, 2016. 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 08, 2017. (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 2016-2017 fiscal year end.

### **Capital Assets and Debt Administration**

At June 30, 2017, the Educational Service District had \$1,098,944 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 \$58,146 from last year.

ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

Management's Discussion and Analysis

TABLE 3

	2017	2016
Assets not being depreciated – Land	\$ 152,248	\$ 152,248
Land improvements	173,514	173,514
Building improvements	2,348,032	2,316,283
Office and computer equipment	844,504	839,933
Vehicles	100,573	120,551
Total capital assets	3,618,871	3,602,529
Less accumulated depreciation	(2,519,927)	(2,445,439)
Net capital assets	\$ 1,098,944	\$ 1,157,090

**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 2017-18 fiscal year budgets. The 2017-18 fiscal year budgets were adopted in June, 2017 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 2017-18 fiscal year budgets.

The Educational Service District, like all local governments and schools, has seen a decrease in local property tax revenue attributable to a decline in property values. Under state law, the Educational Service District cannot access additional property taxes for operations without a vote by the electorate. As a result, local funding increases are limited. The District did receive approval by the electorate in 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 2017-18 should remain stable compared to previous years. The outlook for federal sources will also be stagnant. Once all grants, pupil counts, and state aid calculations are received, state law requires the Educational Service District to amend the budget if actual resources are not sufficient to fund original appropriations.

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

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

## ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

### Management's Discussion and Analysis

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The General Fund expects an increase in the fund balance in 2017-2018 due to retirements, staffing changes and increased reimbursements from Local Educational Agencies for services performed. The Special Education Fund anticipates a decrease in fund balance in 2017-2018 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.

#### **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, 2017

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 337,445
Taxes receivable	64,759
Accounts receivable	17,148
Due from other governmental units	1,007,501
Interest receivable on investments and deposits	12,298
Investments	5,860,868
Prepaid expenses	44,520
Capital assets not being depreciated	152,248
Capital assets being depreciated - net of depreciation	<u>946,696</u>
 Total assets	 <u>8,443,483</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to pensions	<u>1,472,019</u>
<b>LIABILITIES</b>	
Accounts payable	150,330
Due to other governmental units	68,225
Accrued expenditures	235,639
Salaries payable	443,409
Unearned revenue	874,895
Long-term liabilities	
Net pension liability	<u>10,201,092</u>
 Total liabilities	 <u>11,973,590</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to pensions	155,920
State aid funding for pension	<u>318,051</u>
 Total deferred inflows of resources	 <u>473,971</u>
<b>NET POSITION</b>	
Investment in capital assets	1,098,944
Restricted:	
Special Education	4,500,081
Unrestricted (deficit)	<u>(8,131,084)</u>
 Total net position	 <u>\$ (2,532,059)</u>



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

Statement of Activities

June 30, 2017

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
<b>FUNCTION / PROGRAMS</b>				
Instruction	\$ 1,754,871	\$ 800	\$ 164,052	\$ (1,590,019)
Supporting services	6,056,866	371,840	1,768,954	(3,916,072)
Community services	116,625	-	36,299	(80,326)
Interdistrict transfers	1,576,838	-	-	(1,576,838)
Payment to not-for-profit entities	31,749	-	-	(31,749)
Depreciation - unallocated	127,182	-	-	(127,182)
<b>Total Governmental Activities</b>	<b>9,664,131</b>	<b>372,640</b>	<b>1,969,305</b>	<b>(7,322,186)</b>
General Revenues:				
Property taxes, levied for general purposes				405,260
Property taxes, levied for special education				3,740,768
State aid				3,238,138
Investment earnings				61,255
Miscellaneous				18,782
Total general revenues				7,464,203
Change in net position				142,017
Net position - beginning of year				(2,674,076)
Net position - end of the year				\$ (2,532,059)

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

Governmental Funds - Balance Sheet

June 30, 2017

	<u>General Fund</u>	<u>Special Education Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 262,948	\$ 74,497	\$ 337,445
Taxes receivable	6,608	58,151	64,759
Accounts receivable	12,096	5,052	17,148
Due from other funds	-	34,356	34,356
Due from other governmental units	358,376	649,125	1,007,501
Interest receivable on investments and deposits	5,835	6,463	12,298
Investments	1,579,752	4,281,116	5,860,868
Prepaid expenses	10,768	33,752	44,520
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u><u>\$ 2,236,383</u></u>	<u><u>\$ 5,142,512</u></u>	<u><u>\$ 7,378,895</u></u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 130,643	\$ 19,687	\$ 150,330
Due to other funds	34,356	-	34,356
Due to other governmental units	48,470	19,755	68,225
Accrued expenditures	38,908	196,731	235,639
Salaries payable	70,903	372,506	443,409
Unearned revenue	874,895	-	874,895
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	<u>1,198,175</u>	<u>608,679</u>	<u>1,806,854</u>
Fund balances			
Nonspendable	10,768	33,752	44,520
Restricted	-	4,500,081	4,500,081
Unassigned	1,027,440	-	1,027,440
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balances	<u>1,038,208</u>	<u>4,533,833</u>	<u>5,572,041</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and fund balances	<u><u>\$ 2,236,383</u></u>	<u><u>\$ 5,142,512</u></u>	<u><u>\$ 7,378,895</u></u>

ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

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

June 30, 2017

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Total Governmental Fund Balances		\$	5,572,041
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		3,466,623	
Less: Accumulated depreciation		<u>(2,519,927)</u>	
			1,098,944
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 pension liability and related deferred inflows and outflows			(8,884,993)
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.			
			<u>(318,051)</u>
Total Net Position - Governmental Activities		\$	<u><u>(2,532,059)</u></u>

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

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

Year ended June 30, 2017

	<u>General Fund</u>	<u>Special Education Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Local sources	\$ 437,714	\$ 4,041,781	\$ 4,479,495
State sources	2,035,043	1,624,535	3,659,578
Federal sources	33,664	1,579,366	1,613,030
Other local revenue	357,522	5,807	363,329
Other sources	-	8,767	8,767
	<u>2,863,943</u>	<u>7,260,256</u>	<u>10,124,199</u>
<b>EXPENDITURES</b>			
Instruction	852,999	926,445	1,779,444
Supporting services	1,985,481	4,295,987	6,281,468
Community services	97,665	19,502	117,167
Payments to other governmental agencies	235,304	1,341,534	1,576,838
Facilities acquisition	13,595	18,154	31,749
	<u>3,185,044</u>	<u>6,601,622</u>	<u>9,786,666</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(321,101)</u>	<u>658,634</u>	<u>337,533</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other funds	331,697	-	331,697
Transfers to other funds	-	(331,697)	(331,697)
	<u>331,697</u>	<u>(331,697)</u>	<u>-</u>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	10,596	326,937	337,533
<b>FUND BALANCES, beginning of the year</b>	<u>1,027,612</u>	<u>4,206,896</u>	<u>5,234,508</u>
<b>FUND BALANCES, end of the year</b>	<u>\$ 1,038,208</u>	<u>\$ 4,533,833</u>	<u>\$ 5,572,041</u>

**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, 2017

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Total net change in fund balances - governmental funds \$ 337,533

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	\$ 69,036	
Depreciation expense	<u>(127,182)</u>	(58,146)

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 pension expense	<u>(137,370)</u>
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Change in net position of governmental activities	<u><u>\$ 142,017</u></u>
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**ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT**

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

June 30, 2017

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	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 13,935</u>
Total assets	<u><u>\$ 13,935</u></u>
<b>LIABILITIES</b>	
Due to student activities	<u>\$ 13,935</u>
Total liabilities	<u><u>\$ 13,935</u></u>

# ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

## Notes to Financial Statements

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### 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.

# ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

## Notes to Financial Statements

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### 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.



ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

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**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, 2017, 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 School 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.

ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

**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, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

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

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

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

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

**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.

# ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

## Notes to Financial Statements

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

**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 (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. 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 36.1% 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.

# ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

## Notes to Financial Statements

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

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

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

**Net Position.** Net position represents the difference between assets, 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, 2016 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.

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

Notes to Financial Statements

**NOTE 2 - LEGAL COMPLIANCE.** (continued)

During the year ended June 30, 2017, the Educational Service District did not incur expenditures in certain budgetary funds which were more than the amounts appropriated. P.A. 621 provides that an Educational Service District shall not incur expenditures in excess of the amount appropriated.

**NOTE 3 - DEPOSITS AND INVESTMENTS.**

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

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents:			
Cash - Petty cash	\$ 250	\$ -	\$ 250
Cash - Checking/Savings	20,767	13,935	34,702
Municipal NOW accounts	309,019	-	309,019
Cash Management Funds - MILAF	7,409	-	7,409
	<u>\$ 337,445</u>	<u>\$ 13,935</u>	<u>\$ 351,380</u>
Investments:			
Certificate of Deposits/CDARS	\$ 3,363,787	\$ -	\$ 3,363,787
MILAF Max Plus	497,081	-	497,081
MILAF Term	2,000,000	-	2,000,000
	<u>\$ 5,860,868</u>	<u>\$ -</u>	<u>\$ 5,860,868</u>

As of June 30, 2017, the Educational Service District had the following investments:

<u>Investment Type</u>	<u>Not Measured at Fair Value</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Standard &amp; Poor's Rating</u>	<u>Percentage</u>
Certificates of Deposit/CDARS	\$ -	\$ 3,363,787	1.0063	N/A	57.4%
MILAF Max Plus	497,081	-	0.0000	AAAm	8.5%
MILAF Term	2,000,000	-	2.2140	N/A	34.1%
Total	<u>\$2,497,081</u>	<u>\$ 3,363,787</u>			

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

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

Notes to Financial Statements

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

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.

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	\$ -	\$ -	\$ 3,363,787	\$ -	\$ 3,363,787
MILAF Max Plus	497,081	-	-	-	497,081
MILAF Term	2,000,000	-	-	-	2,000,000
	<u>\$ 2,497,081</u>	<u>\$ -</u>	<u>\$ 3,363,787</u>	<u>\$ -</u>	<u>\$ 5,860,868</u>

**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, 2017, 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, 2017, \$149,451 of the Educational Service District's bank balance of \$415,769 was exposed to custodial credit risk because it was uninsured and uncollateralized.

ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

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

**Custodial Credit Risk – Agency Deposits.** As of June 30, 2017, the Educational Service District’s agency bank balance of \$13,935 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, 2017, there was \$2,497,964 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 \$5,860,868.

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, 2017: Flagstar Bank, Fifth Third Bank, First Federal, CDARS a service of Promontory International Network LLC, Michigan Liquid Asset Fund, HPC Credit Union, Huntington Bank, Alpena Alcona Area Credit Union, Independent Bank, and Chemical Bank.

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

**NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES.**

Interfund receivable and payable balances at June 30, 2017 are as follows:

Fund	Receivable	Payable
General Fund	\$ 34,356	\$ -
Special Education Fund	-	34,356
Totals	\$ 34,356	\$ 34,356

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

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

Notes to Financial Statements

**NOTE 5 - CAPITAL ASSETS.**

Capital assets activity for the fiscal year ended June 30, 2017 was as follows:

	<u>Balances June 30, 16</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balances June 30, 17</u>
Capital assets not being depreciated:				
Land	\$ 152,248	\$ -	\$ -	\$ 152,248
Capital assets being depreciated:				
Land improvements	173,514	-	-	173,514
Building and improvements	2,316,283	31,749	-	2,348,032
Office and computer	839,933	37,287	(32,716)	844,504
Vehicles	120,551	-	(19,978)	100,573
	<u>3,450,281</u>	<u>69,036</u>	<u>(52,694)</u>	<u>3,466,623</u>
Less accumulated depreciation:				
Land improvements	(119,239)	(9,727)	-	(128,966)
Buildings and improvements	(1,392,810)	(70,214)	-	(1,463,024)
Office and computer	(822,147)	(41,764)	32,716	(831,195)
Vehicle	(111,243)	(5,477)	19,978	(96,742)
	<u>(2,445,439)</u>	<u>(127,182)</u>	<u>52,694</u>	<u>(2,519,927)</u>
	<u>1,004,842</u>	<u>(58,146)</u>	<u>-</u>	<u>946,696</u>
Net capital assets	<u>\$ 1,157,090</u>	<u>\$ (58,146)</u>	<u>\$ -</u>	<u>\$ 1,098,944</u>

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



ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

**NOTE 6 - FUND BALANCE RESERVATIONS AND DESIGNATIONS.**

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

	<u>2017</u>
General Fund	
Nonspendable for prepaid	<u>\$ 10,768</u>
Total General Fund	<u>\$ 10,768</u>
Special Educational Fund	
Nonspendable for prepaid	\$ 33,752
Restricted for special education	<u>4,500,081</u>
Total Special Education Fund	<u>\$ 4,533,833</u>

**NOTE 7 - PROPERTY TAXES.**

The assessed values of real and personal property situated in the Educational Service District are established annually by local taxing authorities as of December 31, and are equalized by the State at an estimated 50 percent of current market value. The property tax is levied on July 1 and becomes delinquent after September 14 for Alcona County residents and July 31 for City of Alpena residents, with the remainder levied December 1 and payable by February 14. Uncollected property taxes as of March 1 are added to the County delinquent tax rolls. By agreement with the various counties, the Counties purchase at face value the real property taxes receivable returned delinquent each March 1. The property value used for determining the amount of property tax levied is known as the "taxable value" (TV). This differs from the State Equalized Value (SIV) by increases being limited to a cost-of-living adjustment or five (5) percent, whichever is less. The taxable value for the 2016-2017 school year in the Educational Service District was established at \$1,861,789,345. General Education Millage of .2139 and Special Education Millage of 1.9743 mills have been approved by the voters of the district.

**NOTE 8 - 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, 2017, the Educational Service District's tax revenues were reduced by approximately \$8,300 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.

# ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

## Notes to Financial Statements

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### NOTE 9 - DEFINED BENEFIT PENSION PLAN

#### A. Plan Description.

The Michigan Public School Employees' Retirement System (System or MPERS) 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](http://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 calculated as final average compensation times years of service times 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.

ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

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**NOTE 9 - DEFINED BENEFIT PENSION PLAN.** (continued)

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.

The range of rates are as follows:

October 1, 2015 – September 30, 2016	14.56% - 18.95%
October 2, 2016 – June 30, 2017	15.27% - 19.03%

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, 2017 were \$1,005,246. The Educational Service District's required and actual contributions include an allocation of \$318,051 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, 2017.

**B. Pension Liabilities.**

At June 30, 2017, the Educational Service District reported a liability of \$10,201,092 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2015. 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, 2016 the Educational Service District's proportion was 0.0409%, which was an increase of .0001% from its proportion measured as of September 30, 2015.

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

For the year ended June 30, 2017, the Educational Service District recognized pension expense of \$977,019. At June 30, 2017, the Educational Service District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

Notes to Financial Statements

**NOTE 9 - DEFINED BENEFIT PENSION PLAN.** (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 127,133	\$ 24,177
Changes of assumptions	159,486	-
Net difference between projected and actual earnings on pension plan investments	169,542	-
Changes in proportion and differences between Educational Service Districts and proportionate share of contributions	190,749	131,743
Educational Service District contributions subsequent to the measurement date	<u>825,109</u>	<u>-</u>
Total	<u>\$ 1,472,019</u>	<u>\$ 155,920</u>

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)

<u>Year Ending September 30</u>	<u>Amount</u>
2017	\$ 85,060
2018	\$ 71,727
2019	\$ 263,148
2020	\$ 71,055

**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.

ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

Notes to Financial Statements

**NOTE 9 - DEFINED BENEFIT PENSION PLAN.** (continued)

Additional information as of the latest actuarial valuation follows:

**Summary of Actuarial Assumptions**

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid):	7.0%
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, 2016, is based on the results of an actuarial valuation date of September 30, 2015, 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: [4.6273 for non-university employers 1.2456 for university employers].*
- *Recognition period for assets in years is 5.000.*
- *Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report. ([www.michigan.gov/mpsers-cafr](http://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, 2016, are summarized in the following table:

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

Notes to Financial Statements

**NOTE 9 - DEFINED BENEFIT PENSION PLAN.** (continued)

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.9%
% Alternative Investment Pools	18.0%	9.2%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	0.9%
Real Estate and Infrastructure Pools	10.0%	4.3%
Absolute Return Pools	15.5%	6.0%
Short Term Investment Pools	2.0%	0.0%
TOTAL	<u>100.0%</u>	

\*Long term rate of return does not include 2.1% inflation.

**Discount Rate**

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

**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 8.0% (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) 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 8.0% / 7.0%	1% Decrease (Non-Hybrid/Hybrid) 9.0% / 8.0%
<u>\$ 13,136,438</u>	<u>\$ 10,201,092</u>	<u>\$ 7,726,312</u>

**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](http://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.

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

Notes to Financial Statements

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**NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS (OPEB).**

Under the MPSERS act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10%, or 20% for those not Medicare eligible, of the monthly premium amount for the health, dental and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate ranged from 6.4% to 6.83% of covered payroll for the period from July 1, 2016 to September 30, 2016 and from 5.69% to 5.91% of covered payroll for the period from October 1, 2016 through June 30, 2017 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3% of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3% contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2% employee contribution into their 457 accounts as of their transition date and create a 2% employer match into the employee's 403B account.

The Educational Service District's contribution to the plan for retiree healthcare benefits for the years ended June 30, 2017 was \$332,955. In addition, a portion ranging from 35%-100% of the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate is considered a contribution to the retiree healthcare plan.

**NOTE 11 - INTERFUND TRANSFERS.**

The Special Education transferred \$331,697 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 12 - RISK MANAGEMENT.**

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

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

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

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

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

Notes to Financial Statements

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**NOTE 13 - 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 14 - SUBSEQUENT EVENTS.**

Management has evaluated subsequent events through October 3, 2017, 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, 2017

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 415,788	\$ 432,543	\$ 437,714	\$ 5,171
State sources	2,919,440	2,910,331	2,035,043	(875,288)
Federal sources	14,000	33,468	33,664	196
Incoming transfers	673,442	692,450	689,219	(3,231)
Total revenues	4,022,670	4,068,792	3,195,640	(873,152)
<b>EXPENDITURES</b>				
<b>Instructional Services</b>				
Instructional services	482,539	557,432	503,880	53,552
Great Start grant	290,276	291,345	182,202	109,143
Math/Science grant	52,387	57,856	41,700	16,156
Great Start readiness	2,060,586	1,974,258	1,247,913	726,345
	2,885,788	2,880,891	1,975,695	905,196
<b>Administrative and Support Services</b>				
Leadership / governance	414,416	436,932	430,458	6,474
Business / compliance	527,004	544,346	535,239	9,107
Operation and maintenance	195,308	192,503	174,804	17,699
Technology services	100,369	78,156	68,848	9,308
	1,237,097	1,251,937	1,209,349	42,588
Total expenditures	4,122,885	4,132,828	3,185,044	947,784
<b>CURRENT CHANGE IN FUND BALANCE</b>	(100,215)	(64,036)	10,596	74,632
<b>FUND BALANCES</b> , beginning of the year	928,715	1,027,612	1,027,612	-
<b>FUND BALANCES</b> , end of the year	\$ 828,500	\$ 963,576	\$ 1,038,208	\$ 74,632

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

Required Supplemental Information  
Budgetary Comparison Schedule - Special Education Fund

Year ended June 30, 2017

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 4,061,798	\$ 4,032,052	\$ 4,041,781	\$ 9,729
State sources	1,507,256	1,626,525	1,624,535	(1,990)
Federal sources	2,003,349	1,780,392	1,579,366	(201,026)
Incoming transfers / other	15,000	14,672	14,574	(98)
<b>Total revenues</b>	<b>7,587,403</b>	<b>7,453,641</b>	<b>7,260,256</b>	<b>(193,385)</b>
<b>EXPENDITURES</b>				
<b>Direct Instruction</b>				
Pied Piper - MoCI	331,472	327,383	317,899	9,484
Pied Piper - SCI	467,522	411,470	404,395	7,075
ECDD classroom	199,775	207,278	204,151	3,127
	<u>998,769</u>	<u>946,131</u>	<u>926,445</u>	<u>19,686</u>
<b>Instructional Support</b>				
Psychological services	800,273	655,482	647,520	7,962
Hearing impaired	15,000	500	65	435
Learning disabilities	112,373	96,334	95,370	964
Cognitively impaired	228,942	225,950	222,689	3,261
Autistic impaired	136,937	137,644	136,451	1,193
Speech therapy	665,131	634,982	625,637	9,345
Social work	26,272	42,747	42,604	143
Early intervening	365,246	373,978	318,225	55,753
Occupational therapy	151,428	152,799	136,883	15,916
Physical therapy	75,500	75,500	62,153	13,347
Improvement of instruction	55,000	61,243	15,587	45,656
Regional MIBLSI	208,415	192,209	143,678	48,531
Vision consultant	17,180	-	-	-
ECDD consultant	123,251	142,592	133,945	8,647
Early on consultant	79,428	77,100	39,739	37,361
Emotionally impaired	357,001	259,028	255,757	3,271
Transition services	60,301	59,694	59,444	250
	<u>3,477,678</u>	<u>3,187,782</u>	<u>2,935,747</u>	<u>252,035</u>
<b>Administrative</b>				
Planning, monitoring, data collection	835,684	868,651	853,369	15,282
Board of education	57,000	61,000	54,707	6,293
	<u>892,684</u>	<u>929,651</u>	<u>908,076</u>	<u>21,575</u>

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

Required Supplemental Information  
Budgetary Comparison Schedule - Special Education Fund

Year ended June 30, 2017

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Other Costs</b>				
Operation and maintenance	\$ 226,160	\$ 150,819	\$ 134,340	\$ 16,479
Capital outlay	70,000	30,000	18,154	11,846
Local P.A.C.	750	500	411	89
Pupil transportation	344,745	345,980	330,119	15,861
Outgoing transfers / other	1,702,000	1,680,722	1,680,027	695
	<u>2,343,655</u>	<u>2,208,021</u>	<u>2,163,051</u>	<u>44,970</u>
Total expenditures	<u>7,712,786</u>	<u>7,271,585</u>	<u>6,933,319</u>	<u>338,266</u>
<b>CURRENT CHANGE IN FUND BALANCE</b>	(125,383)	182,056	326,937	144,881
<b>FUND BALANCES</b> , beginning of the year	<u>4,056,725</u>	<u>4,206,896</u>	<u>4,206,896</u>	<u>-</u>
<b>FUND BALANCES</b> , end of the year	<u>\$ 3,931,342</u>	<u>\$ 4,388,952</u>	<u>\$ 4,533,833</u>	<u>\$ 144,881</u>

**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)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
A. Reporting unit's proportion of net pension liability (%)	0.04089%	0.03987%	0.04079%
B. Reporting unit's proportionate share of net pension liability	\$ 10,201,092	\$ 9,737,628	\$ 8,984,285
C. Reporting unit's covered-employee payroll	\$ 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 (%)	292.32%	292.23%	257.34%
E. Plan fiduciary net position as a percentage of total pension liability	63.27%	63.17%	66.20%

Changes in benefit terms: There were no changes of benefit terms in 2016.

Changes in benefit assumptions: There were no changes of benefit assumptions in 2016.

Changes in size or composition of the covered population: There were not significant changes in size or composition of the covered population in 2016.

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)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
A. Statutorily required contributions	\$ 1,005,246	\$ 652,087	\$ 732,077
B. Contributions in relation to statutorily required contributions*	<u>\$ 1,005,246</u>	<u>\$ 651,815</u>	<u>\$ 732,341</u>
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ 272</u>	<u>\$ (264)</u>
D. Reporting unit's covered-employee payroll	\$ 3,654,344	\$ 3,283,152	\$ 3,337,124
E. Contributions as a percentage of covered-employee payroll	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 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 June 30, 2015.

**OTHER SUPPLEMENTAL INFORMATION**

**INDIVIDUAL FUND STATEMENTS**



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

General Fund  
Balance Sheet

	June 30	
	2017	2016
<b>ASSETS</b>		
Cash and cash equivalents	\$ 262,948	\$ 127
Taxes receivable	6,608	12,078
Accounts receivable	12,096	6,665
Due from other governmental units	358,376	357,025
Interest receivable on investments and deposits	5,835	3,279
Investments	1,579,752	2,029,877
Prepaid expenses	10,768	16,391
	<u>2,236,383</u>	<u>2,425,442</u>
Total assets	<u>\$ 2,236,383</u>	<u>\$ 2,425,442</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities		
Accounts payable	\$ 130,643	\$ 137,409
Due to other funds	34,356	362,920
Due to other governmental units	48,470	49,031
Accrued expenditures	38,908	5,208
Salaries payable	70,903	18,598
Unearned revenue	874,895	824,664
	<u>1,198,175</u>	<u>1,397,830</u>
Total liabilities	<u>1,198,175</u>	<u>1,397,830</u>
Fund Balances		
Nonspendable	10,768	16,391
Unassigned	1,027,440	1,011,221
	<u>1,038,208</u>	<u>1,027,612</u>
Total fund balances	<u>1,038,208</u>	<u>1,027,612</u>
	<u>\$ 2,236,383</u>	<u>\$ 2,425,442</u>
Total liabilities and fund balances	<u>\$ 2,236,383</u>	<u>\$ 2,425,442</u>

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

General Fund  
Statement of Revenues, Expenditures and Fund Balances

	Year ended June 30		
	2017 Final Budget	2017 Actual	2016 Actual
<b>REVENUES</b>			
<b>LOCAL SOURCES</b>			
Property tax levy	\$ 394,788	\$ 395,470	\$ 401,192
Penalties and interest on delinquent taxes	500	273	551
Revenue in lieu of taxes	3,000	2,921	2,322
Tuition - Camp Wilderness	800	800	1,600
Earnings on investments and deposits	15,550	16,616	10,930
Conference fees	5,500	5,922	1,410
Private sources (contributions)	6,155	5,233	1,559
USF reimbursement	4,000	7,495	4,909
Miscellaneous	2,250	2,984	2,503
Total local sources	<u>432,543</u>	<u>437,714</u>	<u>426,976</u>
<b>STATE SOURCES</b>			
State aid			
Unrestricted	369,849	369,849	369,849
Restricted	2,501,749	1,641,708	1,542,579
Restricted - received through another district	25,258	10,011	4,340
Unrestricted - received through another district	6,606	6,606	7,358
State payments in lieu of taxes	6,869	6,869	-
Total state sources	<u>2,910,331</u>	<u>2,035,043</u>	<u>1,924,126</u>
<b>FEDERAL SOURCES</b>			
Child & Adult Food Program	17,000	17,484	13,826
Race to the Top - Early Learning Challenge	16,468	16,180	-
Total federal sources	<u>33,468</u>	<u>33,664</u>	<u>13,826</u>
<b>OTHER LOCAL REVENUE</b>			
Tuition payments from other public schools	-	-	21,750
Compensation received in payment for services provided to other public schools	356,200	356,272	177,708
Other distributions received from other public schools	1,250	1,250	-
Total other local revenue	<u>357,450</u>	<u>357,522</u>	<u>199,458</u>
<b>OTHER SOURCES</b>			
Proceeds from the sale of capital assets	-	-	310
Total other sources	<u>-</u>	<u>-</u>	<u>310</u>
Total revenues	<u>3,733,792</u>	<u>2,863,943</u>	<u>2,564,696</u>

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

General Fund  
Statement of Revenues, Expenditures and Fund Balances

	Year ended June 30		
	2017 Final Budget	2017 Actual	2016 Actual
<b>EXPENDITURES</b>			
<b>INSTRUCTION</b>			
PRE-SCHOOL			
Salaries	\$ 269,789	\$ 148,639	\$ -
Employee benefits	162,327	90,093	-
Purchased services	749,932	487,533	687,476
Supplies and materials	80,223	27,173	32,792
Other	1,500	425	2,212
Outgoing transfers	133,109	99,136	94,982
	<u>1,396,880</u>	<u>852,999</u>	<u>817,462</u>
 Total instruction	 <u>1,396,880</u>	 <u>852,999</u>	 <u>817,462</u>
<b>SUPPORTING SERVICES</b>			
<b>PUPIL SERVICES</b>			
GUIDANCE SERVICES			
Salaries	3,832	1,919	2,663
Employee benefits	1,981	843	1,180
Purchased services	1,527	727	2,878
Supplies and materials	1,210	710	1,765
	<u>8,550</u>	<u>4,199</u>	<u>8,486</u>
 Total pupil services	 <u>8,550</u>	 <u>4,199</u>	 <u>8,486</u>
<b>INSTRUCTIONAL STAFF SERVICES</b>			
IMPROVEMENT OF INSTRUCTION			
Salaries	233,116	232,803	220,856
Employee benefits	152,682	148,349	141,253
Purchased services	80,094	43,078	34,992
Supplies and materials	13,965	11,029	6,722
Other	5,731	2,973	1,285
Outgoing transfers	1,000	190	2,476
	<u>486,588</u>	<u>438,422</u>	<u>407,584</u>
INSTRUCTION RELATED TECHNOLOGY			
Salaries	57,448	58,269	-
Employee benefits	40,495	40,480	-
Purchased services	2,425	1,956	-
Supplies and materials	4,750	3,932	543
Outgoing transfers	-	-	5,422
	<u>105,118</u>	<u>104,637</u>	<u>5,965</u>

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

General Fund  
Statement of Revenues, Expenditures and Fund Balances

	Year ended June 30		
	2017 Final Budget	2017 Actual	2016 Actual
<b>EXPENDITURES (CONTINUED)</b>			
SUPERVISION/DIRECTION OF INSTRUCTIONAL STAFF			
Salaries	\$ 143,452	\$ 93,378	\$ 75,893
Employee benefits	85,254	54,715	46,315
Purchased services	71,964	36,612	19,796
Supplies and materials	3,032	585	308
Other	-	110	200
	<u>303,702</u>	<u>185,400</u>	<u>142,512</u>
ACADEMIC STUDENT ASSESSMENT			
Salaries	1,800	1,600	-
	<u>1,800</u>	<u>1,600</u>	<u>-</u>
Total instructional staff services	<u>897,208</u>	<u>730,059</u>	<u>556,061</u>
<b>GENERAL ADMINISTRATION</b>			
BOARD OF EDUCATION			
Salaries	3,500	3,488	3,183
Employee benefits	268	267	244
Purchased services	42,275	40,174	38,592
Supplies and materials	2,200	2,117	1,314
Other	11,800	11,721	8,900
	<u>60,043</u>	<u>57,767</u>	<u>52,233</u>
EXECUTIVE ADMINISTRATION			
Salaries	122,564	122,988	111,877
Employee benefits	73,088	70,356	67,154
Purchased services	6,400	6,900	5,361
Supplies and materials	1,700	1,604	943
Other	8,910	9,261	8,808
	<u>212,662</u>	<u>211,109</u>	<u>194,143</u>
Total general administration	<u>272,705</u>	<u>268,876</u>	<u>246,376</u>

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

General Fund  
Statement of Revenues, Expenditures and Fund Balances

	Year ended June 30		
	2017 Final Budget	2017 Actual	2016 Actual
<b>EXPENDITURES (CONTINUED)</b>			
<b>BUSINESS SERVICES</b>			
<b>FISCAL SERVICES</b>			
Salaries	\$ 333,439	\$ 326,596	\$ 284,737
Employee benefits	205,072	200,521	172,909
Purchased services	19,150	17,942	16,538
Supplies and materials	3,550	2,562	1,984
Other	2,165	2,298	1,990
	<u>563,376</u>	<u>549,919</u>	<u>478,158</u>
<b>INTERNAL SERVICES</b>			
Purchased services	2,426	1,396	2,437
	<u>2,426</u>	<u>1,396</u>	<u>2,437</u>
<b>OTHER BUSINESS SERVICES</b>			
Purchased services	726	726	865
Other	5,500	4,651	1,426
	<u>6,226</u>	<u>5,377</u>	<u>2,291</u>
Total business services	<u>572,028</u>	<u>556,692</u>	<u>482,886</u>
<b>OPERATIONS AND MAINTENANCE</b>			
<b>OPERATIONS BUILDINGS SERVICES</b>			
Salaries	1,000	372	725
Employee benefits	628	188	582
Purchased services	50,333	43,557	37,722
Supplies and materials	17,796	15,715	16,255
Outgoing transfers	45,000	22,500	-
	<u>114,757</u>	<u>82,332</u>	<u>55,284</u>
Total operations and maintenance	<u>114,757</u>	<u>82,332</u>	<u>55,284</u>
<b>PUPIL TRANSPORTATION</b>			
<b>PUPIL TRANSPORTATION</b>			
Purchased services	752	12	-
Outgoing transfers	47,000	47,740	48,086
	<u>47,752</u>	<u>47,752</u>	<u>48,086</u>
Total pupil transportation	<u>47,752</u>	<u>47,752</u>	<u>48,086</u>

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

General Fund  
Statement of Revenues, Expenditures and Fund Balances

	Year ended June 30		
	2017 Final Budget	2017 Actual	2016 Actual
<b>EXPENDITURES (CONTINUED)</b>			
<b>CENTRAL SERVICES</b>			
PLANNING, RESEARCH, DEVELOPMENT AND EVALUATION			
Purchased services	\$ 2,375	\$ 2,375	\$ 2,375
	<u>2,375</u>	<u>2,375</u>	<u>2,375</u>
COMMUNICATION SERVICES			
Purchased services	3,454	342	2,001
	<u>3,454</u>	<u>342</u>	<u>2,001</u>
STAFF/PERSONNEL SERVICES			
Salaries	98,921	99,238	80,619
Employee benefits	57,217	55,303	48,705
Purchased services	16,546	10,543	14,041
Supplies and materials	150	141	403
Other	88	88	-
	<u>172,922</u>	<u>165,313</u>	<u>143,768</u>
INFORMATION MANAGEMENT SERVICES			
Salaries	57,755	57,720	-
Employee benefits	34,213	35,744	-
Purchased services	31,266	18,023	10,728
Supplies and materials	8,694	6,273	4,619
Capital outlay	5,000	-	2,453
Outgoing transfer	9,781	9,781	44,517
	<u>146,709</u>	<u>127,541</u>	<u>62,317</u>
Total central services	<u>325,460</u>	<u>295,571</u>	<u>210,461</u>
Total supporting services	<u>2,238,460</u>	<u>1,985,481</u>	<u>1,607,640</u>
<b>COMMUNITY SERVICES</b>			
COMMUNITY SERVICES DIRECTION			
Salaries	34,797	17,795	-
Employee benefits	19,028	9,528	-
Purchased services	23,477	11,611	35,274
Supplies and materials	994	493	106
Other	3,000	1,820	2,444
	<u>81,296</u>	<u>41,247</u>	<u>37,824</u>

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

General Fund  
Statement of Revenues, Expenditures and Fund Balances

	Year ended June 30		
	2017 Final Budget	2017 Actual	2016 Actual
<b>EXPENDITURES (CONTINUED)</b>			
<b>COMMUNITY ACTIVITIES</b>			
Purchased services	\$ 13,663	\$ 11,210	\$ 734
Supplies and materials	32,268	28,967	19,374
Other	15,735	5,981	11,839
	<u>61,666</u>	<u>46,158</u>	<u>31,947</u>
<b>CUSTODY AND CARE OF CHILDREN</b>			
Purchased services	2,475	948	1,244
	<u>2,475</u>	<u>948</u>	<u>1,244</u>
<b>OTHER COMMUNITY SERVICES</b>			
Purchased services	666	307	46
Supplies and materials	13,430	5,663	1,225
Other	7,139	3,342	2,103
	<u>21,235</u>	<u>9,312</u>	<u>3,374</u>
Total community services	<u>166,672</u>	<u>97,665</u>	<u>74,389</u>
<b>PAYMENTS TO OTHER GOVERNMENTAL AGENCIES AND FACILITIES ACQUISITION</b>			
<b>PAYMENTS TO OTHER PUBLIC SCHOOLS</b>			
Outgoing transfer	56,000	52,850	-
	<u>56,000</u>	<u>52,850</u>	<u>-</u>
<b>PAYMENTS TO OTHER GOVERNMENTAL ENTITIES</b>			
Outgoing transfer	-	-	1,925
	<u>-</u>	<u>-</u>	<u>1,925</u>
<b>PAYMENTS TO NOT FOR PROFIT ENTITIES</b>			
Outgoing transfer	214,396	182,454	186,848
	<u>214,396</u>	<u>182,454</u>	<u>186,848</u>
<b>SITE IMPROVEMENT SERVICES</b>			
Capital outlay	8,000	-	34,921
	<u>8,000</u>	<u>-</u>	<u>34,921</u>
<b>BUILDING IMPROVEMENTS SERVICES</b>			
Capital outlay	14,000	13,595	-
	<u>14,000</u>	<u>13,595</u>	<u>-</u>
Total payments to other governmental agencies and facilities acquisition	<u>292,396</u>	<u>248,899</u>	<u>223,694</u>

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

General Fund  
Statement of Revenues, Expenditures and Fund Balances

	Year ended June 30		
	2017 Final Budget	2017 Actual	2016 Actual
Total expenditures	\$ 4,094,408	\$ 3,185,044	\$ 2,723,185
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(360,616)</u>	<u>(321,101)</u>	<u>(158,489)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other funds	335,000	331,697	306,053
Transfers to other funds	<u>(38,420)</u>	<u>-</u>	<u>-</u>
	<u>296,580</u>	<u>331,697</u>	<u>306,053</u>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	(64,036)	10,596	147,564
<b>FUND BALANCES</b> , beginning of the year	<u>1,027,612</u>	<u>1,027,612</u>	<u>880,048</u>
<b>FUND BALANCES</b> , end of the year	<u>\$ 963,576</u>	<u>\$ 1,038,208</u>	<u>\$ 1,027,612</u>



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

Special Education Fund  
Balance Sheet

	June 30	
	2017	2016
<b>ASSETS</b>		
Cash and cash equivalents	\$ 74,497	\$ 420
Taxes receivable	58,151	108,787
Accounts receivable	5,052	-
Due from other funds	34,356	362,920
Due from other governmental units	649,125	391,675
Interest receivable on investments and deposits	6,463	8,011
Investments	4,281,116	3,965,250
Prepaid expenses	33,752	36,765
	<u>5,142,512</u>	<u>4,873,828</u>
Total assets	<u>\$ 5,142,512</u>	<u>\$ 4,873,828</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities		
Accounts payable	\$ 19,687	\$ 18,931
Due to other governmental units	19,755	25,580
Accrued expenditures	196,731	191,680
Salaries payable	372,506	364,600
Unearned revenue	-	66,141
	<u>608,679</u>	<u>666,932</u>
Total liabilities	<u>608,679</u>	<u>666,932</u>
Fund Balances		
Nonspendable	33,752	36,765
Restricted	4,500,081	4,170,131
	<u>4,533,833</u>	<u>4,206,896</u>
Total fund balances	<u>4,533,833</u>	<u>4,206,896</u>
Total liabilities and fund balances	<u>\$ 5,142,512</u>	<u>\$ 4,873,828</u>

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

Special Education Fund  
Statement of Revenues, Expenditures and Fund Balances

	Year ended June 30		
	2017 Final Budget	2017 Actual	2016 Actual
<b>REVENUES</b>			
<b>LOCAL SOURCES</b>			
Property taxes	\$ 3,643,898	\$ 3,650,248	\$ 3,703,568
Penalties and interest on delinquent taxes	3,500	2,500	5,088
Revenue in lieu of taxes	26,500	27,118	21,433
Earnings on investments and deposits	38,000	41,865	27,570
Medicaid fee for service	318,254	318,253	353,986
Miscellaneous	1,900	1,797	1,916
Total local sources	<u>4,032,052</u>	<u>4,041,781</u>	<u>4,113,561</u>
<b>STATE SOURCES</b>			
State aid			
Restricted	1,546,622	1,544,632	1,477,081
Vocational rehabilitation	16,500	16,500	16,500
State payments in lieu of taxes	63,403	63,403	-
Total state sources	<u>1,626,525</u>	<u>1,624,535</u>	<u>1,493,581</u>
<b>FEDERAL SOURCES</b>			
P.L. 94-142 Special Education	1,451,629	1,329,683	1,156,665
P.L. 94-142 Special Education preschool	36,068	36,068	34,451
P.L. 99-457 Infants and Toddlers	82,118	52,727	55,424
MIBLSI-MISD	192,714	143,025	152,429
Medicaid - Outreach	17,863	17,863	15,167
Total federal sources	<u>1,780,392</u>	<u>1,579,366</u>	<u>1,414,136</u>
<b>OTHER LOCAL REVENUE</b>			
Received from other public schools	<u>6,500</u>	<u>5,807</u>	<u>8,758</u>
Total other local revenues	<u>6,500</u>	<u>5,807</u>	<u>8,758</u>
<b>OTHER SOURCES</b>			
Adjustments to prior period expenditures	722	1,317	1,320
Proceeds from the sale of capital assets	<u>7,450</u>	<u>7,450</u>	<u>-</u>
Total other sources	<u>8,172</u>	<u>8,767</u>	<u>1,320</u>
Total revenues	<u>7,453,641</u>	<u>7,260,256</u>	<u>7,031,356</u>

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

Special Education Fund  
Statement of Revenues, Expenditures and Fund Balances

	Year ended June 30		
	2017 Final Budget	2017 Actual	2016 Actual
<b>EXPENDITURES</b>			
<b>INSTRUCTION</b>			
SPECIAL EDUCATION			
Salaries	\$ 498,967	\$ 491,523	\$ 511,673
Employee benefits	407,697	399,586	390,657
Purchased services	24,535	26,610	17,306
Supplies and materials	14,932	8,726	9,047
	<u>946,131</u>	<u>926,445</u>	<u>928,683</u>
Total instruction	<u>946,131</u>	<u>926,445</u>	<u>928,683</u>
<b>SUPPORTING SERVICES</b>			
<b>PUPIL SERVICES</b>			
HEALTH SERVICES			
Salaries	89,904	81,640	82,465
Employee benefits	57,920	51,676	52,309
Purchased services	78,200	64,503	70,475
Supplies and materials	2,050	1,217	645
Other	225	-	-
	<u>228,299</u>	<u>199,036</u>	<u>205,894</u>
PSYCHOLOGICAL SERVICES			
Salaries	395,669	394,926	377,439
Employee benefits	245,313	241,716	222,951
Purchased services	4,500	4,956	2,909
Supplies and materials	10,000	5,922	7,167
	<u>655,482</u>	<u>647,520</u>	<u>610,466</u>
SPEECH PATHOLOGY			
Salaries	369,225	366,105	387,466
Employee benefits	227,683	221,571	239,097
Purchased services	14,250	14,367	7,150
Supplies and materials	5,500	5,253	1,317
	<u>616,658</u>	<u>607,296</u>	<u>635,030</u>
SOCIAL WORK SERVICES			
Salaries	26,303	26,567	14,520
Employee benefits	15,844	15,528	6,162
Purchased services	500	443	-
Supplies and materials	100	66	-
	<u>42,747</u>	<u>42,604</u>	<u>20,682</u>

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

Special Education Fund  
Statement of Revenues, Expenditures and Fund Balances

	Year ended June 30		
	2017 Final Budget	2017 Actual	2016 Actual
<b>EXPENDITURES (CONTINUED)</b>			
<b>TEACHER CONSULTANT</b>			
Salaries	\$ 510,471	\$ 504,899	\$ 549,979
Employee benefits	341,027	331,446	331,086
Purchased services	7,800	6,354	7,131
Supplies and materials	2,750	1,578	2,278
	<u>862,048</u>	<u>844,277</u>	<u>890,474</u>
Total pupil services	<u>2,405,234</u>	<u>2,340,733</u>	<u>2,362,546</u>
<b>INSTRUCTIONAL SUPPORT</b>			
<b>OTHER PUPIL SUPPORT SERVICES</b>			
Salaries	28,919	29,217	41,433
Employee benefits	17,827	17,529	29,337
Purchased services	12,500	12,500	13,660
	<u>59,246</u>	<u>59,246</u>	<u>84,430</u>
<b>IMPROVEMENT OF INSTRUCTION</b>			
Salaries	193,497	165,101	155,698
Employee benefits	127,965	104,773	98,364
Purchased services	246,945	179,268	171,182
Supplies and materials	29,000	7,573	7,621
Outgoing transfers	5,000	2,615	180
	<u>602,407</u>	<u>459,330</u>	<u>433,045</u>
<b>SUPERVISION/DIRECTION OF INSTRUCTIONAL STAFF</b>			
Salaries	439,419	430,443	391,976
Employee benefits	279,498	278,535	252,665
Purchased services	92,065	54,422	64,639
Supplies and materials	5,750	4,062	6,204
Other	520	439	216
	<u>817,252</u>	<u>767,901</u>	<u>715,700</u>
Total instructional support	<u>1,478,905</u>	<u>1,286,477</u>	<u>1,233,175</u>

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

Special Education Fund  
Statement of Revenues, Expenditures and Fund Balances

	Year ended June 30		
	2017 Final Budget	2017 Actual	2016 Actual
<b>EXPENDITURES (CONTINUED)</b>			
<b>GENERAL ADMINISTRATION</b>			
BOARD OF EDUCATION			
Purchased services	\$ 7,000	\$ 5,667	\$ 2,827
Total general administration	7,000	5,667	2,827
<b>BUSINESS SERVICES</b>			
FISCAL SERVICES			
Purchased services	6,000	5,349	5,317
	6,000	5,349	5,317
OTHER BUSINESS SERVICES			
Purchased services	3,000	2,310	2,426
Other	45,000	41,381	13,100
	48,000	43,691	15,526
Total business services	54,000	49,040	20,843
<b>OPERATION AND MAINTENANCE</b>			
OPERATIONS BUILDINGS SERVICES			
Salaries	41,278	40,657	41,287
Employee benefits	32,947	32,073	30,933
Purchased services	33,881	26,516	38,785
Supplies and materials	37,213	31,010	34,054
Capital outlay	5,000	3,836	-
Other	500	248	246
	150,819	134,340	145,305
Total operation and maintenance	150,819	134,340	145,305
<b>PUPIL TRANSPORTATION</b>			
PUPIL TRANSPORTATION			
Salaries	9,500	8,386	7,831
Employee benefits	6,611	5,532	5,578
Purchased services	296,709	287,327	285,046
Supplies and materials	28,000	26,178	22,221
Other	160	80	90
	340,980	327,503	320,766
Total pupil transportation	340,980	327,503	320,766

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

Special Education Fund  
Statement of Revenues, Expenditures and Fund Balances

	Year ended June 30		
	2017 Final Budget	2017 Actual	2016 Actual
<b>EXPENDITURES (CONTINUED)</b>			
<b>CENTRAL SERVICES</b>			
PLANNING AND RESEARCH			
Salaries	\$ 25,960	\$ 25,252	\$ 25,267
Employee benefits	14,700	15,408	16,085
Purchased services	1,545	1,545	1,400
Other	45	45	45
	<u>42,250</u>	<u>42,250</u>	<u>42,797</u>
STAFF/PERSONEL SERVICES			
Purchased services	30,221	17,770	17,452
	<u>30,221</u>	<u>17,770</u>	<u>17,452</u>
INFORMATION MANAGEMENT SERVICES			
Salaries	44,044	43,524	41,249
Employee benefits	25,520	24,702	23,251
Purchased services	14,850	13,963	10,802
Supplies and materials	500	18	-
	<u>84,914</u>	<u>82,207</u>	<u>75,302</u>
Total central services	<u>157,385</u>	<u>142,227</u>	<u>135,551</u>
<b>OTHER SUPPORT SERVICES</b>			
Outgoing transfers	10,000	10,000	8,103
	<u>10,000</u>	<u>10,000</u>	<u>8,103</u>
Total other support services	<u>10,000</u>	<u>10,000</u>	<u>8,103</u>
Total supporting services	<u>4,604,323</u>	<u>4,295,987</u>	<u>4,229,116</u>
<b>COMMUNITY SERVICES</b>			
COMMUNITY ACTIVITIES			
Supplies and materials	435	-	-
Other	250	-	131
	<u>685</u>	<u>-</u>	<u>131</u>
NON-PUBLIC SCHOOLS PUPILS			
Salaries	10,919	11,255	12,152
Employee benefits	7,405	7,086	7,944
	<u>18,324</u>	<u>18,341</u>	<u>20,096</u>

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

Special Education Fund  
Statement of Revenues, Expenditures and Fund Balances

	Year ended June 30		
	2017 Final Budget	2017 Actual	2016 Actual
<b>EXPENDITURES (CONTINUED)</b>			
<b>OTHER COMMUNITY SERVICES</b>			
Purchased services	\$ 1,100	\$ 687	\$ 117
Supplies and materials	300	474	244
	<u>1,400</u>	<u>1,161</u>	<u>361</u>
Total community services	<u>20,409</u>	<u>19,502</u>	<u>20,588</u>
<b>PAYMENTS TO OTHER GOVERNMENTAL AGENCIES AND FACILITIES ACQUISITION</b>			
<b>PAYMENTS TO OTHER PUBLIC SCHOOLS</b>			
Act 18	1,146,507	1,146,507	1,069,784
Medicaid	172,942	172,942	270,692
Outreach	16,273	16,273	1,763
Early intervention services	-	5,812	-
	<u>1,335,722</u>	<u>1,341,534</u>	<u>1,342,239</u>
<b>SITE IMPROVEMENT SERVICES</b>			
Capital outlay	5,000	-	-
	<u>5,000</u>	<u>-</u>	<u>-</u>
<b>BUILDING IMPROVEMENTS SERVICES</b>			
Capital outlay	25,000	18,154	12,225
	<u>25,000</u>	<u>18,154</u>	<u>12,225</u>
Total payments to other governmental agencies and facilities acquisition	<u>1,365,722</u>	<u>1,359,688</u>	<u>1,354,464</u>
Total expenditures	<u>6,936,585</u>	<u>6,601,622</u>	<u>6,532,851</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>517,056</u>	<u>658,634</u>	<u>498,505</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other funds	-	-	-
Transfers to other funds	(335,000)	(331,697)	(306,053)
	<u>(335,000)</u>	<u>(331,697)</u>	<u>(306,053)</u>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	182,056	326,937	192,452
<b>FUND BALANCES, beginning of the year</b>	<u>4,206,896</u>	<u>4,206,896</u>	<u>4,014,444</u>
<b>FUND BALANCES, end of the year</b>	<u>\$ 4,388,952</u>	<u>\$ 4,533,833</u>	<u>\$ 4,206,896</u>

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

Agency Fund  
Balance Sheet

	June 30	
	2017	2016
<b>ASSETS</b>		
Cash and cash equivalents	\$ 13,935	\$ 10,304
Total assets	<u>\$ 13,935</u>	<u>\$ 10,304</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities		
Due to student activities	\$ 13,935	\$ 10,304
Total liabilities	<u>13,935</u>	<u>10,304</u>
Fund Balances		
Unassigned	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 13,935</u>	<u>\$ 10,304</u>



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

Agency Fund  
Statement of Receipts, Disbursements and Deposits Held

	<u>Balances</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances</u> <u>June 30, 2017</u>
<b>STUDENT ACTIVITIES</b>				
Advances	\$ 548	\$ 3,141	\$ (2,421)	\$ 1,268
Pop/Beverage Fund	2,192	3,307	(4,547)	952
Memorials	-	50	(50)	-
Greenhouse	2,723	1,348	(218)	3,853
Piper Fund	4,246	3,021	-	7,267
Living with ASD	454	-	-	454
Circle of Friends	141	-	-	141
	<u>\$ 10,304</u>	<u>\$ 10,867</u>	<u>\$ (7,236)</u>	<u>\$ 13,935</u>

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**FEDERAL FINANCIAL ASSISTANCE**

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

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

**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, 2017, 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 3, 2017.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Straley Kamp & Kraenzlein P.C.*

October 3, 2017

**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 the **Alpena-Montmorency-Alcona Educational Service District's** major federal programs for the year ended June 30, 2017. 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 the **Alpena-Montmorency-Alcona Educational Service District's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 the **Alpena-Montmorency-Alcona Educational Service District's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

## Opinion on Each Major Federal Program

In our opinion, the **Alpena-Montmorency-Alcona Educational Service District** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

## Report on Internal Control over Compliance

Management of the **Alpena-Montmorency-Alcona Educational Service District** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the **Alpena-Montmorency-Alcona Educational Service District's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the **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 3, 2017



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

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2017

<u>Program Title/Project Number/Subrecipient Name</u>	<u>Grant/Project Number</u>	<u>Federal CFDA Number</u>	<u>Approved Awards Amount</u>	<u>(Memo Only) Prior Year Expenditure</u>
<u>U.S. Department of Education</u>				
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 14/15	150450 14-15		\$ 1,337,825	\$ 1,337,825
IDEA Special Education Flow-Through 15/16	160450 15-16		1,331,784	775,794
IDEA Special Education Flow-Through 16/17	170450 16-17		1,378,578	-
			<u>4,048,187</u>	<u>2,113,619</u>
Enhancing Opportunities ESOD				
State initiated EOSD 15/16	160480 1112		45,000	45,000
State initiated EOSD 16/17	170480 16-17		45,000	-
			<u>90,000</u>	<u>45,000</u>
Transition Coordinator				
Transition Coordinator 15/16	160490 TC		50,000	50,000
Transition Coordinator 16/17	170490 16-17		50,000	-
			<u>100,000</u>	<u>50,000</u>
Special Education - Preschool		* 84.173		
IDEA Preschool Incentive 15/16	160460 15-16		34,451	34,451
IDEA Preschool Incentive 16/17	170460 16-17		36,068	-
			<u>70,519</u>	<u>34,451</u>
Total Special Education Cluster			<u>4,308,706</u>	<u>2,243,070</u>
Other Federal Awards:				
<u>U.S. Department of Agriculture</u>				
Passed through State of Michigan Department of Education:				
Child and Adult Care Food Program		10.558		
Child and Adult Care Food Program 15/16	161920		13,609	11,956
Child and Adult Care Food Program 15/16	162010		770	689
Child and Adult Care Food Program 16/17	171920		15,004	-
Child and Adult Care Food Program 16/17	172010		745	-
			<u>30,128</u>	<u>12,645</u>

\* - Major Program

Revenue Accrued (Unearned) at June 30, 2016	Receipts	Current Year Adjustments and Transfers	Expenditures	Revenue Accrued (Unearned) at June 30, 2017	Current Year Cash Transferred To Subrecipients
\$ 27,116	\$ 27,116	\$ -	\$ -	\$ -	\$ -
(66,141)	368,664	-	555,990	121,185	-
-	545,950	-	678,693	132,743	-
<u>(39,025)</u>	<u>941,730</u>	<u>-</u>	<u>1,234,683</u>	<u>253,928</u>	<u>-</u>
8,500	8,500	-	-	-	-
-	33,000	-	45,000	12,000	-
<u>8,500</u>	<u>41,500</u>	<u>-</u>	<u>45,000</u>	<u>12,000</u>	<u>-</u>
4,500	4,500	-	-	-	-
-	40,125	-	50,000	9,875	-
<u>4,500</u>	<u>44,625</u>	<u>-</u>	<u>50,000</u>	<u>9,875</u>	<u>-</u>
4,826	4,826	-	-	-	-
-	27,738	-	36,068	8,330	-
<u>4,826</u>	<u>32,564</u>	<u>-</u>	<u>36,068</u>	<u>8,330</u>	<u>-</u>
<u>(21,199)</u>	<u>1,060,419</u>	<u>-</u>	<u>1,365,751</u>	<u>284,133</u>	<u>-</u>
1,263	2,917	-	1,654	-	-
74	155	-	81	-	-
-	15,004	-	15,004	-	-
-	745	-	745	-	-
<u>1,337</u>	<u>18,821</u>	<u>-</u>	<u>17,484</u>	<u>-</u>	<u>-</u>

See Notes to Schedule of Expenditures of Federal Awards.

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

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2017

<u>Program Title/Project Number/Subrecipient Name</u>	<u>Grant/Project Number</u>	<u>Federal CFDA Number</u>	<u>Approved Awards Amount</u>	<u>(Memo Only) Prior Year Expenditure</u>
<u>U.S. Department of Education</u>				
Passed through State of Michigan Department of Education:				
Special Education - Grants for Infants and Families		84.181		
Infants & Toddlers Early On Grant 15/16	161340 15-16		\$ 74,529	\$ 44,562
Infants & Toddlers Early On Grant 16/17	171340 16-17		82,118	-
			<u>156,647</u>	<u>44,562</u>
Passed through Macomb ISD:				
Special Education-Grants to States		* 84.027		
MIBLSI Technical Assistance Partner (TAP) 15/16	MIBLSI-MTSS		165,475	121,297
MIBLSI Information Specialist (IS) 16/17	MIBLSI-MTSS		151,148	-
			<u>316,623</u>	<u>121,297</u>
Passed through Early Childhood Investment Corporation:				
Race to the Top - Early Learning Challenge		84.412		
Alcona GSRP	X90482		4,409	-
Wilson Preschool	X90483		787	-
Lincoln Preschool	X90484		2,109	-
Ella White GSRP	X90485		4,388	-
Hillman Fabulous Fours	X90516		3,513	-
Atlanta Preschool	X90517		1,262	-
			<u>16,468</u>	<u>-</u>
<u>U.S. Department of Health and Human Services</u>				
Passed through Michigan Department of Social Services and Michigan Department of Public Health:				
Medical Assistance Program		93.778		
Medicaid Administrative Outreach Claims	N/A		17,863	-
			<u>17,863</u>	<u>-</u>
<b>TOTAL FEDERAL AWARDS</b>			<u>\$ 4,846,435</u>	<u>\$ 2,421,574</u>

\* - Major Program

Revenue Accrued (Unearned) at June 30, 2016	Receipts	Current Year Adjustments and Transfers	Expenditures	Revenue Accrued (Unearned) at June 30, 2017	Current Year Cash Transferred To Subrecipients
\$ 1,175	\$ 1,175	\$ 19,104	\$ 19,104	\$ -	\$ -
-	35,374	(19,104)	33,623	17,353	-
<u>1,175</u>	<u>36,549</u>	<u>-</u>	<u>52,727</u>	<u>17,353</u>	<u>-</u>
50,535	89,101	-	38,566	-	-
-	58,053	-	104,459	46,406	-
<u>50,535</u>	<u>147,154</u>	<u>-</u>	<u>143,025</u>	<u>46,406</u>	<u>-</u>
-	4,409	-	4,219	(190)	-
-	787	-	769	(18)	-
-	2,109	-	2,067	(42)	-
-	4,388	-	4,359	(29)	-
-	3,513	-	3,509	(4)	-
-	1,262	-	1,257	(5)	-
<u>-</u>	<u>16,468</u>	<u>-</u>	<u>16,180</u>	<u>(288)</u>	<u>-</u>
-	17,863	-	17,863	-	-
<u>-</u>	<u>17,863</u>	<u>-</u>	<u>17,863</u>	<u>-</u>	<u>-</u>
<u>\$ 31,848</u>	<u>\$ 1,297,274</u>	<u>\$ -</u>	<u>\$ 1,613,030</u>	<u>\$ 347,604</u>	<u>\$ -</u>

See Notes to Schedule of Expenditures of Federal Awards.

# ALPENA-MONTMORENCY-ALCONA EDUCATIONAL SERVICE DISTRICT

## Notes to Schedule of Expenditures of Federal Awards

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### **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, 2017. 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 ACCOUNTING 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 minimus 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 2017 assigned by the Michigan Department of Education Office of State Aid and School Finance calculation of 6.51% for the year ended June 30, 2017.

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

Notes to Schedule of Expenditures of Federal Awards

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

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

	<u>Federal Revenues</u>
General Fund	\$ 33,664
Special Revenue Funds:	
Special Education Fund	<u>1,579,366</u>
Total Federal Revenues	<u><u>\$ 1,613,030</u></u>
Total expenditures per the Schedule of Expenditures of Federal Awards (SEFA)	<u><u>\$ 1,613,030</u></u>

**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)	<u><u>\$ 1,115,789</u></u>
Current year receipts passed through State of Michigan Department of Education:	
U.S. Department of Education - Special education cluster	\$ 1,060,419
U.S. Department of Agriculture - Other federal awards	18,821
U.S. Department of Education - Other federal awards	<u>36,549</u>
	<u><u>\$ 1,115,789</u></u>

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

Schedule of Findings and Questioned Costs

For the year ended June 30, 2017

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes  X  No

Significant deficiency(ies) identified \_\_\_\_\_ Yes  X  None Reported

Noncompliance material to financial statements noted \_\_\_\_\_ Yes  X  No

**Federal Awards**

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

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes  X  No

Significant deficiency(ies) identified? \_\_\_\_\_ Yes  X  None Reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a) ? \_\_\_\_\_ Yes  X  No

Identification of major programs:

**CFDA Number**

**Name of Federal Program or Cluster**

84.027 Special Education – Grants to States

84.173 Special Education – Preschool Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee?  X  Yes \_\_\_\_\_ No

**SECTION II - FINANCIAL STATEMENT FINDINGS**

None noted in the current year.

**SECTION I - 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, 2017

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

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

Corrective Action Plan

For the year ended June 30, 2017

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

## 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, 2017. 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 August 15, 2017. 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 July 10, 2017, 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.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you.

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Alpena-Montmorency-Alcona Educational Service District are described in Note 1 to the financial statements. No new significant accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the Alpena-Montmorency-Alcona Educational Service District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

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

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

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

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

## **Difficulties Encountered in Performing the Audit**

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

## **Corrected and Uncorrected Misstatements**

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

## **Disagreements with Management**

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

## **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated October 3, 2017.

## **Management Consultations with Other Independent Accountants**

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

## **Other Audit Findings or Issues**

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

## **Other Matters**

We applied certain limited procedures to Management’s Discussion and Analysis, Budgetary Comparison Schedules and Schedules of Net Pension Liability and Pension 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.

## **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. 77 – Tax Abatement Disclosures.** Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government’s current year revenues were sufficient to pay for current year services (known as inter period equity), (2) whether a government complied with finance related legal and contractual obligations, (3) where a government’s financial resources come from and how it uses them, and (4) a government’s financial position and economic condition and how they have changed over time.

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

**B. 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).

**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. 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.

### **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 3, 2017