

ALLEGAN AREA EDUCATIONAL SERVICE AGENCY

**REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional
supplementary information)**

YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Allegan Area Educational Service Agency

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 Allegan Area Educational Service Agency, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 Allegan Area Educational Service Agency as of June 30, 2016, 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 and other required supplementary information, 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 Allegan Area Educational Service Agency basic financial statements. The additional supplementary information, as identified in the table of contents, including the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The additional supplementary 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the 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 6, 2016 on our consideration of Allegan Area Educational Service Agency'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 Allegan Area Educational Service Agency's internal control over financial reporting and compliance.

Maney Costeiran PC

October 6, 2016

**Allegan Area Educational Service Agency
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016**

As management of the Allegan Area Educational Service Agency, we offer readers of the Service Agency's financial statements this narrative overview and analysis of the financial activities of the Service Agency for the fiscal year ended June 30, 2016.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the Service Agency's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the Service Agency's revenue and expenditures by program.

Financial Highlights

Our financial statements provide these insights into the results of this year's operations.

- The assets and deferred outflows of resources of the Service Agency are exceeded by its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$11,061,185 (*net position*).
- The Service Agency's total net position increased by \$429,720 over the prior fiscal year.
- As of the close of the current fiscal year, the Service Agency's governmental funds reported combined ending fund balances of \$4,786,550, an increase of \$669,165 in comparison with the prior year.
- At the end of the current fiscal year, the aggregated fund balances for the Service Agency's operating funds (general fund, special education fund and technical education fund) was \$3,936,550 or 15.13% of the total expenditures of these operating funds.

Overview of the Financial Statements

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

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Service Agency's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Service Agency's assets, deferred outflows of resources, deferred inflows of resources, and liabilities, with the difference between these reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Service Agency is improving or deteriorating.

The *statement of activities* presents information showing how the Service Agency's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

Both of the government-wide financial statements display functions of the Service Agency that are principally supported by taxes and intergovernmental revenues (governmental activities). The activities of the Service Agency include instruction, support services, community service and transfers to locals and other services. The Service Agency has no business-type activities as of and for the year ended June 30, 2016.

The government-wide financial statements are identified in the table of contents.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Service Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Service Agency fall within the governmental fund type category.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Service Agency's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Service Agency's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Service Agency maintains numerous governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special education fund, and the career technical education fund. The general fund, special education fund, and career technical education fund are all considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The Service Agency adopts annual appropriated budgets for its general and special revenue funds. Budgetary comparison schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements are identified in the table of contents.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are identified in the table of contents.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary information for the Service Agency's major funds and pension related information. Required supplementary information is identified in the table of contents.

Our auditor has provided assurance in their independent auditor's report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Additional Information identified above. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each of the other parts in the financial section.

Government-wide Financial Analysis

The following table shows the Service Agency's net position as of June 30, 2016 and 2015.

**Allegan Area Educational Service Agency
Service Agency's Net position**

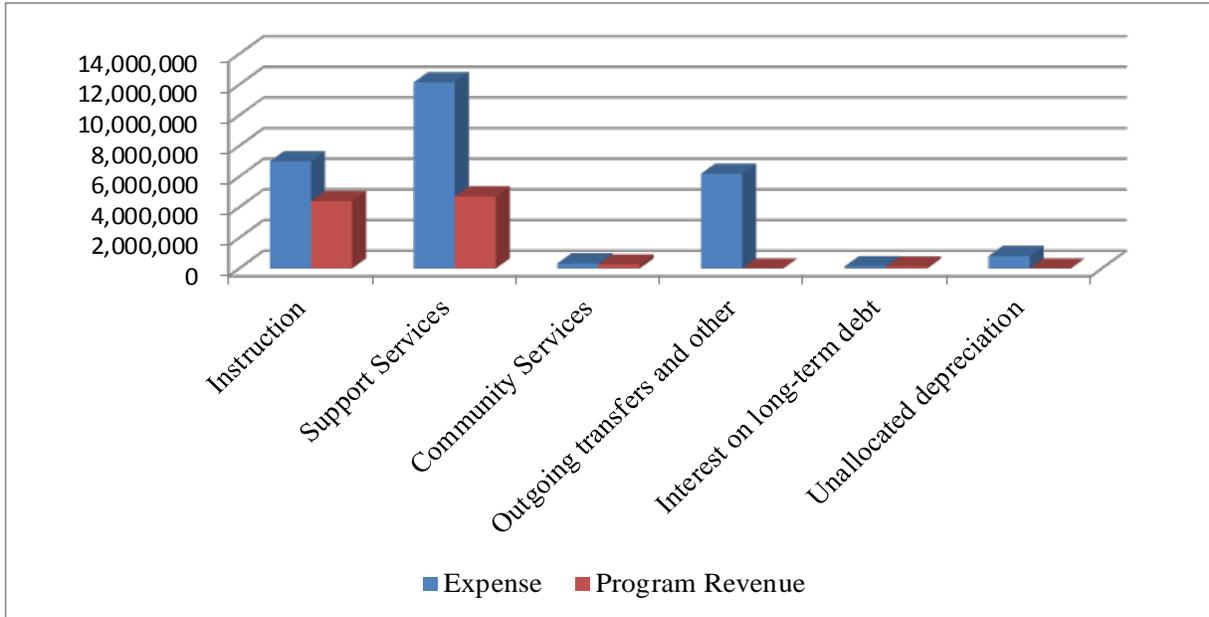
	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 8,785,816	\$ 7,649,170
Capital assets	10,654,557	10,796,548
Total assets	<u>19,440,373</u>	<u>18,445,718</u>
Deferred outflows of resources	2,819,862	2,569,262
Other liabilities	4,204,383	3,737,612
Noncurrent liabilities	2,029,496	2,231,250
Net pension liability	25,656,822	23,894,934
Total liabilities	<u>31,890,701</u>	<u>29,863,796</u>
Deferred inflows of resources	1,430,719	2,642,089
Net position:		
Net investment in capital assets	8,520,988	8,469,019
Unrestricted	<u>(19,582,173)</u>	<u>(19,959,924)</u>
Total net position	<u><u>\$ (11,061,185)</u></u>	<u><u>\$ (11,490,905)</u></u>

**Allegan Area Educational Service Agency
Service Agency's Changes in Net position**

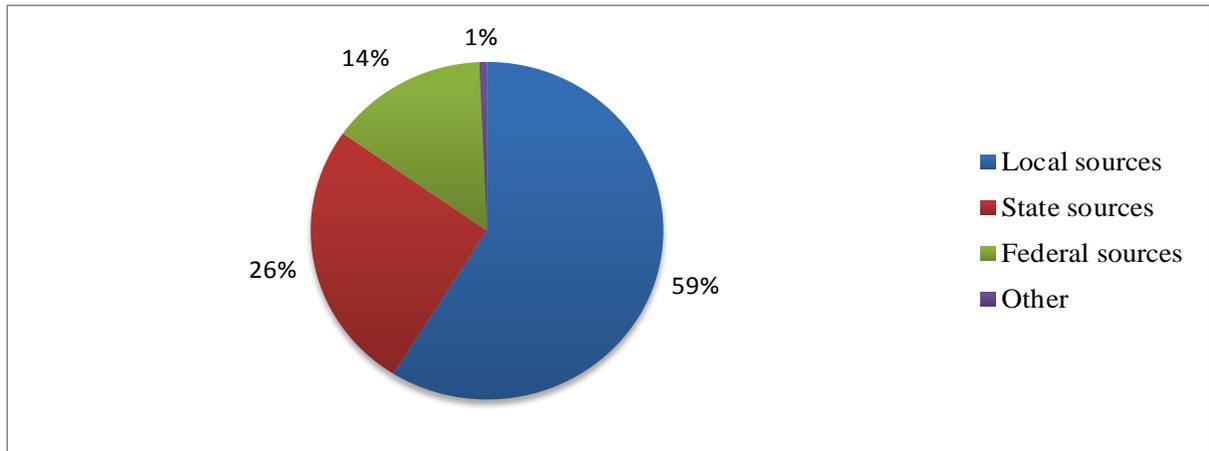
	Governmental Activities	
	2016	2015
Revenue:		
Program revenue:		
Charges for services	\$ 2,003,419	\$ 2,424,758
Operating grants	7,472,103	6,991,376
General revenue:		
Property taxes	13,600,747	11,141,667
Investment earnings	7,200	4,790
State sources	3,367,333	3,285,726
Other	588,481	613,093
Total revenue	27,039,283	24,461,410
Expenses:		
Instruction	6,988,546	6,705,966
Supporting services	12,147,697	11,674,227
Community services	328,573	498,590
Outgoing transfers and other	6,184,409	4,859,689
Interest on long-term debt	148,025	150,164
Unallocated depreciation	812,313	780,260
Total expenses	26,609,563	24,668,896
Change in net position	\$ 429,720	\$ (207,486)

Governmental Activities. Net position increased \$429,720 as compared to the previous fiscal year.

**Allegan Area Educational Service Agency
Expenses and Program Revenues - Governmental Activities Level
Year ended June 30, 2016**



**Allegan Area Educational Service Agency
Revenues by Source - Governmental Fund Level
Year ended June 30, 2016**



Major Governmental Funds Budgeting and Operating Highlights

The Service Agency's budgets are prepared according to Michigan law. The most significant budgeted funds are the general fund, special education fund, and the technical education fund.

During the fiscal year ended June 30, 2016, the Service Agency amended the budgets of these major governmental funds two times.

General Fund - The general fund actual revenue and transfers in was \$6.07 million. That amount is below both the original budget estimate of \$6.26 million and the final budget amendment of \$6.12 million. The variance between the actual revenue and final budget was insignificant.

The actual expenditures and transfers out of the general fund were \$6.12 million, which is below both the original budget of \$6.26 million and the final amendment of \$6.23 million. The variance between the actual expenditures and final budget was insignificant.

The general fund had total revenues and transfers in of \$6.07 million and total expenditures of \$6.12 million with an ending fund balance of \$959,200.

Special Education Fund - The special education fund actual revenue was \$16.57 million. That amount is below the original budget of \$17.28 million, but above the final amendment of \$16.48 million. The variance between the actual revenue and final budget was insignificant.

The actual expenditures and transfers out of the special education fund were \$16.57 million, which is below the original budget of \$17.28 million, but above the final amendment of \$16.48 million. The variance was insignificant. Any amounts in excess of \$1,000,000 of fund balance are distributed to local districts.

The special education fund had total revenue of \$16.57 million and total expenditures and transfers out of \$16.57 million with an ending fund balance of \$1 million.

Technical Education Fund - The technical education fund actual revenue was \$6.10 million. That amount is below the original budget of \$6.13 million, but above the final amendment of \$6.03 million. The variance between the actual revenue and final budget was insignificant.

The actual expenditures and other transactions were \$6.21 million, which is above the original budget of \$5.89 million and below the final amendment of \$6.28 million. The variance between the actual revenue and final budget was insignificant.

The technical education fund had total revenue of \$6.10 million and total expenditures and transfers out of \$6.21 million with an ending fund balance of \$1.98 million.

As noted earlier, the Service Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the Service Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Service Agency's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a Service Agency's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Service Agency. At the end of the current fiscal year, the total fund balance of the general fund was \$959,200. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Total fund balance represents approximately 15.68% of total general fund expenditures, while unassigned represents approximately 10.76%.

The fund balance of the Service Agency's general fund decreased by \$48,679 during the current fiscal year. The largest revenue source in this fund is state revenue which includes state aid. Expenditures consist primarily of costs associated with supporting early education, instruction services, and a portion of the executive administration, fiscal services, operations for the ESC building and technology services of the Service Agency.

The special education fund had a total fund balance of \$1,000,000, which is the same balance from the prior year due to board policy stating that all excess fund balance above \$1,000,000 is paid out to the local districts. These resources are restricted for special education programs administered by the Service Agency and transfers to local service agencies for special education programs. The largest portion of this fund's revenues come from property taxes while the largest expenditures are for the programs at Hillside Learning and Behavior Center and pupil support services to the local service agencies. Total fund balance represents approximately 6.04% of total special education fund expenditures and operating transfers out.

The technical education fund has a total fund balance of \$1,977,350, which decreased \$112,653 from the prior year. These resources are restricted for technical education purposes. The largest portion of this fund's revenues come from property taxes while the expenditures are for the programs at the Technical Center. Total fund balance represents approximately 31.83% of the total technical education fund expenditures and operating transfers out.

Capital Asset and Debt Administration

Capital Assets - At the end of fiscal year 2016, the Service Agency had \$19.3 million invested in land, buildings, and office and instructional equipment. Of this amount, \$8.6 million in depreciation has been taken over the years. The Service Agency has net capital assets of \$10.7 million.

**Allegan Area Educational Service Agency
Service Agency's Capital Assets
(Net of depreciation)
June 30, 2016**

	2016	2015
Land	\$ 495,148	\$ 495,148
Buildings and improvements	14,114,641	13,873,991
Office and instructional equipment	4,689,420	4,297,001
Subtotal	19,299,209	18,666,140
Accumulated depreciation	8,644,652	7,869,592
Total	\$ 10,654,557	\$ 10,796,548

Additional information on the Service Agency's capital assets can be found in the notes to the financial statements.

Long-term Debt - at the end of the current fiscal year, the Service Agency had total bonded debt outstanding of \$2,145,000.

The Service Agency made principal payments in the amount of \$195,000 which has decreased the long-term debt.

A decrease in compensated absences of \$8,503 was also recorded for a balance of \$99,193 at June 30, 2016.

Additional information on the Service Agency's long-term debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budget

At the time these financial statements were prepared and audited, the Service Agency was aware of existing circumstances that could affect its financial health in the future.

- Student count slowly declined the past few years. If changes to the ISD plan occurred related to how programs and services are provided at the local level as well as at the ISD level, this could change counts at all levels.
- 50.3% of revenue is generated by property taxes. If reductions to personal property taxes occur, the effect on intermediate school districts and intermediate service agencies will be felt and programming and service changes will have to be evaluated.
- Health care costs continue to increase. ACA continues to evolve and financial exposure continues to be monitored. Additional staff were offered health care coverage during this fiscal year to meet ACA compliance.
- Retirement contributions will decrease minimally to new rates ranging from 25.18-27.09%, effective October 1, 2016 depending on the plan selected by the employee. The rate decrease range represents a .26% overall decrease from fiscal year 2015-2016 to 2016-2017.

Requests for information

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the Service Agency's finances and to demonstrate the Service Agency's accountability for the money it receives. If you have questions about this report or need additional information, contact Abby Lloyd, Director of Finance & Operations, Allegan Area Educational Service Agency, 310 Thomas Street Allegan, Michigan 49010.

BASIC FINANCIAL STATEMENTS

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2016**

	<u>Governmental activities</u>
ASSETS:	
Cash and equivalents	\$ 4,065,749
Investments	2,005,612
Receivables:	
Accounts receivable	6,410
Interest receivable	2,886
Taxes receivable	12,370
Intergovernmental	2,446,142
Local districts	13,886
Inventories	230,431
Prepays	2,330
Capital assets not being depreciated	495,148
Capital assets, net of accumulated depreciation	<u>10,159,409</u>
TOTAL ASSETS	<u>19,440,373</u>
 DEFERRED OUTFLOWS OF RESOURCES:	
Related to pensions	<u>2,819,862</u>
 LIABILITIES:	
Accounts payable	283,185
Accrued salaries and related items	967,322
Accrued retirement	387,068
Due to other governments	1,905,168
Accrued interest	1,851
Unearned revenue	456,523
Noncurrent liabilities:	
Due within one year	203,266
Due in more than one year	2,029,496
Net pension liability	<u>25,656,822</u>
TOTAL LIABILITIES	<u>31,890,701</u>
 DEFERRED INFLOWS OF RESOURCES:	
Related to state aid funding for pension	704,458
Related to pensions	<u>726,261</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,430,719</u>
 NET POSITION:	
Net investment in capital assets	8,520,988
Unrestricted	<u>(19,582,173)</u>
TOTAL NET POSITION	<u><u>\$ (11,061,185)</u></u>

See notes to financial statements.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net position</u>
Governmental activities:				
Instruction	\$ 6,988,546	\$ 1,755,263	\$ 2,645,988	\$ (2,587,295)
Support services	12,147,697	136,101	4,557,356	(7,454,240)
Community services	328,573	112,055	146,999	(69,519)
Outgoing transfers and other	6,184,409	-	-	(6,184,409)
Interest on long-term debt	148,025	-	121,760	(26,265)
Unallocated depreciation	812,313	-	-	(812,313)
Total governmental activities	<u>\$ 26,609,563</u>	<u>\$ 2,003,419</u>	<u>\$ 7,472,103</u>	<u>(17,134,041)</u>
General revenues:				
Property taxes, levied for general purposes				321,797
Property taxes, levied for special education				8,385,342
Property taxes, levied for technical education				4,893,608
Investment earnings				7,200
State sources				3,367,333
Other				588,481
Total general revenues				<u>17,563,761</u>
CHANGE IN NET POSITION				429,720
NET POSITION, beginning of year				<u>(11,490,905)</u>
NET POSITION, end of year				<u>\$ (11,061,185)</u>

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	<u>Special revenue</u>			<u>Total nonmajor governmental funds</u>	<u>Total governmental funds</u>
	<u>General fund</u>	<u>Special education fund</u>	<u>Technical education fund</u>		
ASSETS					
ASSETS:					
Cash and cash equivalents	\$ 1,003,611	\$ 1,000,569	\$ 2,061,569	\$ -	\$ 4,065,749
Investments	493,180	489,370	1,023,062	-	2,005,612
Receivables:					
Property taxes receivable	285	7,631	4,454	-	12,370
Accounts receivable	6,410	-	-	-	6,410
Interest	711	701	1,474	-	2,886
Intergovernmental	744,681	1,525,993	175,468	-	2,446,142
Due from other funds	-	716,465	-	850,000	1,566,465
Local districts	13,886	-	-	-	13,886
Inventories	-	-	230,431	-	230,431
Prepays	2,330	-	-	-	2,330
TOTAL ASSETS	\$ 2,265,094	\$ 3,740,729	\$ 3,496,458	\$ 850,000	\$ 10,352,281
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 116,433	\$ 132,866	\$ 33,886	\$ -	\$ 283,185
Accrued salaries and related items	176,553	502,758	288,011	-	967,322
Accrued retirement	76,458	206,391	104,219	-	387,068
Due to other governments	71,226	1,833,942	-	-	1,905,168
Due to other funds	514,961	-	1,051,504	-	1,566,465
Unearned revenue	350,263	64,772	41,488	-	456,523
TOTAL LIABILITIES	1,305,894	2,740,729	1,519,108	-	5,565,731

See notes to financial statements.

	<u>Special revenue</u>			<u>Total nonmajor governmental funds</u>	<u>Total governmental funds</u>
	<u>General fund</u>	<u>Special education fund</u>	<u>Technical education fund</u>		
FUND BALANCES:					
Nonspendable:					
Inventories	\$ -	\$ -	\$ 230,431	\$ -	\$ 230,431
Prepays	2,330	-	-	-	2,330
Restricted for:					
Special education	-	1,000,000	-	-	1,000,000
Technical education	-	-	1,427,123	-	1,427,123
Committed for:					
Health initiatives	25,000	-	-	-	25,000
STAR Program	12,638	-	-	-	12,638
Local district programming	202,362	-	-	-	202,362
Assigned for:					
Capital projects	-	-	-	850,000	850,000
Subsequent year expenditures	58,988	-	319,796	-	378,784
Unassigned	657,882	-	-	-	657,882
TOTAL FUND BALANCES	<u>959,200</u>	<u>1,000,000</u>	<u>1,977,350</u>	<u>850,000</u>	<u>4,786,550</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,265,094</u>	<u>\$ 3,740,729</u>	<u>\$ 3,496,458</u>	<u>\$ 850,000</u>	<u>\$ 10,352,281</u>
Total governmental fund balances					\$ 4,786,550
Amounts reported for governmental activities in the statement of net position are different because:					
Deferred outflows of resources - related to pensions				\$ 2,819,862	
Deferred inflows of resources - related to state pension funding				(704,458)	
Deferred inflows of resources - related to pensions				<u>(726,261)</u>	
					1,389,143
Capital assets used in governmental activities are not financial resources and are not reported in the funds:					
The cost of the capital assets is				19,299,209	
Accumulated depreciation is				<u>(8,644,652)</u>	
					10,654,557
Long-term liabilities are not due and payable in the current period and are not reported in the funds:					
Bonds payable					(2,133,569)
Compensated absences and termination benefits					(99,193)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid					(1,851)
Net pension liability					<u>(25,656,822)</u>
Net position of governmental activities					<u>\$ (11,061,185)</u>

See notes to financial statements.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

	<u>Special revenue</u>			<u>Total nonmajor governmental funds</u>	<u>Total governmental funds</u>
	<u>General fund</u>	<u>Special education fund</u>	<u>Technical education fund</u>		
REVENUES:					
Local sources:					
Property taxes	\$ 321,797	\$ 8,385,342	\$ 4,893,608	\$ -	\$ 13,600,747
Tuition	80	-	3,630	-	3,710
Investment earnings	4,409	1,470	1,321	-	7,200
Community services	-	-	88,753	-	88,753
Other	455,361	1,706,077	65,758	-	2,227,196
Total local sources	781,647	10,092,889	5,053,070	-	15,927,606
State sources	3,133,282	3,187,696	664,566	-	6,985,544
Federal sources	134,475	3,287,889	382,547	121,760	3,926,671
Incoming transfers and other	190,942	-	-	-	190,942
Total revenues	4,240,346	16,568,474	6,100,183	121,760	27,030,763
EXPENDITURES:					
Current:					
Instruction:					
Basic	1,556,246	-	-	-	1,556,246
Added needs	-	3,038,809	2,382,467	-	5,421,276
Supporting services:					
Pupil	27,165	3,141,415	420,465	-	3,589,045
Instruction	879,371	958,788	209,549	-	2,047,708
General administration	668,125	74,639	19,069	-	761,833
School administration	118,157	162,836	509,170	-	790,163
Business services	685,055	51,521	23,351	-	759,927

See notes to financial statements.

	<u>Special revenue</u>			<u>Total nonmajor governmental funds</u>	<u>Total governmental funds</u>
	<u>General fund</u>	<u>Special education fund</u>	<u>Technical education fund</u>		
EXPENDITURES (Concluded):					
Supporting services (Concluded):					
Operations and maintenance	\$ 198,451	\$ 394,735	\$ 556,308	\$ -	\$ 1,149,494
Transportation	5,843	1,791,417	-	-	1,797,260
Central services	1,236,794	160,016	-	-	1,396,810
Community service activities	101,649	31,319	188,393	-	321,361
Outgoing transfers and other	639,930	5,469,462	75,000	-	6,184,392
Capital outlay	-	250,000	-	-	250,000
Debt service:					
Principal repayment	-	-	-	195,000	195,000
Interest	-	-	-	141,083	141,083
Total expenditures	<u>6,116,786</u>	<u>15,524,957</u>	<u>4,383,772</u>	<u>336,083</u>	<u>26,361,598</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,876,440)</u>	<u>1,043,517</u>	<u>1,716,411</u>	<u>(214,323)</u>	<u>669,165</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	1,827,761	-	-	1,064,323	2,892,084
Transfers out	-	(1,043,517)	(1,829,064)	(19,503)	(2,892,084)
Total other financing sources (uses)	<u>1,827,761</u>	<u>(1,043,517)</u>	<u>(1,829,064)</u>	<u>1,044,820</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(48,679)</u>	<u>-</u>	<u>(112,653)</u>	<u>830,497</u>	<u>669,165</u>
FUND BALANCES:					
Beginning of year	<u>1,007,879</u>	<u>1,000,000</u>	<u>2,090,003</u>	<u>19,503</u>	<u>4,117,385</u>
End of year	<u>\$ 959,200</u>	<u>\$ 1,000,000</u>	<u>\$ 1,977,350</u>	<u>\$ 850,000</u>	<u>\$ 4,786,550</u>

See notes to financial statements.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

Net change in fund balances total governmental funds \$ 669,165

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(812,313)
Capital outlay	671,021
Net book value by assets disposed of	(699)

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable net of tax credits, beginning of the year	1,852
Accrued interest payable net of tax credits, end of the year	(1,851)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and discounts, when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term debt and related items are as follows:

Payments on debt	195,000
Amortization of bond discount	(1,040)

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences and termination benefits, beginning of the year	107,696
Accrued compensated absences and termination benefits, end of the year	(99,193)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Pension related items	404,540
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Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period:

State aid funding for pension	(704,458)
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Change in net position of governmental activities \$ 429,720

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

B. Reporting Entity

The Allegan Area Educational Service Agency (the “District”) is governed by the Allegan Area Educational Service Agency Board of Education (the “Board”), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

C. Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District’s funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Concluded)

The District reports the following major governmental funds:

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

The *special education special revenue fund* which accounts for special education programs.

The *technical education special revenue fund* which accounts for technical education programs.

Other Non-major Funds

The *cooperative programming special revenue fund* which accounts for cooperative programs.

The *tech center building addition capital projects fund* which accounts for capital project activities relating to the technical education center.

The *2010 bonds debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. This is maintained for the 2010 bond.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Continued)

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the current year ended, the foundation allowance was based on pupil membership counts.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

The state portion of the Foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the Foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

F. Budgetary Information

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue funds. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information (Concluded)

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general, special education, technical education, and the cooperative programing funds are noted in the required supplementary information section.
4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to year ended June 30, 2016. The District does not consider these amendments to be significant.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and cash equivalents

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

2. Investments

Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

2. Investments (Concluded)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

3. Inventories and prepaids

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Inventories of the technical education fund are comprised principally of land held for resale and a residential property for resale.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital assets

Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

4. Capital assets (Concluded)

Land and construction in progress if any are not depreciated. The other property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Buildings and additions	20 - 50
Furniture, vehicles and equipment	5 - 20

5. Defined benefit plan

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 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.

6. Deferred outflows/inflows of resources

Deferred outflow

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the pension related items reported in the government-wide statement of net position. These amounts are expensed in the plan years in which they apply.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

6. Deferred outflows/inflows of resources (Concluded)

Deferred inflow

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The first is the future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary. The second is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period.

7. Net position flow assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

8. Fund balance flow assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Concluded)

9. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The board of education is the highest level of decision-making authority for the District that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the board of education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

H. Revenues and Expenditures/Expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenues and Expenditures/Expenses (Continued)

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2016, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund	0.1157
Special revenue funds:	
Special education fund	3.0500
Technical education fund	1.7800

3. Compensated absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

4. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses (Concluded)

4. Long-term obligations (Concluded)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2016, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's Rating</u>	<u>%</u>
MILAF Cash Management Class	\$ 5	0.0027	AAAm	0.0%
MILAF MAX Class	4,940	0.0027	AAAm	0.2%
Bank Money Market Fund	<u>2,000,667</u>	0.0027	AAAm	<u>99.8%</u>
Total fair value	<u>\$2,005,612</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds, which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Funds (MILAF). MILAF is an external pooled investment funds of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2016, the fair value of the District’s investments is the same as the value of the pool shares.

MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Interest rate risk. In accordance with its investment policy, the 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 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 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).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the 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 District's deposits may not be returned to it. As of June 30, 2016, \$3,840,007 of the District's bank balance of \$4,590,007, was exposed to custodial credit risk because it was uninsured and uncollateralized. Included in the above figures are certificates of deposits (CDs) of \$2,250,000. The carrying amount after recording outstanding checks and other items is \$4,065,749.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The 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.

Fair value measurement. The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

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 prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The District does not have any investments subject to the fair value measurement.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The carrying amount of deposits and investments are as follows:

Deposits	\$ 4,065,749
Investments	<u>2,005,612</u>
	<u><u>\$ 6,071,361</u></u>

The above amounts are reported in the financial statements as follows:

Cash and cash equivalents - district-wide	\$ 4,065,749
Investments - district-wide	<u>2,005,612</u>
	<u><u>\$ 6,071,361</u></u>

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2016 consist of the following:

Other intergovernmental units:	
State aid	\$ 1,299,816
Federal revenue	801,087
Other	<u>345,239</u>
	<u><u>\$ 2,446,142</u></u>

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Assets not being depreciated - land	\$ 495,148	\$ -	\$ -	\$ 495,148
Other capital assets:				
Buildings and improvements	13,873,991	240,650	-	14,114,641
Office and instructional equipment	4,297,001	430,371	37,952	4,689,420
Subtotal	18,170,992	671,021	37,952	18,804,061
Accumulated depreciation:				
Buildings and improvements	5,994,700	405,213	-	6,399,913
Office and instructional equipment	1,874,892	407,100	37,253	2,244,739
Total accumulated depreciation	7,869,592	812,313	37,253	8,644,652
Net other capital assets	10,301,400	(141,292)	699	10,159,409
Net capital assets	<u>\$ 10,796,548</u>	<u>\$ (141,292)</u>	<u>\$ 699</u>	<u>\$ 10,654,557</u>

Depreciation for the fiscal year ended June 30, 2016 amounted to \$812,313. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - LONG-TERM DEBT

The District issues bonds to provide funds for the acquisition, construction and improvement of major facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

	General obligation bonds (including discounts)	Compensated absences	Total
Balance July 1, 2015	\$ 2,327,529	\$ 107,696	\$ 2,435,225
Deletions	(193,960)	(8,503)	(202,463)
Balance June 30, 2016	2,133,569	99,193	2,232,762
Due within one year	(195,000)	(8,266)	(203,266)
Due in more than one year	<u>\$ 1,938,569</u>	<u>\$ 90,927</u>	<u>\$ 2,029,496</u>

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM DEBT

Long-term obligation debt at June 30, 2016 is comprised of the following:

2010 qualified school construction bonds due in annual payments of \$195,000 through May 1, 2027. The bonds carry an interest rate ranging from 1.10% to 6.70%.	\$ 2,145,000
Less: issuance discounts	<u>(11,431)</u>
Total bonded debt and other long-term obligations	2,133,569
Compensated absences	<u>99,193</u>
Total general long-term debt	<u><u>\$ 2,232,762</u></u>

The annual requirements to amortize long-term obligations as of June 30, 2016, including interest are as follows:

Year ending June 30,	Principal	Interest	Total
2017	\$ 195,000	\$ 131,820	\$ 326,820
2018	195,000	121,486	316,486
2019	195,000	110,956	305,956
2020	195,000	100,034	295,034
2021	195,000	88,726	283,726
2022 - 2026	975,000	258,962	1,233,962
2027	195,000	13,064	208,064
	<u>\$ 2,145,000</u>	<u>\$ 825,048</u>	<u>\$ 2,970,048</u>

Interest expense (all funds) for the year ended June 30, 2016 was approximately \$141,000.

The above interest payments do not include the interest credit on the qualified school construction bonds (QSCB).

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Amounts due from and due to other funds at June 30, 2016 are as follows:

	Due from other funds	Due to other funds
General fund	\$ -	\$ 514,961
Special revenue funds:		
Special education fund	716,465	-
Technical education fund	-	1,051,504
Tech center building addition capital projects fund	850,000	-
	\$ 1,566,465	\$ 1,566,465

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 7 - OPERATING LEASES

The District leases copiers under non-cancellable leases expiring June 30, 2020. The total cost for such leases were approximately \$36,000 for the fiscal year ending June 30, 2016.

The future minimum lease payments for these operating leases are as follows:

Year ending June 30,			
2017		\$	35,688
2018			35,688
2019			33,258
2020			20,552
		\$	125,186

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/mpsers-cafr>.

Benefits Provided

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

<u>Plan name</u>	<u>Plan Type</u>	<u>Plan status</u>
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

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

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% -7.0%.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

Regular Retirement (no reduction factor for age)

Eligibility - Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus (PPP) members, age 60 with 10 years of credited service.

Annual Amount - Total credited service as of the Transition Date times 1.5% of final average compensation.

Pension Plus

An amount determined by the member's election of Option 1, 2, 3, or 4 described below.

Option 1 - Credited Service after the Transition Date times 1.5% times FAC.

Option 2 - Credited Service after the Transition Date (until total service reaches 30 years) times 1.5% times FAC, PLUS Credited Service after the Transition Date and over 30 years times 1.25% times FAC.

Option 3 - Credited Service after the Transition Date times 1.25% times FAC.

Option 4 - None (Member will receive benefit through a Defined Contribution plan). As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Final Average Compensation (FAC) - Average of highest 60 consecutive months (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected option 4, in which case the FAC is calculated at the Transition Date.

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7%. Plan members electing the defined contribution plan are not required to make additional contributions.

Employer Contributions

Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

School districts' contributions are determined based on employee elections. There are several 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 is as follows:

March 10, 2015 - September 30, 2015	18.76% - 23.07%
October 1, 2015 - September 30, 2016	14.56% - 18.95%

The District's pension contributions for the year ended June 30, 2016 were equal to the required contribution total. Pension contributions were approximately \$2,404,000, with \$2,343,000 specifically for the Defined Benefit Plan. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (69.45% for pension and 30.55% for OPEB).

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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

Pension Liabilities

At June 30, 2016, the District reported a liability of \$25,656,822 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2014 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2015 and 2014, the District's proportion was .10504 and .10848 percent.

<u>MPERS (Plan) Non-university employers :</u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Total Pension Liability	\$ 66,312,041,902	\$ 65,160,887,182
Plan Fiduciary Net Position	\$ 41,887,015,147	\$ 43,134,384,072
Net Pension Liability	\$ 24,425,026,755	\$ 22,026,503,110
Proportionate share	0.10504%	0.10848%
Net Pension liability for the District	\$ 25,656,822	\$ 23,894,934

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

For the year ended June 30, 2016, the District recognized pension expense of \$1,234,407. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. These amounts have been recorded as a deferred outflow as of June 30, 2016.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

At June 30, 2016, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred (inflows) of resources
Change of assumptions	\$ 631,725	\$ -
Changes in proportion and differences between employer contributions and proportionate share of contributions	824	(641,278)
Net difference between projected and actual plan investment earnings	130,957	-
Difference between expected and actual experience	-	(84,983)
Reporting Unit's contributions subsequent to the measurement date	2,056,356	-
	\$ 2,819,862	\$ (726,261)

\$2,056,356, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Year ended September 30,	Amount
2016	\$ (100,394)
2017	(100,394)
2018	(134,625)
2019	372,658

Actuarial Assumptions

Investment rate of return - 8.0% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus plan).

Salary increases - The rate of pay increase used for individual members is 3.5%.

Inflation - 2.5%

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Mortality assumptions - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2020 using projection scale AA for men and women were used.

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2014. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

The long-term expected rate of return on pension plan investments - The rate was **8%** (7% Pension Plus Plan) net of investment and administrative expenses was determined using a 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.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.00%	5.90%
Alternate Investment Pools	18.00%	9.20%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	0.90%
Real Estate and Infrastructure Pools	10.00%	4.30%
Absolute Return Pools	15.50%	6.00%
Short Term Investment Pools	2.00%	0.00%
	<u>100.00%</u>	

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

Discount rate - The discount rate used to measure the total pension liability was **8%** (7% for Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Sensitivity of the net pension liability to changes in the discount rate

The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent (7% for Pension Plus Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Lower (6.0 % - 7.0%)	Discount Rate (7.0 % - 8.0%)	1% Higher (8.0 % - 9.0%)
Reporting Unit's proportionate share of the net pension liability	\$ 33,078,221	\$ 25,656,822	\$ 19,400,279

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2015 Comprehensive Annual Financial Report.

Payable to the Pension Plan - At year end the School District is current on all required pension plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

Benefit Provisions - Other Postemployment

Introduction

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

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Concluded)

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees.

Retiree Healthcare Reform of 2012

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

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

Employer Contributions

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% to 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015, and from 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election.

The District postemployment healthcare contributions to MPSERS for the years ended June 30, 2016, 2015 and 2014 were approximately \$935,000, \$1,049,000 and \$596,000.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2016 or any of the prior three years.

The District is self-insured for dental and vision coverage. The current year expense for June 30, 2016 was \$151,921, for dental and vision coverage. A liability for incurred and unreported benefits is not considered material.

NOTE 10 - TRANSFERS

The special education fund transferred \$214,323 to the 2010 bonds debt service fund to provide resources for debt service payments for the current year. The technical education and special education funds transferred to the general fund \$1,029,064 and \$779,194 respectively, for indirect cost reimbursement. The technical education and special education funds transferred to the tech center building addition capital projects fund \$800,000 and \$50,000 respectively, for future capital expenditures. The cooperative programming fund transferred \$19,503 to the general fund to close out the cooperative programming fund.

NOTE 11 - CONTINGENCIES

The District is the subject of certain claims. The District has retained legal counsel to aid in the resolution of the claims. Any adverse effect on the financial condition of the District is not determinable at this time.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO FINANCIAL STATEMENTS**

NOTE 12 - UPCOMING ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued by the GASB in June 2015 and will be effective for the District's 2018 fiscal year. The Statement requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 75 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, was issued by the GASB in August 2015 and will be effective for the District's 2017 year end. The Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements in the footnotes of the financial statements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatements recipients.
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

This Statement will improve the user's ability on how tax abatements affect the reporting unit's financial positions and results of operations, including their ability to raise resources in the future.

REQUIRED SUPPLEMENTARY INFORMATION

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget</u>
REVENUES:				
Local sources	\$ 886,958	760,846	\$ 781,647	\$ 20,801
State sources	3,151,419	3,181,433	3,133,282	(48,151)
Federal sources	130,178	139,990	134,475	(5,515)
Incoming transfers and other	187,060	185,651	190,942	5,291
Total revenues	<u>4,355,615</u>	<u>4,267,920</u>	<u>4,240,346</u>	<u>(27,574)</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	<u>1,793,664</u>	<u>1,589,144</u>	<u>1,556,246</u>	<u>32,898</u>
Supporting services:				
Pupil	25,140	30,553	27,165	3,388
Instructional staff	871,583	902,437	879,371	23,066
General administration	708,973	702,125	668,125	34,000
School administration	69,535	109,886	118,157	(8,271)
Fiscal services	651,964	692,083	685,055	7,028
Operations and maintenance	220,196	213,660	198,451	15,209
Transportation	6,000	12,779	5,843	6,936
Central	<u>1,339,592</u>	<u>1,249,162</u>	<u>1,236,794</u>	<u>12,368</u>
Total supporting services	<u>3,892,983</u>	<u>3,912,685</u>	<u>3,818,961</u>	<u>93,724</u>
Community services	25,000	119,717	101,649	18,068
Outgoing transfers and other transactions	<u>553,055</u>	<u>612,574</u>	<u>639,930</u>	<u>(27,356)</u>
Total expenditures	<u>6,264,702</u>	<u>6,234,120</u>	<u>6,116,786</u>	<u>117,334</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>(1,817,829)</u>	<u>(1,966,200)</u>	<u>(1,876,440)</u>	<u>89,760</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>1,909,088</u>	<u>1,847,165</u>	<u>1,827,761</u>	<u>(19,404)</u>
NET CHANGE IN FUND BALANCE				
	<u>\$ 91,259</u>	<u>\$ (119,035)</u>	<u>(48,679)</u>	<u>\$ 70,356</u>
FUND BALANCE:				
Beginning of year			<u>1,007,879</u>	
End of year			<u>\$ 959,200</u>	

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
YEAR ENDED JUNE 30, 2016**

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	\$ 10,688,069	\$ 10,021,296	\$ 10,092,889	\$ 71,593
State sources	3,249,204	3,153,352	3,187,696	34,344
Federal sources	3,339,962	3,302,109	3,287,889	(14,220)
Total revenues	<u>17,277,235</u>	<u>16,476,757</u>	<u>16,568,474</u>	<u>91,717</u>
EXPENDITURES:				
Current:				
Instruction:				
Added needs	<u>3,480,038</u>	<u>3,199,127</u>	<u>3,038,809</u>	<u>160,318</u>
Supporting services:				
Pupil	3,223,463	3,228,677	3,141,415	87,262
Instructional staff	1,147,958	983,129	958,788	24,341
General administration	75,800	72,135	74,639	(2,504)
Building administration	73,815	153,848	162,836	(8,988)
Fiscal services	135,170	53,862	51,521	2,341
Operations and maintenance	442,666	420,555	394,735	25,820
Transportation	2,076,744	1,842,696	1,791,417	51,279
Capital outlay	250,000	250,000	250,000	-
Central services	<u>139,530</u>	<u>168,433</u>	<u>160,016</u>	<u>8,417</u>
Total supporting services	<u>7,565,146</u>	<u>7,173,335</u>	<u>6,985,367</u>	<u>187,968</u>
Community services	36,135	37,098	31,319	5,779
Outgoing transfers and other transactions	<u>5,349,282</u>	<u>5,267,667</u>	<u>5,469,462</u>	<u>(201,795)</u>
Total expenditures	<u>16,430,601</u>	<u>15,677,227</u>	<u>15,524,957</u>	<u>152,270</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>846,634</u>	<u>799,530</u>	<u>1,043,517</u>	<u>243,987</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(846,634)</u>	<u>(799,530)</u>	<u>(1,043,517)</u>	<u>(243,987)</u>
NET CHANGE IN FUND BALANCE				
	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
FUND BALANCE:				
Beginning of year			<u>1,000,000</u>	
End of year			<u>\$ 1,000,000</u>	

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
TECHNICAL EDUCATION FUND
YEAR ENDED JUNE 30, 2016**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget</u>
REVENUES:				
Local sources	\$ 5,251,226	\$ 5,018,754	\$ 5,053,070	\$ 34,316
State sources	502,831	624,166	664,566	40,400
Federal sources	372,547	382,547	382,547	-
Total revenues	<u>6,126,604</u>	<u>6,025,467</u>	<u>6,100,183</u>	<u>74,716</u>
EXPENDITURES:				
Current:				
Instruction:				
Added needs	<u>2,409,942</u>	<u>2,428,770</u>	<u>2,382,467</u>	<u>46,303</u>
Supporting services:				
Pupil	450,051	416,564	420,465	(3,901)
Instructional staff	198,726	213,314	209,549	3,765
General administration	19,800	19,390	19,069	321
School administration	507,942	509,249	509,170	79
Fiscal services	30,500	28,394	23,351	5,043
Operations and maintenance	<u>559,759</u>	<u>558,609</u>	<u>556,308</u>	<u>2,301</u>
Total supporting services	<u>1,766,778</u>	<u>1,745,520</u>	<u>1,737,912</u>	<u>7,608</u>
Community services	186,519	197,396	188,393	9,003
Outgoing transfers and other transactions	<u>100,000</u>	<u>75,000</u>	<u>75,000</u>	<u>-</u>
Total expenditures	<u>4,463,239</u>	<u>4,446,686</u>	<u>4,383,772</u>	<u>62,914</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>1,663,365</u>	<u>1,578,781</u>	<u>1,716,411</u>	<u>137,630</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(1,430,071)</u>	<u>(1,834,975)</u>	<u>(1,829,064)</u>	<u>5,911</u>
Total other financing sources (uses)	<u>(1,430,071)</u>	<u>(1,834,975)</u>	<u>(1,829,064)</u>	<u>5,911</u>
NET CHANGE IN FUND BALANCE				
	<u>\$ 233,294</u>	<u>\$ (256,194)</u>	<u>(112,653)</u>	<u>\$ 143,541</u>
FUND BALANCE:				
Beginning of year			<u>2,090,003</u>	
End of year			<u>\$ 1,977,350</u>	

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED
AS OF 9/30 OF EACH FISCAL YEAR)**

	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.10504%	0.10848%
Reporting unit's proportionate share of net pension liability	\$ 25,656,822	\$ 23,894,934
Reporting unit's covered-employee payroll	\$ 8,830,690	\$ 9,260,198
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	290.54%	258.04%
Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED
AS OF 6/30 OF EACH FISCAL YEAR)**

	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 2,343,405	\$ 1,901,269
Contributions in relation to statutorily required contributions	<u>2,343,405</u>	<u>1,901,269</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 9,151,704	\$ 8,722,061
Contributions as a percentage of covered-employee payroll	25.61%	21.80%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF NET PENSION LIABILITY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

Changes of benefits terms: There were no changes of benefits terms in 2015.

Changes of assumptions: There were no changes of benefit assumptions in 2015.

ADDITIONAL SUPPLEMENTARY INFORMATION

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUND TYPES
 JUNE 30, 2016**

	Capital Projects	Special Revenue	Debt Service	
	Tech center building addition fund	Cooperative programming fund	2010 Bonds	Total nonmajor governmental funds
ASSETS				
ASSETS:				
Due from other funds	\$ 850,000	\$ -	\$ -	\$ 850,000
TOTAL ASSETS	\$ 850,000	\$ -	\$ -	\$ 850,000
FUND BALANCES				
FUND BALANCES:				
Assigned for capital projects	\$ 850,000	\$ -	\$ -	\$ 850,000
TOTAL FUND BALANCES	\$ 850,000	\$ -	\$ -	\$ 850,000

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
COMBINING STATEMENT OF CHANGES IN REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2016**

	<u>Capital Projects</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
	<u>Tech center building addition fund</u>	<u>Cooperative programming fund</u>	<u>2010 Bonds</u>	<u>Total nonmajor governmental funds</u>
REVENUES:				
Federal sources	\$ -	\$ -	\$ 121,760	\$ 121,760
Total revenues	-	-	121,760	121,760
EXPENDITURES:				
Debt service:				
Principal repayment	-	-	195,000	195,000
Interest expense	-	-	141,083	141,083
Total expenditures	-	-	336,083	336,083
DEFICIENCY OF REVENUES UNDER EXPENDITURES	-	-	(214,323)	(214,323)
OTHER FINANCING SOURCES (USES):				
Transfers in	850,000	-	214,323	1,064,323
Transfers out	-	(19,503)	-	(19,503)
Total other financing sources (uses)	850,000	(19,503)	214,323	1,044,820
NET CHANGE IN FUND BALANCES	850,000	(19,503)	-	830,497
FUND BALANCES				
Beginning of year	-	19,503	-	19,503
End of year	\$ 850,000	\$ -	\$ -	\$ 850,000

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
BONDED DEBT
JUNE 30, 2016**

\$3,315,000 School Building and Site Bonds, Series A (Federally taxable-Qualified School Construction Bonds) issued in 2010:

Principal due May 1,	Interest due			Debt service requirement for fiscal year	
	May 1,	November 1,	QSCB Credit	June 30,	Amount
\$ 195,000	\$ 65,910	\$ 65,910	\$ (120,705)	2017	\$ 206,115
195,000	60,743	60,743	(110,371)	2018	206,115
195,000	55,478	55,478	(99,841)	2019	206,115
195,000	50,017	50,017	(88,919)	2020	206,115
195,000	44,363	44,363	(77,806)	2021	205,920
195,000	38,415	38,415	(66,690)	2022	205,140
195,000	32,273	32,273	(55,576)	2023	203,970
195,000	26,130	26,130	(44,460)	2024	202,800
195,000	19,598	19,598	(33,346)	2025	200,850
195,000	13,065	13,065	(22,230)	2026	198,900
195,000	6,532	6,532	(11,114)	2027	196,950
<u>\$ 2,145,000</u>	<u>\$ 412,524</u>	<u>\$ 412,524</u>	<u>\$ (731,058)</u>		<u>\$ 2,238,990</u>

The above non-voted bonds were approved by the Board of Education of Allegan Area Educational Service Agency on April 15, 2010. The bonds were issued for the purpose of building renovation for the Hillside West Building.

The District designated the above bonds as “Qualified School Construction Bonds” as defined in Section 54F of the Internal Revenue Code of 1986, as amended, and will irrevocably elect under Section 6431(f)(2) of the Code to receive direct payments from the United States Treasury equal to the lesser of the amount of interest payable on the bonds or the amount of interest which would have been payable on the bonds if interest were determined at the applicable credit rate determined under Section 54A(b)(3) of the Code. The District will deposit all such credits into the debt retirement fund pledged for the payment of the bonds.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Award amount	Accrued 7/1/2015	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued 6/30/2016	Current year cash transferred to subrecipient
<u>U.S. Department of Labor:</u>									
Workforce Development Agency, State of Michigan (WDASOM) Passed through Area Community Services Employment and Training Council:									
Workforce Investment Act Youth Activities	17.259	AC-053-15	\$ 176,547	\$ -	\$ -	\$ 156,317	\$ 176,547	\$ 20,230	\$ -
		AC-053-14	199,599	49,360	192,599	49,360	-	-	-
Total U.S. Department of Labor			376,146	49,360	192,599	205,677	176,547	20,230	-
<u>U.S. Department of Education:</u>									
Passed through State Department of Education: Special Education Cluster:									
Special Ed - IDEA	84.027	150490-TS	58,000	2,403	58,000	2,403	-	-	-
		160490-TS	58,000	-	-	52,773	58,000	5,227	-
		160480-EOSD	50,000	-	-	44,509	50,000	5,491	-
		150450-1415	2,984,071	400,233	2,984,071	400,233	-	-	-
		160450-1516	2,989,286	-	-	2,312,948	2,966,115	653,167	-
Total Special Ed - IDEA			6,139,357	402,636	3,042,071	2,812,866	3,074,115	663,885	-
Special Ed - Preschool	84.173	160460-1516	85,189	-	-	85,189	85,189	-	85,189
Total Special Education Cluster			6,224,546	402,636	3,042,071	2,898,055	3,159,304	663,885	85,189
Title I Regional Assistance	84.010	161570	6,500	-	-	6,500	6,500	-	-
Passed through Kent Intermediate School District:									
Perkins - Tech Prep	84.048	CTE-P-2016-41000	206,000	-	-	206,000	206,000	-	-
		CTE-P-2015-41000	206,000	31,408	206,000	31,408	-	-	-
Total Perkins - Tech Prep			412,000	31,408	206,000	237,408	206,000	-	-
Infants/Toddlers Cluster									
Special Education - Infants & Toddlers - IDEA Part C	84.181	151340-190	112,723	4,390	112,723	4,390	-	-	-
		161340-190	112,720	-	-	97,509	112,720	15,211	-
Total Special Education - Infants & Toddlers - IDEA Part C			225,443	4,390	112,723	101,899	112,720	15,211	-
Total U.S. Department of Education			6,868,489	438,434	3,360,794	3,243,862	3,484,524	679,096	85,189

The accompanying notes are an integral part of this schedule.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Award amount	Accrued 7/1/2015	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued 6/30/2016	Current year cash transferred to subrecipient
<u>U.S. Department of Health and Human Services:</u>									
Medicaid Administrative Outreach	93.778	N/A	\$ 15,505	\$ -	\$ -	\$ 15,865	\$ 15,865	\$ -	\$ 8,571
Passed through Michigan Department of Education:									
CDC 32p Block Grant	93.596	143QUA	125,000	-	-	-	98,329	98,329	-
	93.596	153QUA	100,000	43,597	94,338	49,258	5,661	-	-
Total CDC 32p Block Grant			225,000	43,597	94,338	49,258	103,990	98,329	-
Total U.S. Department of Health and Human Services			240,505	43,597	94,338	65,123	119,855	98,329	8,571
<u>USDA/Food & Nutrition Services:</u>									
Child & Adult Care Food Program	10.558	N/A	23,985	-	-	20,553	23,985	3,432	-
			20,851	1,974	20,851	1,974	-	-	-
			44,836	1,974	20,851	22,527	23,985	3,432	-
TOTAL FEDERAL AWARDS			<u>\$ 7,529,976</u>	<u>\$ 533,365</u>	<u>\$ 3,668,582</u>	<u>\$ 3,537,189</u>	<u>\$ 3,804,911</u>	<u>\$ 801,087</u>	<u>\$ 93,760</u>

The accompanying notes are an integral part of this schedule.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Subrecipient award/ contract amount</u>	<u>Subrecipient current year expenditures</u>	<u>Current year cash transferred to subrecipient</u>
PL-94-142 Preschool Incentive:	84.173			
Passed through to:				
Allegan Public Schools		\$ 17,618	\$ 17,618	\$ 17,618
Fennville Public Schools		9,664	9,664	9,664
Hopkins Public Schools		9,674	9,674	9,674
Martin Public Schools		3,836	3,836	3,836
Otsego Public Schools		11,910	11,910	11,910
Plainwell Public Schools		14,124	14,124	14,124
Wayland Public Schools		<u>18,363</u>	<u>18,363</u>	<u>18,363</u>
Total PL-94-142 Preschool Incentive passed through to subrecipients		<u>\$ 85,189</u>	<u>\$ 85,189</u>	<u>\$ 85,189</u>
MSA school base services:	93.778			
Passed through to:				
Allegan Public Schools		\$ 2,908	\$ 2,908	\$ 2,908
Fennville Public Schools		777	777	777
Hopkins Public Schools		321	321	321
Martin Public Schools		364	364	364
Otsego Public Schools		1,294	1,294	1,294
Plainwell Public Schools		1,054	1,054	1,054
Wayland Public Schools		<u>1,853</u>	<u>1,853</u>	<u>1,853</u>
Total MSA school base services passed through to subrecipients		<u>\$ 8,571</u>	<u>\$ 8,571</u>	<u>\$ 8,571</u>

The accompanying notes are an integral part of this schedule.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

1. Basis of Presentation - The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Allegan Area Educational Service Agency under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Allegan Area Educational Service Agency, it is not intended to and does not present the net position or changes in net position of Allegan Area Educational Service Agency.
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 principles contained in the Uniform Guidance and in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) 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. Allegan Area Educational Service Agency has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.
3. The expenditures on the schedule of expenditures of federal awards do not include local match.
4. Expenditures in this schedule have been reconciled with Michigan Department of Education financial reports (DS4044, DS4092A and other applicable reports).
5. Management has utilized the Grant Section Auditor's Report in preparing the Schedule of Expenditures of Federal Awards.
6. Federal expenditures per the financial statements equals expenditures per the Schedule of Expenditures of Federal Awards.
7. Subrecipients - Of the federal expenditures presented in the schedule of expenditures of federal awards, Allegan Area Educational Service Agency provided federal awards to subrecipients reported in the enclosed schedule of pass through amounts.

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2016**

8. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 134,475
Special education fund	3,287,889
Technical education fund	382,547
Other non-major funds	<u>121,760</u>
	3,926,671
Federal tax credits	<u>(121,760)</u>
	<u><u>\$ 3,804,911</u></u>

Federal tax credit payments received on Qualified School Construction Bonds are not subject to the single audit act.

**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
Allegan Area Educational Service Agency

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan Area Educational Service Agency as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Allegan Area Educational Service Agency's basic financial statements and have issued our report thereon dated October 6, 2016

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Allegan Area Educational Service Agency'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 Allegan Area Educational Service Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Allegan Area Educational Service Agency'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 Allegan Area Educational Service Agency'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.

Maney Costeiran PC

October 6, 2016

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

To the Board of Education
Allegan Area Educational Service Agency

Report on Compliance for Each Major Federal Program

We have audited Allegan Area Educational Service Agency'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 Allegan Area Educational Service Agency's major federal programs for the year ended June 30, 2016. Allegan Area Educational Service Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of 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 Allegan Area Educational Service Agency'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* (CFR) 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 Allegan Area Educational Service Agency'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 Allegan Area Educational Service Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, Allegan Area Educational Service Agency 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, 2016.

Report on Internal Control Over Compliance

Management of Allegan Area Educational Service Agency 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 Allegan Area Educational Service Agency’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 Allegan Area Educational Service Agency’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.

Maney Costeiran PC

October 6, 2016

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Type of auditor's report issued on compliance for major programs: *Unmodified*

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027 and 84.173	Special Education Cluster

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

Auditee qualified as low-risk auditee? X Yes No

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

**ALLEGAN AREA EDUCATIONAL SERVICE AGENCY
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

There were no findings in either of the prior two years.