

# **Kalamazoo Regional Educational Service Agency**

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**Financial Report  
with Supplemental Information  
June 30, 2014**

# Kalamazoo Regional Educational Service Agency

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## Contents

<b>Independent Auditor's Report</b>	1-3
<b>Management's Discussion and Analysis</b>	4-10
<b>Basic Financial Statements</b>	
District-wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	14
Statement of Revenue, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Proprietary Funds:	
Statement of Net Position	17
Statement of Revenue, Expenses, and Changes in Net Position	18
Statement of Cash Flows	19
Fiduciary Funds - Statement of Net Position	20
Notes to Financial Statements	21-36
<b>Required Supplemental Information</b>	37
Budgetary Comparison Schedule - General Fund	38
Budgetary Comparison Schedule - Special Education Fund	39

# **Kalamazoo Regional Educational Service Agency**

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## **Contents (Continued)**

<b>Other Supplemental Information</b>	40
Nonmajor Governmental Funds:	
Combining Balance Sheet	41
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	42
Internal Service Funds:	
Combining Statement of Net Position	43
Combining Statement of Revenue, Expenses, and Changes in Net Position	44
Combining Statement of Cash Flows	45
Schedule of Bonded Indebtedness	46
<b>Federal Awards Supplemental Information</b>	Issued Under Separate Cover

## Independent Auditor's Report

To the Board of Education  
Kalamazoo Regional Educational Service Agency

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Kalamazoo Regional Educational Service Agency (the "Agency") as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise Kalamazoo Regional Educational Service Agency'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 an opinion 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.

To the Board of Education  
Kalamazoo Regional Educational Service Agency

### ***Opinions***

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

### ***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the major fund budgetary comparison schedules 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, which 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 supplemental 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 Kalamazoo Regional Educational Service Agency's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

To the Board of Education  
Kalamazoo Regional Educational Service Agency

The nonmajor governmental funds combining balance sheet and combining statement of revenue, expenditures, and changes in fund balance; the internal service funds and combining statement of net position, combining statement of revenue, expenses, and changes in net position, combining statement of cash flows; and the schedule of bonded indebtedness are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the nonmajor governmental funds combining balance sheet and combining statement of revenue, expenditures, and changes in fund balance; the internal service funds combining statement of net position, combining statement of revenue, expenses, and changes in net position, and combining statement of cash flows; and the schedule of bonded indebtedness are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2014 on our consideration of Kalamazoo Regional Educational Service Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Kalamazoo Regional Educational Service Agency's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

November 6, 2014

# **Kalamazoo Regional Educational Service Agency**

## **Management's Discussion and Analysis**

This section of Kalamazoo Regional Educational Service Agency's (the "Agency") annual financial report presents our discussion and analysis of the Agency's financial performance during the year ended June 30, 2014. Please read it in conjunction with the Agency's financial statements, which immediately follow this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Kalamazoo Regional Educational Service Agency financially as a whole. The district-wide financial statements provide information about the activities of the whole Agency, presenting both an aggregate view of the Agency's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Agency's operations in more detail than the district-wide financial statements by providing information about the Agency's most significant funds - the General Fund and the Special Education Fund - as well as information on the Agency's debt service, enterprise, and internal service funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the Agency acts solely as an agent for the benefit of students and parents.

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

### **Basic Financial Statements**

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

Other Supplemental Information

### ***Reporting the Agency as a Whole - District-wide Financial Statements***

One of the most important questions asked about the Agency is, "As a whole, what is the Agency's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the Agency's financial statements, report information on the Agency as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

# Kalamazoo Regional Educational Service Agency

## Management's Discussion and Analysis (Continued)

These two statements report the Agency's net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the Agency's financial health or financial position. Over time, increases or decreases in the Agency's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the Agency's operating results. However, the Agency's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education and services provided and the safety of the schools, to assess the overall health of the Agency.

The statement of net position and the statement of activities report the governmental and business-type activities for the Agency, which encompass all of the Agency's services, including instruction, support services, and community services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

### **Reporting the Agency's Most Significant Funds - Fund Financial Statements**

The Agency's fund financial statements provide detailed information about the most significant funds - not the Agency as a whole. Some funds are required to be established by state law and by bond covenants. However, the Agency establishes several other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental and proprietary funds of the Agency use the following accounting approach:

- **Governmental Funds** - The General Fund, Special Education Fund, Building and Site Improvement Fund, and 2008 Debt Service Fund are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Agency and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. We describe the relationship between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.
- **Proprietary Funds** - The Agency has one enterprise fund and two internal service funds that are reported in the proprietary funds. These funds are reported using the accrual basis of accounting, just as in the agency-wide statements described above.



# Kalamazoo Regional Educational Service Agency

## Management's Discussion and Analysis (Continued)

### *The Agency as Trustee - Reporting the Agency's Fiduciary Responsibilities*

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

### **The Agency as a Whole**

Recall that the statement of net position provides the perspective of the Agency as a whole. Table I provides a summary of the Agency's net position as of June 30:

	Governmental Activities		Business-type Activities	
	June 30		June 30	
	2014	2013	2014	2013
	(in millions)		(in millions)	
<b>Assets</b>				
Current and other assets	\$ 20.5	\$ 16.0	\$ 0.3	\$ 0.3
Capital assets	<u>28.5</u>	<u>29.4</u>	<u>-</u>	<u>-</u>
Total assets	49.0	45.4	0.3	0.3
<b>Liabilities</b>				
Current liabilities	10.9	9.6	0.2	0.3
Long-term liabilities	<u>18.2</u>	<u>17.3</u>	<u>-</u>	<u>-</u>
Total liabilities	29.1	26.9	0.2	0.3
<b>Net Position</b>				
Net investment in capital assets	11.7	10.9	-	-
Restricted	2.1	2.5	-	-
Unrestricted	<u>6.1</u>	<u>5.1</u>	<u>0.1</u>	<u>-</u>
Total net position	<u>\$ 19.9</u>	<u>\$ 18.5</u>	<u>\$ 0.1</u>	<u>\$ -</u>

The above analysis focuses on the net position (see Table I). The change in net position of the Agency's governmental activities is an increase of \$1.4 million and is discussed below (see Table 2). The Agency's net position was \$19.9 million at June 30, 2014. Net investment in capital assets totaling \$11.7 million compares the original cost, less depreciation of the Agency's capital assets, to long-term debt used to finance the acquisition of those assets. Restricted net position is reported separately to show legal constraints associated with debt service and special education expenditures and enabling legislation that limit the Agency's ability to use that net position for day-to-day operations. The Agency has restricted net position in the amount of \$2.1 million relating to the Special Education Fund and Debt Service Fund. The remaining amount of net position (\$6.1 million) was unrestricted.

# Kalamazoo Regional Educational Service Agency

## Management's Discussion and Analysis (Continued)

The \$6.1 million in unrestricted net position of governmental activities represents the accumulated results of all past years changes in net position for fiscal years 2014 and 2013.

TABLE 2

	Governmental Activities		Business-type Activities	
	2014	2013	2014	2013
	(in millions)		(in millions)	
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 4.9	\$ 4.6	\$ 3.4	\$ 3.0
Operating grants and contributions	30.2	24.3	-	-
General revenue:				
Property taxes	35.4	35.5	-	-
Unrestricted state revenue	2.4	1.9	-	-
Other	0.4	0.4	-	-
Total revenue	73.3	66.7	3.4	3.0
<b>Functions/Program Expenses</b>				
Instruction	16.7	13.6	-	-
Support services	23.2	20.0	-	-
Community services	3.5	3.5	-	-
Intergovernmental transfers	26.5	28.0	-	-
Bond issuance costs	-	0.1	-	-
Interest on long-term debt	0.7	0.8	-	-
Depreciation (unallocated)	1.3	1.3	-	-
Technology services	-	-	3.3	3.1
Total functions/program expenses	71.9	67.3	3.3	3.1
<b>Increase (Decrease) in Net Position</b>	1.4	(0.6)	0.1	(0.1)
<b>Net Position - Beginning of year</b>	18.5	19.1	-	0.1
<b>Net Position - End of year</b>	<u>\$ 19.9</u>	<u>\$ 18.5</u>	<u>\$ 0.1</u>	<u>\$ -</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$71.9 million. Certain activities were partially funded from those who benefited from the programs (\$4.9 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$30.2 million). We paid for the remaining “public benefit” portion of our governmental activities with \$35.4 million in taxes, \$2.4 million in unrestricted state revenue, and \$0.4 million in other revenue, i.e., interest and general entitlements. The Agency experienced an increase in net position of \$1.4 million.

# **Kalamazoo Regional Educational Service Agency**

## **Management's Discussion and Analysis (Continued)**

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

The Agency joined with other adjoining intermediate school districts to develop a technology services consortium. The business-type activities show the results for this collaborative venture. The cost of our business-type activities this year was \$3.3 million. These activities were funded by those who benefited from the services provided (\$3.4 million). There was a \$0.1 million increase in net position for business-type activities.

### **The Agency's Funds**

As we noted earlier, the Agency uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Agency is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Agency's overall financial health.

As the Agency completed this year, the governmental funds reported a combined fund balance of \$8.7 million, which is an increase of \$.5 million. The increase in fund balance was primarily due to spending less on expenditures than budgeted in the General Fund and Special Education Fund. General Fund fund balance is available to fund costs related to allowable Agency operating purposes. Special Education Fund fund balance is available to fund future costs related to the Agency's special education programs. Debt Service Fund fund balance will fund future debt service payments, and the Building and Site Improvement Capital Projects Fund fund balance is available to fund capital project needs within the Agency.

### **Budgetary Highlights**

Over the course of the year, the Agency revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. Schedules showing the Agency's original and final budget amounts compared with amounts actually paid and received are provided in the required supplemental information of these financial statements.

### ***General Fund Budgetary Highlights***

The General Fund's actual revenue was \$33.9 million. That amount is above the original budget estimate of \$31.6 million and below the final amended budget of \$35.3 million. The \$1.3 million variance between the final amended budget and the 2014 actual results was due to the deferral of federal, state, and local grants received in the current fiscal year to be spent in the next fiscal year.

# Kalamazoo Regional Educational Service Agency

## Management's Discussion and Analysis (Continued)

The actual expenditures and other financing uses of the General Fund were \$33.2 million, which was above the original budget estimate of \$31.7 million and below the final amended budget of \$34.9 million. The \$1.7 million variance between the final amended budget and the 2014 actual results was primarily due to the anticipation of fully expending grant revenue. Expenditures will be incurred in the next fiscal year.

The General Fund had total revenue of \$33.9 million and total expenditures of \$33.2 million, with an ending fund balance of \$5.6 million.

### ***Special Education Fund Budgetary Highlights***

The Special Education Fund's actual revenue was \$36.8 million. That amount is above the original budget estimate of \$36.3 million and below the final amended budget of \$36.9 million.

The actual expenditures and other financing sources of the Special Education Fund were \$37.2 million, which is above the original budget of \$36.4 million and below the final amended budget of \$38.0 million. The \$0.8 million variance between the final amended budget and the 2014 actual results was due to budgeted expenditures in the program areas that were not fully expended in the current year.

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

#### ***Capital Assets***

As of June 30, 2014, the Agency had \$38.8 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions and disposals) of \$328,547.

	<u>2014</u>	<u>2013</u>
Land	\$ 390,377	\$ 390,377
Construction in progress	-	-
Buildings and building improvements	32,848,633	32,633,078
Furniture and equipment	<u>5,591,239</u>	<u>5,478,247</u>
Total capital assets	38,830,249	38,501,702
Less accumulated depreciation	<u>10,344,049</u>	<u>9,085,740</u>
Net capital assets	<u><b>\$ 28,486,200</b></u>	<u><b>\$ 29,415,962</b></u>

# **Kalamazoo Regional Educational Service Agency**

## **Management's Discussion and Analysis (Continued)**

The increase in capital assets is primarily the result of building improvements and equipment purchasing.

### ***Debt***

At the end of this year, the Agency had \$16.4 million in bonds outstanding.

The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the Agency's boundaries. If the Agency issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The Agency has \$16.4 million of outstanding unqualified general obligation debt and is well below the State's statutory imposed limit.

Other obligations include accrued vacation pay, sick leave, and capital leases. We present more detailed information about our long-term liabilities in the notes to the financial statements.

### **Economic Factors and Next Year's Budgets and Rates**

There were many factors considered in preparing Kalamazoo Regional Educational Service Agency's budgets for the 2014-2015 fiscal year. The most important factor affecting the budget is our tax base, which has experienced minimal growth as compared to past years. Another factor the Agency is dependent upon is state funding. State revenue for intermediate school districts is expected to be flat. The third factor the Agency is dependent upon is federal grant revenue. All of these factors were considered when preparing the Agency's budgets.

# Kalamazoo Regional Educational Service Agency

## Statement of Net Position June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and investments (Note 3)	\$ 11,870,820	\$ 225,790	\$ 12,096,610
Receivables (Note 4)	8,008,085	75,299	8,083,384
Internal balances	72,181	-	72,181
Inventories	140,338	7,007	147,345
Prepaid costs and other assets	214,885	11,935	226,820
Restricted assets (Note 3)	216,597	-	216,597
Capital assets - Net (Note 5)	28,486,200	-	28,486,200
<b>Total assets</b>	<b>49,009,106</b>	<b>320,031</b>	<b>49,329,137</b>
<b>Liabilities</b>			
Accounts payable	1,159,748	98,367	1,258,115
Accrued payroll and other liabilities	3,055,242	44,717	3,099,959
Accrued interest	95,667	-	95,667
Internal balances	-	72,308	72,308
Due to other governmental units	1,823,206	-	1,823,206
Unearned revenue (Note 4)	4,764,115	13,836	4,777,951
Long-term liabilities (Note 7):			
Due within one year	2,526,573	-	2,526,573
Due in more than one year	15,645,106	-	15,645,106
<b>Total liabilities</b>	<b>29,069,657</b>	<b>229,228</b>	<b>29,298,885</b>
<b>Net Position</b>			
Net investment in capital assets	11,712,465	-	11,712,465
Restricted:			
Debt service	124,174	-	124,174
Special education	2,015,360	-	2,015,360
Unrestricted	6,087,450	90,803	6,178,253
<b>Total net position</b>	<b>\$ 19,939,449</b>	<b>\$ 90,803</b>	<b>\$ 20,030,252</b>

# Kalamazoo Regional Educational Service Agency

## Statement of Activities Year Ended June 30, 2014

Functions/Programs	Program Revenue		Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental	Business-type	Total
				Activities	Activities	
Primary government - Governmental activities:						
Instruction	\$ 16,709,257	\$ 67,914	\$ 13,150,611	\$ (3,490,732)	\$ -	\$ (3,490,732)
Support services	23,160,308	4,631,789	6,572,561	(11,955,958)	-	(11,955,958)
Community services	3,508,668	189,800	4,067,340	748,472	-	748,472
Intergovernmental transfers	26,467,622	-	6,464,726	(20,002,896)	-	(20,002,896)
Interest	755,548	-	-	(755,548)	-	(755,548)
Depreciation expense (unallocated)	1,275,809	-	-	(1,275,809)	-	(1,275,809)
Total governmental activities	71,877,212	4,889,503	30,255,238	(36,732,471)	-	(36,732,471)
Business-type activities - Technology	3,289,774	3,363,133	-	-	73,359	73,359
Total primary government and business-type activities	<b>\$ 75,166,986</b>	<b>\$ 8,252,636</b>	<b>\$ 30,255,238</b>	(36,732,471)	73,359	(36,659,112)
General revenue:						
Property taxes - Levied for general purposes				11,892,997	-	11,892,997
Property taxes - Levied for debt service				2,530,678	-	2,530,678
Property taxes - Levied for special education				20,949,826	-	20,949,826
State aid not restricted to specific purposes				2,397,196	-	2,397,196
Loss on the disposal of capital assets				(5,000)	-	(5,000)
Interest and investment earnings				4,604	417	5,021
Other				368,768	-	368,768
Total general revenue				38,139,069	417	38,139,486
<b>Changes in Net Position</b>				1,406,598	73,776	1,480,374
<b>Net Position - Beginning of year</b>				18,532,851	17,027	18,549,878
<b>Net Position - End of year</b>				<b>\$ 19,939,449</b>	<b>\$ 90,803</b>	<b>\$ 20,030,252</b>

The Notes to Financial Statements are an  
Integral Part of this Statement.

# Kalamazoo Regional Educational Service Agency

## Governmental Funds Balance Sheet June 30, 2014

	General Fund	Special Education Fund	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments (Note 3)	\$ 8,011,176	\$ 3,354,047	\$ 505,597	\$ 11,870,820
Receivables (Note 4)	3,978,531	4,018,618	10,936	8,008,085
Due from other funds (Note 6)	1,174,539	-	403,332	1,577,871
Inventories	140,338	-	-	140,338
Prepaid costs and other assets	117,947	96,938	-	214,885
Restricted assets (Note 3)	-	-	216,597	216,597
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u><b>\$ 13,422,531</b></u>	<u><b>\$ 7,469,603</b></u>	<u><b>\$ 1,136,462</b></u>	<u><b>\$ 22,028,596</b></u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 974,319	\$ 184,192	\$ 1,237	\$ 1,159,748
Accrued payroll and other liabilities	1,069,801	1,985,441	-	3,055,242
Due to other governmental units	476,788	1,346,418	-	1,823,206
Due to other funds (Note 6)	556,620	1,814,489	-	2,371,109
Unearned revenue (Note 4)	4,728,488	35,627	-	4,764,115
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	7,806,016	5,366,167	1,237	13,173,420
<b>Deferred Inflows of Resources -</b>				
Unavailable revenue (Note 4)	50,000	88,076	10,240	148,316
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and deferred inflows of resources	7,856,016	5,454,243	11,477	13,321,736
<b>Fund Balances</b>				
Nonspendable:				
Inventory	140,338	-	-	140,338
Prepaid assets	117,947	96,938	-	214,885
Restricted:				
Debt service	-	-	219,841	219,841
Special education	-	1,918,422	-	1,918,422
Assigned:				
RTSI	230,339	-	-	230,339
Building and site improvement	-	-	905,144	905,144
Budgeted use of fund balance for 2014-2015	96,652	-	-	96,652
Unassigned	4,981,239	-	-	4,981,239
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	5,566,515	2,015,360	1,124,985	8,706,860
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities, deferred inflows of resources, and fund balances	<u><b>\$ 13,422,531</b></u>	<u><b>\$ 7,469,603</b></u>	<u><b>\$ 1,136,462</b></u>	<u><b>\$ 22,028,596</b></u>

The Notes to Financial Statements are an Integral Part of this Statement.



# Kalamazoo Regional Educational Service Agency

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2014

<b>Fund Balance Reported in Governmental Funds</b>	\$	8,706,860
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Cost of capital assets	\$	38,830,249
Accumulated depreciation	<u>(10,344,049)</u>	28,486,200
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:		
Bonds payable including premium and deferred charges	(16,752,013)	
Compensated absences	(532,526)	
Capital lease obligation	(21,722)	
Early retirement incentive liability	<u>(865,418)</u>	(18,171,679)
Accrued interest payable is not included as a liability in governmental funds		(95,667)
Other long-term assets not available to pay current period expenditures are therefore unavailable in the governmental funds		148,316
Internal service fund assets and liabilities are included in governmental activities in the statement of net position		<u>865,419</u>
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>19,939,449</u></b>

# Kalamazoo Regional Educational Service Agency

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2014

	General Fund	Special Education Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenue</b>				
Local sources	\$ 15,031,631	\$ 22,824,754	\$ 2,532,214	\$ 40,388,599
State sources	8,199,826	6,180,807	-	14,380,633
Federal sources	6,696,920	7,775,443	-	14,472,363
Intergovernmental	3,999,119	34,980	-	4,034,099
Total revenue	<u>33,927,496</u>	<u>36,815,984</u>	<u>2,532,214</u>	<u>73,275,694</u>
<b>Expenditures</b>				
Current:				
Instruction	3,424,205	13,239,372	-	16,663,577
Support services	11,034,358	11,934,071	-	22,968,429
Community services	3,507,581	-	-	3,507,581
Debt service:				
Principal	10,419	-	1,725,000	1,735,419
Interest	17,499	-	786,500	803,999
Other	-	-	13,124	13,124
Capital outlay	296,726	156,603	115,789	569,118
Intergovernmental transfers	14,775,881	11,691,741	-	26,467,622
Total expenditures	<u>33,066,669</u>	<u>37,021,787</u>	<u>2,640,413</u>	<u>72,728,869</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	860,827	(205,803)	(108,199)	546,825
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	400,000	400,000
Transfers out	(200,000)	(200,000)	-	(400,000)
Total other financing (uses) sources	<u>(200,000)</u>	<u>(200,000)</u>	<u>400,000</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	660,827	(405,803)	291,801	546,825
<b>Fund Balances - Beginning of year</b>	<u>4,905,688</u>	<u>2,421,163</u>	<u>833,184</u>	<u>8,160,035</u>
<b>Fund Balances - End of year</b>	<u>\$ 5,566,515</u>	<u>\$ 2,015,360</u>	<u>\$ 1,124,985</u>	<u>\$ 8,706,860</u>

# Kalamazoo Regional Educational Service Agency

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2014

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	546,825
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense	\$ (1,275,809)	
Capitalized capital outlay	<u>351,047</u>	(924,762)
Governmental funds do not report losses from disposal of assets; in the statement of activities, these are recorded net of carrying value of the disposed assets		(5,000)
Revenue is reported in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end		13,116
Underwriter's discount/premium reported as expenditures/revenue in the funds and amortized in the statement of activities		51,513
Repayment of bond principal and capital lease debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		1,735,419
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		10,062
Compensated absences, as well as early retirement incentives, are recorded when earned in the statement of activities. In the current year, more was earned than paid out		(95,640)
Internal service funds are included as part of governmental activities		<u>75,065</u>
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>1,406,598</u></b>

# Kalamazoo Regional Educational Service Agency

## Proprietary Funds Statement of Net Position June 30, 2014

	Technology Fund	Internal Service Funds
<b>Assets - Current assets</b>		
Cash and investments (Note 3)	\$ 225,790	\$ -
Receivables (Note 4)	75,299	-
Due from other funds (Note 6)	-	865,419
Inventories	7,007	-
Prepaid costs and other assets	11,935	-
Total assets	320,031	865,419
<b>Liabilities - Current liabilities</b>		
Accounts payable	98,367	-
Due to other funds (Note 6)	72,308	-
Accrued liabilities	44,717	-
Unearned revenue (Note 4)	13,836	-
Total liabilities	229,228	-
<b>Net Position - Unrestricted</b>	<b>\$ 90,803</b>	<b>\$ 865,419</b>

# Kalamazoo Regional Educational Service Agency

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2014

	Technology Fund	Internal Service Funds
<b>Operating Revenue</b>		
Charges to other funds	\$ -	\$ 317,281
Charges to other districts	3,363,133	-
Total operating revenue	3,363,133	317,281
<b>Operating Expenses</b>		
Depreciation expense	2,316	-
Retirement program benefits	-	242,216
Technology support expenses	3,287,458	-
Total operating expenses	3,289,774	242,216
<b>Operating Income</b>	73,359	75,065
<b>Nonoperating Revenue</b> - Interest and investment earnings	417	-
<b>Change in Net Position</b>	73,776	75,065
<b>Net Position</b> - Beginning of year	17,027	790,354
<b>Net Position</b> - End of year	<u>\$ 90,803</u>	<u>\$ 865,419</u>

# Kalamazoo Regional Educational Service Agency

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2014

	Technology Fund	Internal Service Funds
<b>Cash Flows from Operating Activities</b>		
Receipts from other funds	\$ 18,826	\$ -
Payments for supplies and purchased services	(2,213,784)	-
Payments for employee compensation	(1,140,949)	-
Payments to benefit providers	-	(11,010)
Receipts from other governments	3,422,177	-
Net cash provided by (used in) operating activities	86,270	(11,010)
<b>Cash Flows from Investing Activities - Interest</b>	417	-
<b>Net Increase (Decrease) in Cash</b>	86,687	(11,010)
<b>Cash - Beginning of year</b>	139,103	11,010
<b>Cash - End of year</b>	\$ 225,790	\$ -
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ 73,359	\$ 75,065
Depreciation	2,316	-
Adjustments to reconcile operating income - To net cash from operating activities - Changes in assets and liabilities:		
Receivables	45,208	-
Due to/from other funds	18,826	(75,065)
Inventories and prepaid assets	41,341	-
Accounts payable and accrued liabilities	(94,780)	-
Net cash provided by (used in) operating activities	\$ 86,270	\$ -

# Kalamazoo Regional Educational Service Agency

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## Fiduciary Funds Statement of Fiduciary Net Position June 30, 2014

	Student Activities Agency Fund
<b>Assets</b>	
Cash and investments (Note 3)	\$ 248,113
Due from other funds (Note 6)	127
Receivables (Note 4)	<u>3,032</u>
Total assets	<u><u>\$ 251,272</u></u>
<b>Liabilities</b>	
Accounts payable	\$ 3,737
Due to student groups	<u>247,535</u>
Total liabilities	<u><u>\$ 251,272</u></u>

# **Kalamazoo Regional Educational Service Agency**

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## **Notes to Financial Statements June 30, 2014**

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of Kalamazoo Regional Educational Service Agency (the "Agency") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Agency:

#### **Reporting Entity**

The Agency is governed by an elected five-member Board of Education. The accompanying financial statements present the Agency and its component units, entities for which the Agency is considered to be financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the Agency's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the Agency. Blended component units, although legally separate entities, are, in substance, part of the Agency's operations. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Agency's reporting entity and which organizations are legally separate component units of the Agency. Based on the application of the criteria, the Agency does not contain any component units.

#### **District-wide and Fund Financial Statements**

The district-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 primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.



# **Kalamazoo Regional Educational Service Agency**

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## **Notes to Financial Statements June 30, 2014**

### **Note I - Summary of Significant Accounting Policies (Continued)**

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**District-wide Financial Statements** - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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 revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between business-type and governmental activities where eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the Agency's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the Agency's policy to spend funds in this order: committed fund balance, assigned fund balance, and unassigned fund balance.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

# Kalamazoo Regional Educational Service Agency

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## Notes to Financial Statements June 30, 2014

### Note I - Summary of Significant Accounting Policies (Continued)

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the Agency considers revenues to be available if they are 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.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Agency.

Proprietary fund and fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The Agency reports the following major governmental funds:

**General Fund** - The General Fund is the Agency's primary operating fund. It accounts for all financial resources of the Agency, except those required to be accounted for in another fund.

**Special Education Fund** - The Special Education Fund is a special revenue fund used to account for resources that provide special education programs for the Agency.

The Agency reports the following major proprietary fund:

**Technology Fund** - The Technology Fund is an enterprise fund used to account for the operations of the Agency's Technology Services Consortium.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2014

### Note I - Summary of Significant Accounting Policies (Continued)

Additionally, the Agency reports the following fund types:

**Building and Site Improvement Fund** - The Agency has a Capital Projects Fund, known as the Building and Site Improvement Fund, which is used to account for nonbond-funded capital projects.

**Debt Service Fund** - The Debt Service Fund is used to record property tax, interest, and state aid revenue and the payment of principal and interest on long-term debt related to the 2008 Bonds.

**Internal Service Funds** - Internal Service Funds account for risk management services provided to other departments of the Agency on a cost-reimbursement basis.

**Activities (Agency) Fund** - The Activities (Agency) Fund is used to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students or other groups.

#### **Assets, Liabilities, and Net Position or Equity**

**Cash and Investments** - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the district-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The Agency considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are levied on July 1 and December 1 by the 27 municipalities within the Agency's boundaries. Property tax revenue is recognized when levied to the extent it is deemed to be collectible. The municipalities bill and collect property taxes until March 15, at which time real property taxes are turned over to the counties for reimbursement from their revolving tax funds. The municipalities continue to collect delinquent personal property taxes.

**Inventories and Prepaid Costs** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both district-wide and fund financial statements.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2014

### Note I - Summary of Significant Accounting Policies (Continued)

**Restricted Assets** - The unspent property tax revenue and related interest of the Debt Service Fund require amounts to be set aside for future bond payments. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the Agency as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Agency does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	20 to 50 years
Vehicles, furniture, and other equipment	5 to 20 years

**Compensated Absences and Retirement Incentives** - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and sick leave benefits. The liability for retirement incentives reported in the district-wide statements consists of payments due to individuals who were eligible and elected to accept the incentive offer. A liability for these amounts is reported in governmental funds as it comes due for payment. The compensated absences liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

**Long-term Obligations** - In the Agency-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as debt service expenditures.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2014

### Note 1 - Summary of Significant Accounting Policies (Continued)

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 are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Balance** - Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications are comprised of the following - nonspendable, restricted, committed, assigned, and unassigned.

In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- **Assigned:** Intent to spend resources on specific purposes expressed by the Board of Education or superintendent, who is authorized by policy approved by the Board of Education to make assignments.
- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

**Comparative Data/Reclassifications** - Comparative data is not included in the Agency's financial statements.

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund and special revenue funds. All annual appropriations lapse at fiscal year end.

# Kalamazoo Regional Educational Service Agency

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## Notes to Financial Statements June 30, 2014

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund or function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Agency to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Agency changed budgeted amounts during the year in response to revised revenue estimates.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Agency did not have any significant expenditure budget variances.

### Note 3 - Deposits and Investments

State statutes and the Agency's investment policy authorize the Agency to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Agency is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Agency's deposits are in accordance with statutory authority.

The Agency has designated one financial institution for the deposit of its funds.

The Agency's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency has a deposit policy for custodial credit risk. At year end, the Agency's deposit balance of \$11,765,160 had \$11,265,160 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Agency believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Agency evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2014

### Note 3 - Deposits and Investments (Continued)

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency's policy for custodial credit risk states custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law, as described in the policy, and by prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the Agency will do business using the criteria established in the investment policy. The Agency does not have investments with custodial credit risk.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Agency's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The Agency's policy minimizes interest rate risk 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; 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 Agency's cash requirements.

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Agency's investment policy does not further limit its investment choices.

At year end, the maturities of investments and the credit quality ratings of debt securities (other than U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Rating Organization</u>
Michigan Liquid Asset Fund	<u>\$ 1,177,287</u>	N/A	AAAm	S&P

**Concentration of Credit Risk** - The Agency places no limit on the amount the Agency may invest in any one issuer. The Agency's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Foreign Currency Risk** - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the Agency's policy prohibit investment in foreign currency.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2014

### Note 4 - Receivables and Unavailable/Unearned Revenue

Receivables as of year end for the Agency's individual major funds, nonmajor funds, internal service funds, and fiduciary funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Special Education	2008 Debt	Technology	Student Activities Fund	Total
Receivables:						
Taxes receivable	\$ 53,474	\$ 94,196	\$ 10,882	\$ -	\$ -	\$ 158,552
Accounts receivable	584,364	96,485	54	75,299	3,032	759,234
Due from other governmental units	3,340,693	3,827,937	-	-	-	7,168,630
Total receivables	<u>\$ 3,978,531</u>	<u>\$ 4,018,618</u>	<u>\$ 10,936</u>	<u>\$ 75,299</u>	<u>\$ 3,032</u>	<u>\$ 8,086,416</u>

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. The majority of the unearned revenue relates to the 22i grant for data service and technology and the Great Start Readiness Program (GSRP), which are both passed through to local districts. At the end of the current fiscal year, the various components of unearned and unavailable revenue are as follows:

	Governmental Funds		Proprietary Funds
	Deferred Inflow - Unavailable	Liability - Unearned	Liability - Unearned
Delinquent property taxes	\$ 148,316	\$ -	\$ -
Grant and categorical aid payment received prior to meeting all eligibility requirements	-	4,764,115	13,836
Total	<u>\$ 148,316</u>	<u>\$ 4,764,115</u>	<u>\$ 13,836</u>



# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2014

### Note 5 - Capital Assets

Capital asset activity of the Agency's governmental activities was as follows:

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
<b>Governmental Activities</b>				
Capital assets not being depreciated - Land	\$ 390,377	\$ -	\$ -	\$ 390,377
Capital assets being depreciated:				
Buildings and improvements	32,633,078	215,555	-	32,848,633
Vehicle, furniture, and equipment	5,478,247	135,492	22,500	5,591,239
Subtotal	38,111,325	351,047	22,500	38,439,872
Accumulated depreciation:				
Buildings and improvements	5,256,121	700,983	-	5,957,104
Vehicles, furniture, and equipment	3,829,619	574,826	17,500	4,386,945
Subtotal	9,085,740	1,275,809	17,500	10,344,049
Net capital assets being depreciated	29,025,585	(924,762)	5,000	28,095,823
Net capital assets	<u>\$ 29,415,962</u>	<u>\$ (924,762)</u>	<u>\$ 5,000</u>	<u>\$ 28,486,200</u>
	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
<b>Business-type Activities</b>				
Capital assets being depreciated - Furniture and equipment	\$ 11,580	\$ -	\$ -	\$ 11,580
Accumulated depreciation - Furniture and equipment	9,264	2,316	-	11,580
Net capital assets	<u>\$ 2,316</u>	<u>\$ (2,316)</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense for governmental activities was not charged to activities as the Agency considers its assets to impact multiple activities and allocation is not practical. The business-type activities depreciation expenses have been allocated below:

Business-type activities - Support services	<u>\$ 2,316</u>
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# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2014

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From			Total
	General Fund	Special Education Fund	Enterprise Fund - Technology	
General Fund	\$ -	\$ 1,165,685	\$ 8,854	\$ 1,174,539
Internal Service Funds	153,161	648,804	63,454	865,419
Student Activities Fund	127	-	-	127
Nonmajor governmental funds	403,332	-	-	403,332
<b>Total</b>	<b>\$ 556,620</b>	<b>\$ 1,814,489</b>	<b>\$ 72,308</b>	<b>\$ 2,443,417</b>

Interfund balances represent routine and temporary cash flow assistance until amounts are transferred from fund investment accounts.

Fund Advanced To	Fund Advanced From		Total
	General Fund	Special Education Fund	
Building and Site Improvement Fund	\$ 200,000	\$ 200,000	\$ 400,000

Transfers in to the Building and Site Improvement Fund are to provide funding for future capital projects.

### Note 7 - Long-term Debt

The Agency issues bonds and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Agency. Capital leases are also general obligations of the Agency. Other long-term obligations include compensated absences and retirement incentives.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds	\$ 18,125,000	\$ -	\$ 1,725,000	\$ 16,400,000	\$ 1,875,000
Issuance premiums	403,526	-	51,513	352,013	51,513
<b>Total bonds payable</b>	<b>18,528,526</b>	<b>-</b>	<b>1,776,513</b>	<b>16,752,013</b>	<b>1,926,513</b>
Capital leases	32,141	-	10,419	21,722	11,034
Other obligations	1,302,304	564,683	469,043	1,397,944	589,026
<b>Total governmental activities</b>	<b>\$ 19,862,971</b>	<b>\$ 564,683</b>	<b>\$ 2,255,975</b>	<b>\$ 18,171,679</b>	<b>\$ 2,526,573</b>

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2014

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and capital lease obligations are as follows:

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2015	\$ 1,886,034	\$ 727,086	\$ 2,613,120
2016	2,010,688	660,810	2,671,498
2017	2,150,000	581,750	2,731,750
2018	2,350,000	501,125	2,851,125
2019	2,500,000	401,250	2,901,250
2020-2021	5,525,000	414,500	5,939,500
Total	<u>\$ 16,421,722</u>	<u>\$ 3,286,521</u>	<u>\$ 19,708,243</u>

#### Governmental Activities

General obligation bonds consist of the following:

\$24,675,000 Building and Site Bonds, Series 2008, principal annual installments of \$1,875,000 to \$2,765,000 through May 2021; interest at 3.50 percent to 5.00 percent \$ 16,400,000

**Capital Leases** - The Agency has entered into a lease agreement as lessee for financing the purchase of copiers. The copiers are included in capital assets, with a cost basis of \$576,485 and accumulated depreciation of \$532,918. Lease agreements qualify as a capital lease for accounting purposes; therefore, they have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2014

### Note 7 - Long-term Debt (Continued)

Years Ending June 30	Amount
2015	\$ 11,995
2016	10,998
Total	22,993
Less amount representing interest	1,271
Present value of net minimum lease payments	<u>\$ 21,722</u>

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$ 532,526
Early retirement incentives	865,418
Total	<u>\$ 1,397,944</u>

### Note 8 - Risk Management

The Agency is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Agency has purchased commercial insurance for property loss, torts, and errors and omissions claims and participates in the SET-SEG risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the Agency participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Effective January 1, 2012, the Agency is no longer self-insured for medical benefits provided to employees. The fund had activity during the year ended June 30, 2013 but was only to process any claims that were still outstanding as of June 30, 2012. There was no fund balance as of June 30, 2013. Remaining liabilities at June 30, 2013 were paid during the year ended June 30, 2014.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2014

### Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

**Plan Description** - The Agency participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the Agency. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement Services at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

**Pension Benefits** - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. For the period from July 1, 2013 through September 30, 2013 employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
<b>Pension Contributions</b>	15.21 %	15.02 %	15.02 %	12.78 %	12.78 %	12.78 %	15.21 %
<b>Health Contributions</b>	9.11 %	9.11 %	8.18 %	8.18 %	9.11 %	8.18 %	8.18 %
<b>Defined Contribution Plan Employer Contributions</b>							
DC employer contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %

\* First worked September 4, 2012 or later

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2014

### Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

For the period from October 1, 2013 through June 30, 2014 employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
<b>Pension Contributions</b>	18.34 %	18.11 %	18.11 %	15.44 %	15.44 %	15.44 %	18.34 %
<b>Health Contributions</b>	6.45 %	6.45 %	5.52 %	5.52 %	6.45 %	5.52 %	5.52 %
<b>Defined Contribution Plan Employer Contributions</b>							
DC employer contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %

\* First worked September 4, 2012 or later

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The Agency's required and actual contributions to the plan for the years ended June 30, 2014, 2013, and 2012 were \$3,927,000, \$3,211,000, and \$2,797,000, respectively.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2014

### **Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)**

**Postemployment Benefits** - Under the MPSERS act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 8.18 percent to 9.11 percent of covered payroll for the period from July 1, 2013 through September 30, 2013, and from 5.52 percent to 6.45 percent of covered payroll for the period from October 1, 2013 through June 30, 2014. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit, or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 401(k) account.

The Agency's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2014, 2013, and 2012 were \$1,608,000, \$1,894,000, and \$1,584,000, respectively.

### **Note 10 - Upcoming Accounting Pronouncements**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Agency is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements as of and for the year ending June 30, 2015.

## **Required Supplemental Information**

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# Kalamazoo Regional Educational Service Agency

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
<b>Revenue</b>				
Local sources	\$ 14,869,592	\$ 15,861,741	\$ 15,031,631	\$ (830,110)
State sources	5,177,581	8,419,853	8,199,826	(220,027)
Federal sources	7,529,089	6,962,716	6,696,920	(265,796)
Other sources	4,026,985	4,019,171	3,999,119	(20,052)
Total revenue	31,603,247	35,263,481	33,927,496	(1,335,985)
<b>Expenditures</b>				
Instruction:				
Basic program	784,163	3,585,945	3,434,228	(151,717)
Added needs	4,212,444	207,505	60,581	(146,924)
Support services:				
Pupil	112,441	1,027,598	1,014,667	(12,931)
Instructional	3,132,753	3,530,038	3,377,139	(152,899)
General administration	467,975	442,099	423,572	(18,527)
School administration	-	284,761	285,285	524
Business	811,537	902,376	870,380	(31,996)
Operations and maintenance	722,802	846,666	727,901	(118,765)
Pupil transportation services	-	591,783	543,401	(48,382)
Central	3,335,412	4,201,173	4,017,048	(184,125)
Community services	4,272,185	4,382,335	3,508,668	(873,667)
Other financing uses	13,873,162	14,977,800	15,003,799	25,999
Total expenditures	31,724,874	34,980,079	33,266,669	(1,713,410)
<b>Net Change in Fund Balance</b>	(121,627)	283,402	660,827	377,425
<b>Fund Balance - Beginning of year</b>	4,905,688	4,905,688	4,905,688	-
<b>Fund Balance - End of year</b>	<u>\$ 4,784,061</u>	<u>\$ 5,189,090</u>	<u>\$ 5,566,515</u>	<u>\$ 377,425</u>

Other financing uses include payments to other districts, principal and interest on long-term debt, and transfers to the capital projects fund.

The budget statement differs from the presentation used in the fund level statements due to the presentation of capital outlay amounts on a functional basis.

# Kalamazoo Regional Educational Service Agency

## Required Supplemental Information Budgetary Comparison Schedule - Special Education Fund Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
<b>Revenue</b>				
Local sources	\$ 23,090,882	\$ 22,847,991	\$ 22,824,754	\$ (23,237)
State sources	5,669,724	6,192,637	6,180,807	(11,830)
Federal sources	7,567,123	7,775,443	7,775,443	-
Other sources	55,000	55,000	34,980	(20,020)
Total revenue	36,382,729	36,871,071	36,815,984	(55,087)
<b>Expenditures</b>				
Instruction - Added needs	13,868,853	13,558,509	13,296,126	(262,383)
Support services:				
Pupil	6,095,319	6,161,669	6,048,710	(112,959)
Instructional	2,581,954	2,388,887	2,323,588	(65,299)
General administration	176,992	168,367	160,656	(7,711)
School administration	206,271	188,514	181,241	(7,273)
Business	547,661	537,787	489,472	(48,315)
Operations and maintenance	2,041,012	1,878,006	1,741,694	(136,312)
Pupil transportation	5,000	-	-	-
Central	1,281,124	1,169,765	1,088,559	(81,206)
Other financing uses	9,578,543	11,920,767	11,891,741	(29,026)
Total expenditures	36,382,729	37,972,271	37,221,787	(750,484)
<b>Net Change in Fund Balance</b>	-	(1,101,200)	(405,803)	695,397
<b>Fund Balance - Beginning of year</b>	2,421,163	2,421,163	2,421,163	-
<b>Fund Balance - End of year</b>	<u>\$ 2,421,163</u>	<u>\$ 1,319,963</u>	<u>\$ 2,015,360</u>	<u>\$ 695,397</u>

Other financing uses includes payments to other districts and transfers to the capital projects fund.

The budget statement differs from the presentation used in the fund level statements due to the presentation of capital outlay amounts on a functional basis.

## **Other Supplemental Information**

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# Kalamazoo Regional Educational Service Agency

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2014

	Debt Service Fund	Capital Projects Fund Building and Site Improvement Fund	Total Nonmajor Governmental Funds
	2008 Debt		
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ 505,597	\$ 505,597
Receivables	10,936	-	10,936
Due from other funds	3,785	399,547	403,332
Restricted assets	216,597	-	216,597
	<u>\$ 231,318</u>	<u>\$ 905,144</u>	<u>\$ 1,136,462</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>			
<b>Liabilities</b> - Accounts payable	\$ 1,237	\$ -	\$ 1,237
<b>Deferred Inflows of Resources</b>	10,240	-	10,240
Total liabilities and deferred inflows of resources	11,477	-	11,477
<b>Fund Balances</b>			
Restricted - Debt service	219,841	-	219,841
Assigned - Building and site improvement	-	905,144	905,144
Total fund balances	<u>219,841</u>	<u>905,144</u>	<u>1,124,985</u>
Total liabilities, deferred inflow of resources, and fund balances	<u>\$ 231,318</u>	<u>\$ 905,144</u>	<u>\$ 1,136,462</u>

# Kalamazoo Regional Educational Service Agency

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2014

	Debt Service Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
	2008 Debt	Building and Site Improvement Fund	
<b>Revenue - Local sources</b>	\$ 2,531,388	\$ 826	\$ 2,532,214
<b>Expenditures - Debt service</b>			
Principal	1,725,000	-	1,725,000
Interest	786,500	-	786,500
Other	13,124	-	13,124
Capital outlay	-	115,789	115,789
Total expenditures	2,524,624	115,789	2,640,413
<b>Other Financing Sources - Transfers in</b>	-	400,000	400,000
<b>Net Change in Fund Balances</b>	6,764	285,037	291,801
<b>Fund Balances - Beginning of year</b>	213,077	620,107	833,184
<b>Fund Balances - End of year</b>	<b>\$ 219,841</b>	<b>\$ 905,144</b>	<b>\$ 1,124,985</b>

# Kalamazoo Regional Educational Service Agency

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## Other Supplemental Information Combining Statement of Net Position Internal Service Funds June 30, 2014

	Employee Benefits Health	Employee Benefits Retirement	Total
<b>Assets</b> - Current - Due from other funds	\$ -	\$ 865,419	\$ 865,419
<b>Net Position</b> - Unrestricted	\$ -	\$ 865,419	\$ 865,419

# Kalamazoo Regional Educational Service Agency

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Position Internal Service Funds Year Ended June 30, 2014

	Employee Benefits Health	Employee Benefits Retirement	Total
<b>Operating Revenue</b> - Charges to other funds	\$ -	\$ 317,281	\$ 317,281
<b>Operating Expenses</b> - Retirement program benefits	-	242,216	242,216
<b>Change in Net Position</b>	-	75,065	75,065
<b>Net Position</b> - Beginning of year	-	790,354	790,354
<b>Net Position</b> - End of year	<u>\$ -</u>	<u>\$ 865,419</u>	<u>\$ 865,419</u>

# Kalamazoo Regional Educational Service Agency

## Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2014

	Employee Benefits Health	Employee Benefits Retirement	Total
<b>Net Decrease in Cash and Investments</b> - Cash flows			
from operating activities - Payments to benefit providers	\$ (11,010)	\$ -	\$ (11,010)
<b>Cash and Investments</b> - Beginning of year	11,010	-	11,010
<b>Cash and Investments</b> - End of year	\$ -	\$ -	\$ -
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>			
Operating income	\$ -	\$ 75,065	\$ 75,065
Changes in assets and liabilities - Due to/from other funds	(11,010)	(75,065)	(86,075)
Net cash used in operating activities	\$ (11,010)	\$ -	\$ (11,010)



# Kalamazoo Regional Educational Service Agency

## Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2014

<u>June 30</u>	<u>2008 Bonds Principal</u>
2015	\$ 1,875,000
2016	2,000,000
2017	2,150,000
2018	2,350,000
2019	2,500,000
2020	2,760,000
2021	<u>2,765,000</u>
Total	<b><u>\$ 16,400,000</u></b>
Principal payments due	May 1
Interest payments due	May 1 and November 1
Interest rate	3.5% to 5.0%
Original issue	<b><u>\$ 24,675,000</u></b>

# **Kalamazoo Regional Educational Service Agency**

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**Report to the Board of Education  
Year Ended June 30, 2014**

To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

We have recently completed our audit of the basic financial statements of Kalamazoo Regional Educational Service Agency (the "Agency") as of and for the year ended June 30, 2014. In addition to our audit report, we are providing the following results of the audit, other recommendations, and informational items which impact the Agency:

	<u>Page</u>
<b>Results of the Audit</b>	2-6
<b>Informational Items</b>	7-10

We are grateful for the opportunity to be of service to Kalamazoo Regional Educational Service Agency. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Plante & Moran, PLLC*

November 6, 2014

## **Results of the Audit**

November 6, 2014

To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

We have audited the financial statements of Kalamazoo Regional Educational Service Agency (the "Agency") as of and for the year ended June 30, 2014 and have issued our report thereon dated November 6, 2014. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated May 14, 2014, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of Kalamazoo Regional Educational Service Agency. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the Agency's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the Agency, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated November 6, 2014 regarding our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

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

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated June 30, 2014.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Agency are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2014.

We noted no transactions entered into by the Agency during the year for which there is a lack of authoritative guidance or consensus.

There were no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant balances, amounts, or disclosures in the financial statements based on sensitive management estimates.

The disclosures in the financial statements are neutral, consistent, and clear.

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

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

#### ***Disagreements with Management***

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

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### ***Significant Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated November 6, 2014.

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

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

### ***Other Audit Findings or Issues***

As required by OMB Circular A-133, we have also completed an audit of the federal programs administered by the Agency. The results of that audit are provided to the Board of Education in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 dated November 6, 2014.

### **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the entity's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such other information is properly stated. However, we read the management's discussion and analysis and budgetary comparison schedule and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

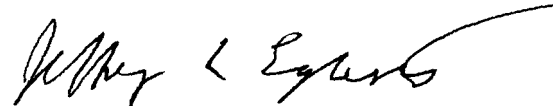
To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

November 6, 2014

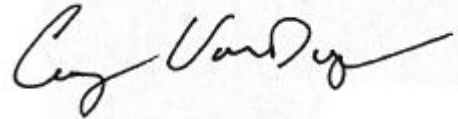
This information is intended solely for the use of the Board of Education and management of Kalamazoo Regional Educational Service Agency and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, appearing to read "Jeffery L. Egberts". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Jeffery L. Egberts, CPA  
Partner

A handwritten signature in black ink, appearing to read "Corey VanDyke". The signature is cursive and somewhat stylized, with a prominent loop at the end.

Corey VanDyke, CPA  
Manager

To the Board of Education  
 Kalamazoo Regional Educational  
 Service Agency

November 6, 2014

Opinion Unit: **Governmental Activities**  
 Y/E: 6/30/2014

**SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS**

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net Position Statement Impact
<b>FACTUAL MISSTATEMENTS:</b>									
A1	Adjustment to record copier as a capital lease		\$ 35,153		\$ 39,811			\$ 4,658	\$ (4,658)
<b>JUDGMENTAL ADJUSTMENTS:</b>									
B1	None								
<b>PROJECTED ADJUSTMENTS:</b>									
C1	None								
		\$ -	-	\$ -	-	\$ -	\$ -	-	-
	Total	\$ -	\$ 35,153	\$ -	\$ 39,811	\$ -	\$ -	\$ 4,658	\$ (4,658)
<b>PASSED DISCLOSURES:</b>									
D1	None								



## **Informational Items**

### **Current Events**

#### **State School Aid Act Changes Impacting 2014-2015**

The amendments to the State School Aid Act made several changes impacting agencies. Several changes we identified that could impact the Agency include:

**Change in District Required Filing Dates** - Currently the Agency must submit its audit report and its FID report to the Michigan Department of Education (MDE) by November 15. Beginning with the 2015 fiscal year, the reports will be due to the MDE on October 15. This significant acceleration will require agencies and auditors to carefully plan the closing of the agency's books, the completion of the audit and meetings with the Board of Education to ensure the 2015 filing deadlines are met. There has continued to be legislative discussion as to whether October 15 is a realistic date for filing, but for now it is law. We will continue to keep you apprised of any changes in this area. Also included in this accelerated filing date is certain information related to student counts, which will impact your pupil accounting personnel.

**Transparency Reporting Requirements** - These content posting requirements continue to expand with the addition of Deficit Elimination Plans, Enhanced Deficit Elimination Plans, agency credit card information, and out-of-state travel information. Transparency reports must be updated on the district website within 15 days of the change, as compared to the previous 30-day requirement.

### **Federal Grants**

#### **New Rules Governing Management of Federal Programs**

In December 2013, the Office of Management and Budget (OMB) issued long-awaited reforms to the compliance requirements that must be followed by non-federal entities receiving federal funding. All agencies receiving federal dollars will need to understand the changes made as a result of these reforms and may be required to make some changes to internal procedures, processes, and controls.

These reforms impact three key areas of federal grants management:

- I. **Audit Requirements** - For fiscal years beginning on or after January 1, 2015 (fiscal year ending June 30, 2016 for Michigan schools), the threshold for obtaining a federal awards audit will increase from the current threshold of \$500,000 of annual federal spending to \$750,000. There will also be significant changes to the criteria for qualifying as a low-risk auditee and a reduction in the number of major programs required to be tested for some districts.

The Agency has historically been above the new \$750,000 threshold. However, from time to time, depending upon the level of federal spending, the Agency may drop below the audit requirement threshold and monitoring of federal program expenditures will be important to ensure compliance with the audit requirement.

2. **Cost Principles** - Effective December 26, 2014, the grant reforms related to cost principles go into effect. Not only were certain changes made to allowable costs under this new guidance, but there were significant changes in the area of time and effort reporting and indirect costs. The State of Michigan will have a significant impact on how these changes will be applied to Michigan agencies, as they often have different requirements than the federal government in this area.
3. **Administrative Requirements** - Also effective December 26, 2014, non-federal entities receiving federal funding must adhere to new rules related to administering federal awards. Most notably, these requirements may impact the Agency's procurement systems, including maintaining written conflict of interest policies and disclosures as well as updated grants management policies and procedures. The MDE has indicated that failure to adhere to these rules could result in the disqualification for participation in federal programs through the MDE. Please note these requirements are more stringent than those required under your federal program audit, which focuses on key controls versus overall process.

These revisions are clearly the most significant change to occur to federal grants management in recent history. Agencies receiving federal funding will need to carefully digest these changes as the application of these changes will need to be assessed on a district-by-district basis. Plante & Moran, PLLC has many school district grants experts in these rules who will be working closely with the Michigan Department of Education regarding these changes and can assist you in understanding the changes and how they impact the Agency. During the spring of 2014, we provided two webinars on the grants management changes. Those webinars are archived and available at no charge on our website to assist districts in increasing their understanding of the changes. As we continue to delve into these new rules, we will keep you informed and updated.

## **Accounting Items**

### **GASB Statement No. 68 - Pension Standards**

GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions* is effective for the Agency's June 30, 2015 financial statements. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Due to the Agency's participation in the Michigan Public School Employees' Retirement System (MPERS), the Agency will be required to report the Agency's share of the MPERS pension plan net pension liability in the basic financial statements (at the government-wide level and in proprietary funds - but not in governmental funds). While the Agency has a very small share of the statewide net pension liability (less than 1 percent) the obligation the Agency will record will be significant. Most of the needed data required to record this liability will come from the Retirement System using the Plan's September 30, 2014 fiscal year end financial information. Changes in the net pension liability will generally be reported as pension expense at the government-wide level and in proprietary funds. Currently, the unfunded liability associated with retiree healthcare is not included in the computation, but will be added in the future. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

Some factors to focus on as the Agency prepares for adoption of this standard include:

- The Office of Retirement Services is working on a implementation plan to assist agencies in obtaining needed information
- Since the obligation is so significant, documentation showing the calculation is accurate will need to be developed and audited. The current plan is for the Auditor General's office to perform needs tests on most of the information and that information will be made available to the Agency.
- For virtually all districts, once the obligation is included in the financial statements, it is likely the government-wide financial statements will report a negative net position. The State and bond rating agencies understand this fact and it should not adversely affect the assessment of the Agency's financial position.
- As stated above, the adoption of the standard will not impact the MPERS expenditures reported in the General Fund and will not impact General Fund fund balance.
- Disclosures regarding the plan and data related to the plan will be significantly expanded in the Agency's financial statements.

## **Affordable Care**

In 2010 the Patient Protection and Affordable Care Act (PPACA) was passed in an effort to reduce the cost of health care, extend care to virtually all Americans, and improve the delivery and quality of health care. Since becoming effective, many parts of the law have been enacted. More recently, the DOL, IRS, and Treasury have issued various notices that modify or delay the implementation of certain parts of the law. Perhaps the most significant has been the delay of the shared responsibility mandate for large employers in 2014. While some notices delay or modify certain aspects of the law, it is recommended that all agencies take care and consider a comprehensive strategy to ensure compliance with PPACA. Doing so will guard against the application of unintended penalties due to noncompliance.

The Patient Protection and Affordable Care Act set forth a number of requirements that large employers need to consider in order to avoid the potential application of penalties due to noncompliance. Here are a few questions Agency leadership should consider:

- If the Agency is a large employer, has it determined which employees are full-time, taking into account that PPACA considers the common law standard when determining if an employment relationship exists? This would impact treatment of staff contracted from staffing firms for services such as substitute teaching.
- Have you examined affiliated business relationships to determine if the shared responsibility rules apply to your organization (possible with some contractual relationships)?
- Are you certain that your plan's eligibility rules are consistent with the requirements of PPACA (staff working 30 or more hours/week)?
- Do you offer at least one medical plan that provides "minimum value" and is "affordable," to "substantially all" of your "full-time" employees as defined by the law?
- Are you familiar with (and accruing for) PPACA related taxes and fees incurred in 2014 and payable in 2015 and beyond?
- Has the district considered the long-term strategy for benefits inclusive of the impact of the Cadillac tax that begins in 2018?
- Will the Agency increase the number of employees who are offered health coverage, or will it choose to pay the penalty instead?
- Does your agency need to establish standard measurement, administrative, and stability periods for variable-hour employees?
- If the Agency will use the look-back measurement method for full-time determination, have you considered the special methods for considering employment break periods related to or arising out of non-working weeks or months under the academic calendar?
- Does the Agency have a method to comply with the reporting standards of the law?

If assistance is needed with answering these questions, contact your plan advisor or connect with a Plante & Moran, PLLC benefits professional.

# **Kalamazoo Regional Educational Service Agency**

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**Federal Awards  
Supplemental Information  
June 30, 2014**

# Kalamazoo Regional Educational Service Agency

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## Contents

### Independent Auditor's Reports:

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	I
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-3
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance	4-6
Schedule of Expenditures of Federal Awards	7-11
Schedule of Expenditures of Federal Awards Provided to Subrecipients	12
Notes to Schedule of Expenditures of Federal Awards	13
Schedule of Findings and Questioned Costs	14

Report on Schedule of Expenditures of Federal Awards  
Required by OMB Circular A-133

Independent Auditor's Report

To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

We have audited the basic financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Kalamazoo Regional Educational Service Agency (the "Agency") as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise Kalamazoo Regional Educational Service Agency's basic financial statements. We issued our report thereon dated November 6, 2014, which contained an unmodified opinion on those basic financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited basic financial statements subsequent to November 6, 2014.

The accompanying schedule of expenditures of federal awards and schedule of expenditures of federal awards provided to subrecipients are presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Plante & Moran, PLLC*

Portage, Michigan  
November 6, 2014

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*

Independent Auditor's Report

To Management and the Board of Education  
Kalamazoo Regional 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 basic financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Kalamazoo Regional Educational Service Agency (the "Agency") as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise Kalamazoo Regional Educational Service Agency's basic financial statements, and have issued our report thereon dated November 6, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered Kalamazoo Regional 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 opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Agency'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.



To Management and the Board of Education  
Kalamazoo Regional Educational  
Service Agency

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Kalamazoo Regional Educational Service Agency's basic 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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plante & Moran, PLLC*

Portage, Michigan  
November 6, 2014

Report on Compliance for Each Major Federal Program;  
Report on Internal Control Over Compliance

Independent Auditor's Report

To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

**Report on Compliance for Each Major Federal Program**

We have audited Kalamazoo Regional Educational Service Agency's (the "Agency") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. Kalamazoo Regional 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 laws, regulations, contracts, and grants applicable to each of its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for Kalamazoo Regional 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kalamazoo Regional 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 Kalamazoo Regional Educational Service Agency's compliance.

To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

### ***Opinion on the Major Federal Programs***

In our opinion, Kalamazoo Regional 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, 2014.

### **Report on Internal Control Over Compliance**

Management of Kalamazoo Regional 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 Kalamazoo Regional 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 a 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.

To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Plante & Moran, PLLC*

Portage, Michigan  
November 6, 2014

# Kalamazoo Regional Educational Service Agency

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	Prior Year Expenditures	Accrued (Deferred) Revenue at June 30, 2013	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2014
Clusters:								
Employment Services Cluster -								
U.S. Department of Labor -								
Passed through W.E. Upjohn Institute for Employment Research -								
State-wide Employment Services:								
	17.207							
Employment Services - Project 12-53(12-13)		\$ 277,867	\$ 254,469	\$ 48,732	\$ -	\$ 48,732	\$ -	\$ -
Employment Services - Project 13-53(13-14)		186,838	-	-	-	162,886	159,908	(2,978)
ES - Project 12-011-07 (12-13)		72,172	65,158	11,736	-	11,736	-	-
ES - Project 13-011-07 (13-14)		58,057	-	-	-	45,855	53,690	7,835
ES NCRC WorkKeys RS 12-012-53 (12-13)		10,290	9,263	1,017	-	1,017	-	-
ES NCRC WorkKeys RS 13-012-53 (13-14)		10,290	-	-	-	9,885	10,265	380
		<u>615,514</u>	<u>328,890</u>	<u>61,485</u>	<u>-</u>	<u>280,111</u>	<u>223,863</u>	<u>5,237</u>
Total Employment Services Cluster								
WIA Cluster - U.S. Department of Labor - Passed through								
W.E. Upjohn Institute for Employment Research:								
Workforce Investment Act - Adult:								
	17.258							
Core - Project 12-53(12-13)		55,159	51,278	10,752	-	10,752	-	-
Core - Project 13-53(13-14)		61,978	-	-	-	49,093	59,620	10,527
State-wide funds - Project 12-011-07 (12-13)		15,873	13,543	1,792	-	1,792	-	-
State-wide funds - Project 13-011-07 (13-14)		27,054	-	-	-	21,368	25,019	3,651
State-wide funds - Project 12-011-07 (12-13)		10,000	9,028	1,626	-	1,626	-	-
State-wide funds - Project 12-011-05 (12-13)		6,158	6,158	1,100	-	1,100	-	-
ES NCRC WorkKeys Adult 12-012-53 (12-13)		3,400	2,906	182	-	182	-	-
ES NCRC WorkKeys Adult 13-012-53 (13-14)		3,400	-	-	-	2,495	3,388	893
		<u>183,022</u>	<u>82,913</u>	<u>15,452</u>	<u>-</u>	<u>88,408</u>	<u>88,027</u>	<u>15,071</u>
Total Workforce Investment Act - Adult								

See Notes to Schedule of Expenditures of Federal Awards.

# Kalamazoo Regional Educational Service Agency

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2014

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	Prior Year Expenditures	Accrued (Deferred) Revenue at June 30, 2013	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2014
Clusters (Continued):								
WIA Cluster - U.S. Department of Labor - Passed through								
W.E. Upjohn Institute for Employment Research (Continued):								
Workforce Investment Act - Youth:								
17.259								
WIA State-wide funds Youth - Project 12-011-07 (12-13)		\$ 3,341	\$ 2,851	\$ 379	\$ -	\$ 379	\$ -	\$ -
WIA State-wide funds Youth - Project 13-011-07 (13-14)		3,069	-	-	-	2,424	2,838	414
Project No. 12-011-03		1,494,438	1,219,240	124,965	-	124,965	-	-
Project No. 13-011-03		1,167,446	-	-	-	916,827	1,025,199	108,372
WIA-Youth PY12-02 Branch		135,321	110,182	14,909	-	14,909	-	-
WIA-Youth 13-02 Branch		116,083	-	-	-	87,274	99,759	12,485
ES NCRC WorkKeys Youth 12-012-53		4,317	3,690	231	-	231	-	-
ES NCRC WorkKeys Youth 13-012-53		4,317	-	-	-	4,147	4,306	159
Total Workforce Investment Act - Youth		2,928,332	1,335,963	140,484	-	1,151,156	1,132,102	121,430
Workforce Investment Act - Dislocated Worker:								
17.278								
Project 12-011-07 (12-13)		29,384	25,070	3,320	-	3,320	-	-
Project 13-011-07 (13-14)		33,237	-	-	-	26,251	30,737	4,486
Project 12-53 (12-13)		24,233	22,497	4,193	-	4,193	-	-
Project 13-53 (13-14)		41,973	-	-	-	32,022	40,843	8,821
TRADE - Project 12-53		89,309	41,826	1,655	-	1,655	-	-
TRADE - Project 13-53		203,045	-	-	-	124,630	146,476	21,846
ES NCRC WorkKeys DW 12-012-53		2,957	2,528	159	-	159	-	-
ES NCRC WorkKeys DW 13-012-53		2,957	-	-	-	2,170	2,948	778
WIA DW SAG 13-53 (13-14)		21,057	-	-	-	-	21,057	21,057
Total Workforce Investment Act - Dislocated Worker		448,152	91,921	9,327	-	194,400	242,061	56,988
Total WIA Cluster		3,559,506	1,510,797	165,263	-	1,433,964	1,462,190	193,489
National Endowment for the Arts - Passed through the								
Kalamazoo Community Mental Health								
Education For The Arts: MCAC:								
45.025								
Control No. 13OP0130PS		2,890	2,890	-	-	-	-	-
Control No. 14OP0154PS		3,270	-	-	-	3,270	3,270	-
Total Education For The Arts Cluster		6,160	2,890	-	-	3,270	3,270	-

See Notes to Schedule of Expenditures of Federal Awards.

# Kalamazoo Regional Educational Service Agency

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2014

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	Prior Year Expenditures	Accrued (Deferred) Revenue at June 30, 2013	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2014
Clusters (Continued):								
Special Education Cluster - U.S. Department of Labor - Passed through the Michigan Department of Education:								
IDEA (PL-94-142):								
Project No. 130490/TS	84.027	\$ 65,000	\$ 65,000	\$ 23,077	\$ -	\$ 23,077	\$ -	\$ -
Project No. 140490/TS		65,000	-	-	-	40,722	65,000	24,278
Project No. 130450/1213		7,383,721	7,383,721	3,296,692	-	3,298,401	1,709	-
Project No. 140450/1314		7,216,645	-	-	-	4,691,098	7,216,645	2,525,547
Project No. 140480/EOSD		55,000	-	-	-	28,440	55,000	26,560
Total IDEA		14,785,366	7,448,721	3,319,769	-	8,081,738	7,338,354	2,576,385
Handicapped Preschool (94-142):								
Project No. 120460/1213	84.173	237,173	237,173	52,745	-	52,745	-	-
Project No. 140460/1314		224,295	-	-	-	138,502	224,295	85,793
Total Handicapped Preschool		461,468	237,173	52,745	-	191,247	224,295	85,793
Total Special Education Cluster (IDEA)		15,246,834	7,685,894	3,372,514	-	8,272,985	7,562,649	2,662,178
TANF Cluster - U.S. Department of Health and Human Services - Passed through W.E. Upjohn Institute for Employment Research - JET TANF:								
Project 12-011-07	93.558	48,665	45,021	3,493	-	3,493	-	-
Project 13-011-07		62,560	-	-	-	59,560	62,412	2,852
ES NCRC WorkKeys JET 12-012-53		59,996	54,832	5,102	-	5,102	-	-
ES NCRC WorkKeys PATH 13-012-53		54,976	-	-	-	42,552	54,827	12,275
Total TANF Cluster		226,197	99,853	8,595	-	110,707	117,239	15,127
Medicaid Cluster - U.S. Department of Health and Human Services - Passed through the Michigan Department of Community Health - Medicaid Outreach Claims								
Total cluster programs	93.778	122,461	-	-	-	122,461	122,461	-
Total cluster programs		19,776,672	9,628,324	3,607,857	-	10,223,498	9,491,672	2,876,031

See Notes to Schedule of Expenditures of Federal Awards.

# Kalamazoo Regional Educational Service Agency

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2014

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	Prior Year Expenditures	Accrued (Deferred) Revenue at June 30, 2013	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2014
Other federal awards:								
U.S. Department of Education -								
Passed through the Michigan Department of Education:								
Early Intervention Services (IDEA) -								
Handicapped Infants and Toddlers:								
Project No. 131340/190	84.181	\$ 264,136	\$ 264,136	\$ 49,091	\$ -	\$ 49,091	\$ -	\$ -
Project No. 141340/1314		<u>212,794</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>167,401</u>	<u>212,794</u>	<u>45,393</u>
Total Handicapped Infants and Toddlers		476,930	264,136	49,091	-	216,492	212,794	45,393
Title I Regional Assistance Grant -	84.010	40,000	-	-	-	-	18,631	18,631
Project No. 141570 - 13-14								
Vocational Education - Basic grants to states:	84.048	665,729	665,729	332,997	-	332,997	-	-
Project No. 133520/1213-20		<u>524,338</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>269,702</u>	<u>524,338</u>	<u>254,636</u>
Project No. 141220/1314-20								
Total Vocational Education - Basic grants to states		<u>1,190,067</u>	<u>665,729</u>	<u>332,997</u>	<u>-</u>	<u>602,699</u>	<u>524,338</u>	<u>254,636</u>
Total U.S. Department of Education noncluster programs		1,706,997	929,865	382,088	-	819,191	755,763	318,660
Department of Health and Human Services -								
Passed through the Michigan Department of Education -								
Child Care and Development Block Grant -								
Project No. 143QUA - 1314	93.596	75,000	-	-	-	48,815	65,078	16,263
Head Start:								
Award No. 05CH832801 (7/13 - 10/13)	93.600	1,035,263	-	-	-	1,035,249	1,035,249	-
Award No. 05CH832802 (11/13 - 10/14)		<u>4,691,611</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,327,123</u>	<u>3,040,777</u>	<u>713,654</u>
Total Head Start		<u>5,726,874</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,362,372</u>	<u>4,076,026</u>	<u>713,654</u>
Total Department of Health and Human Services noncluster programs		5,801,874	-	-	-	3,411,187	4,141,104	729,917

See Notes to Schedule of Expenditures of Federal Awards.



# Kalamazoo Regional Educational Service Agency

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2014

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	Prior Year Expenditures	Accrued (Deferred) Revenue at June 30, 2013	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2014
Other federal awards (Continued):								
Workforce Investment Act - U.S. Department of Labor - Passed through W.E. Upjohn Institute for Employment Research - Reemployment Services - Emergency Unemployment Compensation:	17.225							
RES-EUC 12-53 (12-13)		\$ 178,050	\$ 137,341	\$ 876	\$ -	\$ 876	\$ -	\$ -
RES-EUC 13-53 (13-14)		85,535	-	-	-	83,824	83,824	-
Total Reemployment Services		263,585	137,341	876	-	84,700	83,824	-
Total noncluster programs		7,772,456	1,067,206	382,964	-	4,315,078	4,980,691	1,048,577
Total federal financial assistance		<b>\$ 27,549,128</b>	<b>\$ 10,695,530</b>	<b>\$ 3,990,821</b>	<b>\$ -</b>	<b>\$ 14,538,576</b>	<b>\$ 14,472,363</b>	<b>\$ 3,924,608</b>

See Notes to Schedule of Expenditures of  
Federal Awards.

# Kalamazoo Regional Educational Service Agency

## Schedule of Expenditures of Federal Awards Provided to Subrecipients Year Ended June 30, 2014

Program Title/Project Number/Subrecipient Name	CFDA Number	Subrecipient Award/Contract Amount	Subrecipient Prior Year Expenditures	Due to (from) Subrecipients July 1, 2013	Current Year Cash Transferred to Subrecipient	Subrecipient Current Year Expenditures	Due to (from) Subrecipients June 30, 2014
Clusters - Special Education Cluster -							
IDEA - Project No. 130450/1213:	84.027						
Comstock		\$ 48,881	\$ -	\$ -	\$ 46,813	\$ 46,813	\$ -
Kalamazoo		311,485	-	-	311,485	311,485	-
Portage		476,664	-	-	468,872	468,872	-
Schoolcraft		37,157	-	-	33,060	33,060	-
Vicksburg		52,383	-	-	43,524	43,524	-
Total Special Education Cluster		926,570	-	-	903,754	903,754	-
Other federal awards - Vocational Education:							
Project No. 133520/1213-20 -	84.048						
St. Joseph ISD		136,328	-	-	136,328	136,328	-
Total payments to subrecipients		<b>\$ 1,062,898</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,040,082</b>	<b>\$ 1,040,082</b>	<b>\$ -</b>

See Notes to Schedule of Expenditures of Federal Awards.

# **Kalamazoo Regional Educational Service Agency**

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## **Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2014**

### **Note 1 - Basis of Presentation and Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Kalamazoo Regional Educational Service Agency under programs of the federal government for the year ended June 30, 2014. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-87, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the Schedule presents only a selected portion of the operations of Kalamazoo Regional Educational Service Agency, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows, if applicable, of Kalamazoo Regional Educational Service Agency. Pass-through entity identifying numbers are presented where available.

### **Note 2 - Grant Auditor Report**

Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

# Kalamazoo Regional Educational Service Agency

## Schedule of Findings and Questioned Costs Year Ended June 30, 2014

### 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  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

#### Federal Awards

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  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 Section 510(a) of Circular A-133?  Yes  No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
17.225, 17.258, 17.259, 17.278 93.600	WIA Cluster Head Start

Dollar threshold used to distinguish between type A and type B programs: \$434,171

Auditee qualified as low-risk auditee?  Yes  No

### Section II - Financial Statement Audit Findings

None

### Section III - Federal Program Audit Findings

None