

Kalamazoo Regional Educational Service Agency

**Financial Report
with Supplemental Information
June 30, 2013**

Kalamazoo Regional Educational Service Agency

Contents

Independent Auditor's Report	I-3
-------------------------------------	------------

Management's Discussion and Analysis	4-10
---	-------------

Basic Financial Statements

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	21-37

Required Supplemental Information	38
--	-----------

Budgetary Comparison Schedule - General Fund	39
--	----

Budgetary Comparison Schedule - Special Education Fund	40
--	----

Kalamazoo Regional Educational Service Agency

Contents (Continued)

Other Supplemental Information	41
Nonmajor Governmental Funds:	
Combining Balance Sheet	42
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	43
Internal Service Funds:	
Combining Statement of Net Position	44
Combining Statement of Revenue, Expenses, and Changes in Net Position	45
Combining Statement of Cash Flows	46
Schedule of Bonded Indebtedness	47
Federal Awards Supplemental Information	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, 2013 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, 2013 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.

Emphasis of Matter

As described in Note 1 to the financial statements, the Agency adopted the provisions of Governmental Accounting Standards Board Statements No. 62, No. 63, and No. 65, as of July 1, 2012. Our opinion is not modified with respect to this matter.

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, 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, 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, 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, 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, 2013 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 & Morse, PLLC

November 6, 2013

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, 2013. 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, 2008 Capital Projects Fund, Building and Site Improvement Fund, 2008 Debt Service Fund, and Durant 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:

TABLE I

	Governmental Activities		Business-type Activities	
	June 30		June 30	
	2013	2012	2013	2012
	(in millions)		(in millions)	
Assets				
Current and other assets	\$ 16.0	\$ 17.3	\$ 0.3	\$ 0.4
Capital assets	29.4	29.8	-	-
Total assets	45.4	47.1	0.3	0.4
Liabilities				
Current liabilities	9.6	9.0	0.3	0.3
Long-term liabilities	17.3	19.0	-	-
Total liabilities	26.9	28.0	0.3	0.3
Net Position				
Net investment in capital assets	10.9	9.6	-	-
Restricted	2.5	4.3	-	-
Unrestricted	5.1	5.2	-	0.1
Total net position	<u>\$ 18.5</u>	<u>\$ 19.1</u>	<u>\$ -</u>	<u>\$ 0.1</u>

The above analysis focuses on the net position (see Table I). The change in net position of the Agency's governmental activities is a decrease of \$0.6 million and is discussed below (see Table 2). The Agency's net position was \$18.5 million at June 30, 2013. Net investment in capital assets totaling \$10.9 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 \$2.5 million relating to the Special Education Fund, Capital Projects Fund, and Debt Service Fund. The remaining amount of net position (\$5.1 million) was unrestricted.

Kalamazoo Regional Educational Service Agency

Management's Discussion and Analysis (Continued)

The \$5.1 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the Agency to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the Agency as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal years 2013 and 2012.

TABLE 2

	Governmental Activities		Business-type Activities	
	2013	2012	2013	2012
	(in millions)		(in millions)	
Revenue				
Program revenue:				
Charges for services	\$ 4.6	\$ 4.2	\$ 3.0	\$ 2.7
Operating grants and contributions	24.3	26.5	-	-
General revenue:				
Property taxes	35.5	36.0	-	-
State foundation allowance	1.9	1.5	-	-
Other	0.4	0.3	-	-
Total revenue	66.7	68.5	3.0	2.7
Functions/Program Expenses				
Instruction	13.6	12.6	-	-
Support services	20.0	18.6	-	-
Community services	3.5	4.2	-	-
Intergovernmental transfers	28.0	28.2	-	-
Bond issuance costs	0.1	-	-	-
Interest on long-term debt	0.8	0.9	-	-
Depreciation (unallocated)	1.3	1.3	-	-
Technology services	-	-	3.1	2.6
Total functions/program expenses	67.3	65.8	3.1	2.6
(Decrease) increase in Net Position	(0.6)	2.7	(0.1)	0.1
Net Position - Beginning of year	19.1	16.4	0.1	-
Net Position - End of year	<u>\$ 18.5</u>	<u>\$ 19.1</u>	<u>\$ -</u>	<u>\$ 0.1</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$67.3 million. Certain activities were partially funded from those who benefited from the programs (\$4.6 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$24.3 million). We paid for the remaining "public benefit" portion of our governmental activities with \$35.5 million in taxes, \$1.9 million in state foundation allowance, and \$0.4 million in other revenue, i.e., interest and general entitlements. The Agency experienced a decrease in net position of \$0.6 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 \$3.1 million. These activities were funded by those who benefited by the services provided (\$3.0 million). There was a \$0.1 million decrease 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 \$8.2 million, which is a decrease of \$1.8 million. The decrease in fund balance was primarily due to spending down accumulated fund balances in the Special Education Fund (\$1.5 million) and 2008 Capital Projects Fund (\$0.3 million). 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. Durant debt obligations are funded by annual state appropriation, 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 projects 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 \$26.6 million. That amount is above the original budget estimate of \$26.5 million and below the final amended budget of \$28.4 million. The \$1.8 million variance between the final amended budget and the 2013 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 \$26.4 million, which was below the original budget estimate of \$26.8 million and below the final amended budget of \$28.4 million. The \$2.0 million variance between the final amended budget and the 2013 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 \$26.6 million and total expenditures of \$26.4 million, with an ending fund balance of \$4.9 million.

Special Education Fund Budgetary Highlights

The Special Education Fund's actual revenue was \$37.6 million. That amount is above the original budget estimate of \$36.5 million and below the final amended budget of \$37.7 million.

The actual expenditures and other financing sources of the Special Education Fund were \$39.1 million, which is above the original budget of \$38.0 million and below the final amended budget of \$40.1 million. The \$1.0 million variance between the final amended budget and the 2013 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, 2013, the Agency had \$38.5 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 \$857,491.

	2013	2012
Land	\$ 390,377	\$ 390,377
Construction in progress	-	135,991
Buildings and building improvements	32,633,078	31,775,823
Furniture and equipment	5,478,247	5,342,020
Total capital assets	38,501,702	37,644,211
Less accumulated depreciation	9,085,740	7,852,014
Net capital assets	<u>\$ 29,415,962</u>	<u>\$ 29,792,197</u>

Kalamazoo Regional Educational Service Agency

Management's Discussion and Analysis (Continued)

During the 2008-2009 fiscal year, the Agency began a major construction project to be funded by the 2008 Capital Projects Fund. This project includes a new special education facility, WoodsEdge Learning Center, and the remodel of a current facility, Kalamazoo RESA West Campus. The increase in capital assets is primarily the result of the continued spending related to this construction project.

Debt

At the end of this year, the Agency had \$18.1 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 \$18.1 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 2013-2014 fiscal year. The most important factor affecting the budget is our tax base, which has experienced a decline in growth rate 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, which is expected to experience a decrease as compared to the prior year due to sequestration. All of these factors were considered when preparing the Agency's budgets.

Kalamazoo Regional Educational Service Agency

Statement of Net Position June 30, 2013

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and investments (Note 3)	\$ 8,043,845	\$ 139,103	\$ 8,182,948
Receivables (Note 4)	7,467,315	120,507	7,587,822
Due from other funds (Note 6)	58,803	-	58,803
Inventories	152,136	3,398	155,534
Prepaid costs and other assets	89,823	56,885	146,708
Restricted assets (Note 3)	213,109	-	213,109
Capital assets - Net (Note 5)	29,415,962	2,316	29,418,278
Total assets	45,440,993	322,209	45,763,202
Liabilities			
Accounts payable	1,011,068	212,529	1,223,597
Accrued payroll and other liabilities	2,410,176	39,171	2,449,347
Accrued interest	105,729	-	105,729
Due to other funds (Note 6)	-	53,482	53,482
Due to other governmental units	2,086,660	-	2,086,660
Unearned revenue (Note 4)	1,431,538	-	1,431,538
Long-term liabilities (Note 7):			
Due within one year	2,530,425	-	2,530,425
Due in more than one year	17,332,546	-	17,332,546
Total liabilities	26,908,142	305,182	27,213,324
Net Position			
Net investment in capital assets	10,855,295	-	10,855,295
Restricted:			
Debt service	107,348	-	107,348
Special education	2,421,163	-	2,421,163
Unrestricted	5,149,045	17,027	5,166,072
Total net position	\$ 18,532,851	\$ 17,027	\$ 18,549,878

Kalamazoo Regional Educational Service Agency

Statement of Activities Year Ended June 30, 2013

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government - Governmental activities:							
Instruction	\$ 13,648,413	\$ 331,746	\$ 8,988,926	\$ -	\$ (4,327,741)	\$ -	\$ (4,327,741)
Support services	19,981,729	3,870,115	7,087,486	-	(9,024,128)	-	(9,024,128)
Community services	3,501,364	411,744	4,105,922	-	1,016,302	-	1,016,302
Bond issuance costs	64,416	-	-	-	(64,416)	-	(64,416)
Intergovernmental transfers	27,994,595	-	3,996,952	-	(23,997,643)	-	(23,997,643)
Interest	796,206	-	80,551	-	(715,655)	-	(715,655)
Depreciation expense (unallocated)	1,284,949	-	-	-	(1,284,949)	-	(1,284,949)
Total governmental activities	67,271,672	4,613,605	24,259,837	-	(38,398,230)	-	(38,398,230)
Business-type activities - Technology	3,087,935	3,021,943	-	-	-	(65,992)	(65,992)
Total primary government and business-type activities	<u>\$ 70,359,607</u>	<u>\$ 7,635,548</u>	<u>\$ 24,259,837</u>	<u>\$ -</u>	(38,398,230)	(65,992)	(38,464,222)
General revenue:							
Property taxes - Levied for general purposes					11,989,760	-	11,989,760
Property taxes - Levied for debt service					2,369,189	-	2,369,189
Property taxes - Levied for special education					21,120,263	-	21,120,263
State aid not restricted to specific purposes					1,936,495	-	1,936,495
Loss on the sale of capital assets					(2,029)	-	(2,029)
Interest and investment earnings					6,888	515	7,403
Other					441,152	-	441,152
Total general revenue					37,861,718	515	37,862,233
Changes in Net Position					(536,512)	(65,477)	(601,989)
Net Position - Beginning of year					19,069,363	82,504	19,151,867
Net Position - End of year					<u>\$ 18,532,851</u>	<u>\$ 17,027</u>	<u>\$ 18,549,878</u>

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

Kalamazoo Regional Educational Service Agency

Governmental Funds Balance Sheet June 30, 2013

	General Fund	Special Education	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and cash equivalents (Note 3)	\$ 5,090,179	\$ 2,688,359	\$ 254,297	\$ 8,032,835
Receivables (Note 4)	2,495,196	4,962,036	10,083	7,467,315
Due from other funds (Note 6)	644,385	-	366,119	1,010,504
Inventories	152,136	-	-	152,136
Prepaid costs and other assets	65,825	23,998	-	89,823
Restricted assets (Note 3)	-	-	213,109	213,109
Total assets	<u>\$ 8,447,721</u>	<u>\$ 7,674,393</u>	<u>\$ 843,608</u>	<u>\$ 16,965,722</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable	\$ 723,396	\$ 287,343	\$ 329	\$ 1,011,068
Accrued payroll and other liabilities	531,207	1,878,969	-	2,410,176
Due to other governmental units	409,685	1,676,975	-	2,086,660
Due to other funds (Note 6)	442,061	1,288,984	-	1,731,045
Unearned revenue (Note 4)	1,389,958	40,412	1,168	1,431,538
Total liabilities	3,496,307	5,172,683	1,497	8,670,487
Deferred Inflows of Resources -				
Unavailable revenue (Note 4)	45,726	80,547	8,927	135,200
Total liabilities and deferred inflows of resources	3,542,033	5,253,230	10,424	8,805,687
Fund Balances				
Nonspendable:				
Inventory	152,136	-	-	152,136
Prepaid assets	65,825	23,998	-	89,823
Restricted:				
Debt service	-	-	213,077	213,077
Special education	-	2,397,165	-	2,397,165
Assigned:				
RTSI	263,869	-	-	263,869
Building and site improvement	-	-	620,107	620,107
Budgeted use of fund balance for 2013-2014	121,627	-	-	121,627
Unassigned	4,302,231	-	-	4,302,231
Total fund balances	<u>4,905,688</u>	<u>2,421,163</u>	<u>833,184</u>	<u>8,160,035</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 8,447,721</u>	<u>\$ 7,674,393</u>	<u>\$ 843,608</u>	<u>\$ 16,965,722</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, 2013**

Fund Balance Reported in Governmental Funds \$ 8,160,035

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	\$ 38,501,702	
Accumulated depreciation	<u>(9,085,740)</u>	29,415,962

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	(18,528,526)	
Compensated absences	(511,952)	
Capital lease obligation	(32,141)	
Early retirement incentive liability	<u>(790,352)</u>	(19,862,971)

Accrued interest payable is not included as a liability in governmental funds	(105,729)
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Other long-term assets not available to pay current period expenditures are therefore unavailable in the governmental funds	135,200
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Internal service fund assets and liabilities are included in governmental activities in the statement of net position	<u>790,354</u>
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Net Position of Governmental Activities **\$ 18,532,851**

Kalamazoo Regional Educational Service Agency

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2013

	General Fund	Special Education Fund	Nonmajor Funds	Total Governmental Funds
Revenue				
Local sources	\$ 14,745,548	\$ 23,866,541	\$ 2,372,543	\$ 40,984,632
State sources	5,334,200	5,690,224	80,551	11,104,975
Federal sources	3,179,915	8,005,030	-	11,184,945
Intergovernmental	3,379,493	78,225	-	3,457,718
Total revenue	26,639,156	37,640,020	2,453,094	66,732,270
Expenditures				
Current:				
Instruction	713,527	12,906,051	-	13,619,578
Support services	7,881,043	11,645,920	-	19,526,963
Community services	3,499,642	-	-	3,499,642
Debt service:				
Principal	9,838	-	1,676,890	1,686,728
Interest	15,676	-	842,161	857,837
Other	-	-	15,911	15,911
Capital outlay	298,124	178,994	838,282	1,315,400
Intergovernmental transfers	13,816,595	14,178,000	-	27,994,595
Total expenditures	26,234,445	38,908,965	3,373,244	68,516,654
Excess of Revenue Over (Under) Expenditures	404,711	(1,268,945)	(920,150)	(1,784,384)
Other Financing Sources (Uses)				
Transfers in	-	-	366,000	366,000
Transfers out	(183,000)	(183,000)	-	(366,000)
Total other financing (uses) sources	(183,000)	(183,000)	366,000	-
Net Change in Fund Balances	221,711	(1,451,945)	(554,150)	(1,784,384)
Fund Balances - Beginning of year	4,683,977	3,873,108	1,387,334	9,944,419
Fund Balances - End of year	<u>\$ 4,905,688</u>	<u>\$ 2,421,163</u>	<u>\$ 833,184</u>	<u>\$ 8,160,035</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, 2013**

Net Change in Fund Balances - Total Governmental Funds **\$ (1,784,384)**

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	\$ (1,284,949)	
Capitalized capital outlay	<u>910,743</u>	(374,206)

Governmental funds report proceeds from sale of assets as revenue; in the statement of activities, these are recorded net of carrying value of the disposed assets	(2,029)
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Revenue is reported in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	4,612
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Bond issuance costs reported as expenditures in the funds were capitalized in the statement of activities.	(64,416)
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Underwriter's discount/premium reported as expenditures/revenue in the funds and amortized in the statement of activities	51,513
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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)	1,686,728
--	-----------

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	26,029
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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	(265,123)
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Internal service funds are included as part of governmental activities	<u>184,764</u>
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Change in Net Position of Governmental Activities **\$ (536,512)**

Kalamazoo Regional Educational Service Agency

Proprietary Funds Statement of Net Position June 30, 2013

	Technology Fund	Internal Service Funds
Assets		
Current assets:		
Cash and investments (Note 3)	\$ 139,103	\$ 11,010
Receivables (Note 4)	120,507	-
Due from other funds (Note 6)	-	790,354
Inventories	3,398	-
Prepaid costs and other assets	56,885	-
Total current assets	319,893	801,364
Noncurrent assets - Capital assets - Net (Note 5)	2,316	-
Total assets	322,209	801,364
Liabilities - Current liabilities		
Accounts payable	212,529	-
Due to other funds (Note 6)	53,482	11,010
Accrued liabilities	39,171	-
Total liabilities	305,182	11,010
Net Position - Unrestricted	<u>\$ 17,027</u>	<u>\$ 790,354</u>

Kalamazoo Regional Educational Service Agency

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2013

	Technology Fund	Internal Service Funds
Operating Revenue		
Charges to other funds	\$ -	\$ 281,367
Charges to other districts	3,021,943	-
Total operating revenue	3,021,943	281,367
Operating Expenses		
Depreciation expense	2,316	-
Health benefits - Insurance	-	404
Health benefits - Claims	-	4,284
Health benefits - Administration	-	6,202
Retirement program benefits	-	86,020
Technology support expenses	3,085,619	-
Total operating expenses	3,087,935	96,910
Operating (Loss) Income	(65,992)	184,457
Nonoperating Revenue - Interest and investment earnings	515	307
Change in Net Position	(65,477)	184,764
Net Position - Beginning of year	82,504	605,590
Net Position - End of year	<u>\$ 17,027</u>	<u>\$ 790,354</u>

Kalamazoo Regional Educational Service Agency

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2013

	Technology Fund	Internal Service Funds
Cash Flows from Operating Activities		
Receipts from other funds	\$ 30,430	\$ -
Payments for supplies and purchased services	(1,941,553)	-
Payments for employee compensation	(1,251,990)	-
Payments to benefit providers	-	(668,189)
Receipts from other governments	3,023,005	-
Net cash used in operating activities	(140,108)	(668,189)
Cash Flows from Capital and Related Financing Activities -		
Capital lease payment	(2,110)	-
Cash Flows from Investing Activities - Interest	515	307
Net Decrease in Cash	(141,703)	(667,882)
Cash - Beginning of year	280,806	678,892
Cash - End of year	<u><u>\$ 139,103</u></u>	<u><u>\$ 11,010</u></u>
Reconciliation of Operating (Loss) Income - After Transfers to Net Cash from Operating Activities		
Operating (loss) income - After transfers	\$ (65,992)	\$ 184,457
Depreciation	2,316	-
Adjustments to reconcile operating (loss) income - After transfers to net cash from operating activities - Changes in assets and liabilities:		
Receivables	1,062	-
Due to/from other funds	30,430	(853,799)
Inventories and prepaid assets	(53,849)	1,153
Accounts payable and accrued liabilities	(54,075)	-
Net cash used in operating activities	<u><u>\$ (140,108)</u></u>	<u><u>\$ (668,189)</u></u>

Kalamazoo Regional Educational Service Agency

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2013

	Student Activities Agency Fund
Assets - Cash and investments (Note 3)	\$ 106,878
Liabilities	
Accounts payable	\$ 4,677
Due to student groups	96,880
Due to other funds (Note 6)	5,321
Total liabilities	\$ 106,878

Kalamazoo Regional Educational Service Agency

Notes to Financial Statements June 30, 2013

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

Notes to Financial Statements June 30, 2013

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

Notes to Financial Statements June 30, 2013

Note 1 - 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, 2013

Note I - Summary of Significant Accounting Policies (Continued)

Additionally, the Agency reports the following fund types:

2008 Capital Projects Fund - The 2008 Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The fund operates until the purpose for which it was created is accomplished.

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 and the Durant bond issue.

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.

Kalamazoo Regional Educational Service Agency

Notes to Financial Statements June 30, 2013

Note I - Summary of Significant Accounting Policies (Continued)

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.

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.

Kalamazoo Regional Educational Service Agency

Notes to Financial Statements June 30, 2013

Note I - Summary of Significant Accounting Policies (Continued)

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

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts 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.

Kalamazoo Regional Educational Service Agency

Notes to Financial Statements June 30, 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

Accounting Change - Effective July 1, 2012, the Agency implemented the provisions of Governmental Accounting Standards Board No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. This statement did not have a significant impact on the Agency's financial statements.

Effective July 1, 2012, the Agency implemented the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provided a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. This statement impacted the format and report of the balance sheet at the government-wide and fund levels.

Also effective July 1, 2012, the Agency implemented the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources.

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.

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.

Kalamazoo Regional Educational Service Agency

Notes to Financial Statements June 30, 2013

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

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.

Capital Projects Fund Compliance - The 2008 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the Agency has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

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 three banks 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 \$8,466,001 had \$8,216,001 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, 2013

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:

Investment	Fair Value	Maturities	Rating	Rating
				Organization
Michigan Liquid Asset Fund	<u>\$ 1,176,906</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, 2013

Note 4 - Receivables and Unavailable/Unearned Revenue

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

	General Fund	Special Education	2008 Debt	Technology	Total
Receivables:					
Taxes receivable	\$ 51,674	\$ 91,025	\$ 10,083	\$ -	\$ 152,782
Accounts receivable	631,121	197,441	-	120,507	949,069
Due from other governmental units	1,812,401	4,673,570	-	-	6,485,971
Total receivables	<u>\$ 2,495,196</u>	<u>\$ 4,962,036</u>	<u>\$ 10,083</u>	<u>\$ 120,507</u>	<u>\$ 7,587,822</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. At the end of the current fiscal year, the various components of unearned and unavailable revenue are as follows:

	Governmental Funds	
	Deferred Inflow - Unavailable	Liability - Unearned
Delinquent property taxes	\$ 135,200	\$ -
Grant and categorical aid payment received prior to meeting all eligibility requirements	-	1,431,538
Total	<u>\$ 135,200</u>	<u>\$ 1,431,538</u>

Kalamazoo Regional Educational Service Agency

Notes to Financial Statements June 30, 2013

Note 5 - Capital Assets

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

	Balance July 1, 2012	Reclassifications	Additions/ Transfers	Disposals/ Transfers	Balance June 30, 2013
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 390,377	\$ -	\$ -	\$ -	\$ 390,377
Construction in progress	135,991	(135,991)	-	-	-
Subtotal	526,368	(135,991)	-	-	390,377
Capital assets being depreciated:					
Buildings and improvements	31,775,823	135,991	727,061	5,797	32,633,078
Vehicle, furniture, and equipment	5,342,020	-	183,682	47,455	5,478,247
Subtotal	37,117,843	135,991	910,743	53,252	38,111,325
Land improvements:					
Accumulated depreciation - Buildings and improvements	4,565,681	-	694,208	3,768	5,256,121
Accumulated depreciation - Vehicles, furniture, and equipment	3,286,333	-	590,741	47,455	3,829,619
Subtotal	7,852,014	-	1,284,949	51,223	9,085,740
Net capital assets being depreciated	29,265,829	135,991	(374,206)	2,029	29,025,585
Net capital assets	\$ 29,792,197	\$ -	\$ (374,206)	\$ 2,029	\$ 29,415,962

	Balance July 1, 2012	Additions/ Transfers	Disposals/ Transfers	Balance June 30, 2013
Business-type Activities				
Capital assets being depreciated - Furniture and equipment	\$ 11,580	\$ -	\$ -	\$ 11,580
Accumulated depreciation - Furniture and equipment	6,948	2,316	-	9,264
Net capital assets	\$ 4,632	\$ (2,316)	\$ -	\$ 2,316

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 \$ 2,316

Kalamazoo Regional Educational Service Agency

Notes to Financial Statements June 30, 2013

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	Internal Service Funds	Enterprise Fund - Technology	Student Activities Fund	
General Fund	\$ -	\$ 637,477	\$ -	\$ 1,587	\$ 5,321	\$ 644,385
Internal Service Funds	75,942	651,507	11,010	51,895	-	790,354
Nonmajor governmental funds	366,119	-	-	-	-	366,119
Total	\$ 442,061	\$ 1,288,984	\$ 11,010	\$ 53,482	\$ 5,321	\$ 1,800,858

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	\$ 183,000	\$ 183,000	\$ 366,000

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, retirement incentives, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds	\$ 19,801,890	\$ -	\$ 1,676,890	\$ 18,125,000	\$ 1,725,000
Cost of bond issuance	(64,416)	-	(64,416)	-	-
Issuance premiums	455,039	-	51,513	403,526	51,513
Total bonds payable	20,192,513	-	1,663,987	18,528,526	1,776,513
Capital leases	41,979	-	9,838	32,141	10,419
Other obligations	1,037,181	494,036	228,913	1,302,304	743,493
Total governmental activities	\$ 21,271,673	\$ 494,036	\$ 1,902,738	\$ 19,862,971	\$ 2,530,425
Business-type Activities -					
Capital leases	\$ 2,110	\$ -	\$ 2,110	\$ -	\$ -

Kalamazoo Regional Educational Service Agency

Notes to Financial Statements June 30, 2013

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
2014	\$ 1,735,419	\$ 796,919	\$ 2,532,338
2015	1,886,035	737,159	2,623,194
2016	2,010,687	671,188	2,681,875
2017	2,150,000	581,750	2,731,750
2018	2,350,000	501,125	2,851,125
2019-2021	8,025,000	815,750	8,840,750
Total	<u>\$ 18,157,141</u>	<u>\$ 4,103,891</u>	<u>\$ 22,261,032</u>

Governmental Activities

General obligation bonds consist of the following:

\$24,675,000 Building and Site Bonds, Series 2008, principal annual installments of \$1,725,000 to \$2,765,000 through May 2021; interest at 3.50 percent to 5.00 percent \$ 18,125,000

Durant Non-Plaintiff Bond - Included in governmental activities general obligation bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) associated with this bond are funded by the State of Michigan via specifically appropriated state aid and will not require any Agency debt levy or utilization of any other Agency financial resources. The remaining balance was paid as of May 15, 2013.

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 \$471,714. 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, 2013

Note 7 - Long-term Debt (Continued)

Years Ending June 30	Amount
2014	\$ 11,996
2015	11,995
2016	10,998
Total	34,989
Less amount representing interest	2,848
Present value of net minimum lease payments	\$ 32,141

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$ 511,952
Early retirement incentives	790,352
Total	\$ 1,302,304

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.

Kalamazoo Regional Educational Service Agency

Notes to Financial Statements June 30, 2013

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The Agency participates in the Michigan Public School Employees' Retirement System (MPERS), 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 health care 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 health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System 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. The employer contribution rate for basic plan members was 15.96 percent of covered payroll for the period from July 1, 2012 through September 30, 2012. The employer contribution rate for pension plus plan members was 14.73 percent for the period from July 1, 2012 through September 30, 2012. Beginning October 1, 2012 through January 31, 2013, employees were given the following plan options with the corresponding employer contribution rates:

	First Worked Before July 1, 2010*	First Worked on or After July 1, 2010, through September 3, 2012**	First Worked on or After September 4, 2012 and Remain Pension Plus	First Worked on or After September 4, 2012 and Elect DC
Pension contributions	16.25 %	15.02 %	15.02 %	12.78 %
Health contributions	9.11 %	9.11 %	8.18 %	8.18 %

* Basic, MIP Fixed, MIP Graded, MIP Plus

** Pension Plus

For the period from February 1, 2013 through June 30, 2013, employees could transition to a defined contribution plan (DC), and could also elect out of the healthcare premium subsidy and into the Personal Healthcare Fund (PHF), depending upon their date of hire and retirement plan election. Employees had the following plan options with the corresponding employer contribution rates:

Kalamazoo Regional Educational Service Agency

Notes to Financial Statements June 30, 2013

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

	Basic MIP	Pension Plus	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
Pension contributions	15.21 %	15.02 %	15.02 %	12.78 %	12.78 %	12.78 %	15.21 %
Health contributions	9.11 %	9.11 %	8.18 %	8.18 %	9.11 %	8.18 %	8.18 %
Defined contribution plan employer contributions:							
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, 2013, 2012, and 2011 were \$3,211,000, \$2,797,000, and \$2,196,000, respectively.

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 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 8.5 percent of covered payroll for the period from July 1, 2012 through September 30, 2012. For the period from October 1, 2012 through June 30, 2013, the employer contribution rate ranged from 8.18 percent to 9.11 percent dependent upon the employee's date of hire and plan election as noted above. Effective February 1, 2013, 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 health care benefits for the years ended June 30, 2013, 2012, and 2011 were \$1,894,000, \$1,584,000, and \$1,503,000, respectively.

Kalamazoo Regional Educational Service Agency

Notes to Financial Statements June 30, 2013

Note 10 - Upcoming Accounting Pronouncements

In June 2012, the GASB issued GASB 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 for the year ending June 30, 2015.

Required Supplemental Information

Kalamazoo Regional Educational Service Agency

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 15,041,842	\$ 15,414,987	\$ 14,745,548	\$ (669,439)
State sources	4,655,878	5,790,459	5,334,200	(456,259)
Federal sources	3,805,584	3,666,915	3,179,915	(487,000)
Other sources	3,030,182	3,494,133	3,379,493	(114,640)
Total revenue	26,533,486	28,366,494	26,639,156	(1,727,338)
Expenditures				
Instruction:				
Basic program	532,712	744,402	715,088	(29,314)
Added needs	32,246	73,803	50,082	(23,721)
Support services:				
Pupil	148,560	149,048	149,049	1
Instructional	3,379,001	3,547,823	3,348,880	(198,943)
General administration	440,794	459,186	446,171	(13,015)
Business	633,872	741,440	713,727	(27,713)
Operations and maintenance	814,803	842,515	577,091	(265,424)
Central	2,588,410	3,407,988	2,887,007	(520,981)
Community services	4,584,429	4,610,897	3,505,241	(1,105,656)
Other financing uses	13,625,482	13,872,447	14,025,109	152,662
Total expenditures	26,780,309	28,449,549	26,417,445	(2,032,104)
Net Change in Fund Balance	(246,823)	(83,055)	221,711	304,766
Fund Balance - Beginning of year	4,683,977	4,683,977	4,683,977	-
Fund Balance - End of year	<u>\$ 4,437,154</u>	<u>\$ 4,600,922</u>	<u>\$ 4,905,688</u>	<u>\$ 304,766</u>

Kalamazoo Regional Educational Service Agency

Required Supplemental Information Budgetary Comparison Schedule - Special Education Fund Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 22,982,307	\$ 23,909,478	\$ 23,866,541	\$ (42,937)
State sources	5,464,493	5,690,944	5,690,224	(720)
Federal sources	7,974,919	8,005,030	8,005,030	-
Other sources	55,000	55,000	78,225	23,225
Total revenue	36,476,719	37,660,452	37,640,020	(20,432)
Expenditures				
Instruction - Added needs	13,101,694	13,516,121	12,948,146	(567,975)
Support services:				
Pupil	6,001,497	5,904,804	5,945,907	41,103
Instructional	2,685,434	2,339,285	2,224,592	(114,693)
General administration	166,265	175,119	171,242	(3,877)
School administration	210,186	198,449	199,723	1,274
Business	601,446	538,439	517,110	(21,329)
Operations and maintenance	1,980,622	2,086,583	1,608,404	(478,179)
Pupil transportation	5,000	5,000	2,504	(2,496)
Central	1,131,607	1,136,128	1,113,337	(22,791)
Community services	365,467	-	-	-
Other financing uses	11,727,501	14,178,352	14,361,000	182,648
Total expenditures	37,976,719	40,078,280	39,091,965	(986,315)
Net Change in Fund Balance	(1,500,000)	(2,417,828)	(1,451,945)	965,883
Fund Balance - Beginning of year	3,873,108	3,873,108	3,873,108	-
Fund Balance - End of year	<u>\$ 2,373,108</u>	<u>\$ 1,455,280</u>	<u>\$ 2,421,163</u>	<u>\$ 965,883</u>

Other Supplemental Information

Kalamazoo Regional Educational Service Agency

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2013

	Debt Service Funds		Capital Projects Funds		Total Nonmajor Governmental Funds
	2008 Debt	Durant	2008 Capital Projects	Building and Site Improvement Fund	
Assets					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 254,297	\$ 254,297
Receivables	10,083	-	-	-	10,083
Due from other funds	119	-	-	366,000	366,119
Restricted assets	213,109	-	-	-	213,109
Total assets	\$ 223,311	\$ -	\$ -	\$ 620,297	\$ 843,608
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	\$ 139	\$ -	\$ -	\$ 190	\$ 329
Unearned revenue	1,168	-	-	-	1,168
Total liabilities	1,307	-	-	190	1,497
Deferred Inflows of Resources	8,927	-	-	-	8,927
Fund Balances					
Restricted - Debt service	213,077	-	-	-	213,077
Assigned - Building and site improvement	-	-	-	620,107	620,107
Total fund balances	213,077	-	-	620,107	833,184
Total liabilities, deferred inflows of resources, and fund balances	\$ 223,311	\$ -	\$ -	\$ 620,297	\$ 843,608

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, 2013

	Debt Service Funds		Capital Project Funds		Total Nonmajor Governmental Funds
	2008 Debt	Durant	2008 Capital Projects	Building and Site Improvement Fund	
Revenue					
Local sources	\$ 2,369,971	\$ -	\$ 91	\$ 2,481	\$ 2,372,543
State sources	-	80,551	-	-	80,551
Total revenue	2,369,971	80,551	91	2,481	2,453,094
Expenditures - Debt service					
Principal	1,600,000	76,890	-	-	1,676,890
Interest	838,500	3,661	-	-	842,161
Other	15,911	-	-	-	15,911
Capital outlay	-	-	289,908	548,374	838,282
Total expenditures	2,454,411	80,551	289,908	548,374	3,373,244
Other Financing Sources -					
Transfers in	-	-	-	366,000	366,000
Net Change in Fund Balances	(84,440)	-	(289,817)	(179,893)	(554,150)
Fund Balances - Beginning of year	297,517	-	289,817	800,000	1,387,334
Fund Balances - End of year	<u>\$ 213,077</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 620,107</u>	<u>\$ 833,184</u>

Kalamazoo Regional Educational Service Agency

Other Supplemental Information Combining Statement of Net Position Internal Service Funds June 30, 2013

	Employee Benefits Health	Employee Benefits Retirement	Total
Assets - Current			
Cash and investments	\$ 11,010	\$ -	\$ 11,010
Due from other funds	-	790,354	790,354
Total assets	11,010	790,354	801,364
Liabilities - Current - Due to other funds	11,010	-	11,010
Net Position - Unrestricted	<u>\$ -</u>	<u>\$ 790,354</u>	<u>\$ 790,354</u>

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, 2013

	Employee Benefits Health	Employee Benefits Retirement	Total
Operating Revenue - Charges to other funds	\$ 8,538	\$ 272,829	\$ 281,367
Operating Expenses			
Health benefits - Insurance	404	-	404
Health benefits - Claims	4,284	-	4,284
Health benefits - Administration	6,202	-	6,202
Retirement program benefits	-	86,020	86,020
Total operating expenses	10,890	86,020	96,910
Operating (Loss) Income	(2,352)	186,809	184,457
Nonoperating Revenue - Interest income	307	-	307
Change in Net Position	(2,045)	186,809	184,764
Net Position - Beginning of year	2,045	603,545	605,590
Net Position - End of year	\$ -	\$ 790,354	\$ 790,354

Kalamazoo Regional Educational Service Agency

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2013

	Employee Benefits Health	Employee Benefits Retirement	Total
Cash Flows from Operating Activities -			
Payments to benefit providers	\$ (668,189)	\$ -	\$ (668,189)
Cash Flows from Investing Activities - Interest	<u>307</u>	<u>-</u>	<u>307</u>
Net Decrease in Cash and Investments	(667,882)	-	(667,882)
Cash and Investments - Beginning of year	<u>678,892</u>	<u>-</u>	<u>678,892</u>
Cash and Investments - End of year	<u><u>\$ 11,010</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 11,010</u></u>
Reconciliation of Operating (Loss) Income - After Transfers to Net Cash from Operating Activities			
Operating (loss) income - After transfers	\$ (2,352)	\$ 186,809	\$ 184,457
Changes in assets and liabilities:			
Due to/from other funds	(666,990)	(186,809)	(853,799)
Prepaid costs	<u>1,153</u>	<u>-</u>	<u>1,153</u>
Net cash used in operating activities	<u><u>\$ (668,189)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (668,189)</u></u>

Kalamazoo Regional Educational Service Agency

Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2013

<u>June 30</u>	<u>2008 Bonds</u> <u>Principal</u>
2014	\$ 1,725,000
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	<u>\$ 18,125,000</u>
Principal payments due	May 1
Interest payments due	May 1 and November 1
Interest rate	3.0% to 5.0%
Original issue	<u>\$ 24,675,000</u>

Kalamazoo Regional Educational Service Agency

**Report to the Board of Education
June 30, 2013**



Plante & Moran, PLLC
Suite 300
750 Trade Centre Way
Portage, MI 49002
Tel: 269.567.4500
Fax: 269.567.4501
plantemoran.com

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, 2013. In addition to our audit report, we are providing the following required audit communication and informational items which impact the Agency:

	<u>Page</u>
Results of the Audit	2-6
Informational Items	7-12

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, 2013

Results of the Audit

November 6, 2013

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, 2013 and have issued our report thereon dated November 6, 2013. 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 June 3, 2013, 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, 2013 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 meeting about planning matters on September 6, 2013.

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. As described in Note I, the Agency changed accounting policies related to Governmental Accounting Standards Board Statements No. 62, No. 63, and No. 65. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

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

There are 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 which were requested to be recorded. 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 Agency, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the Agency'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, 2013.

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, 2013.

To the Board of Education
Kalamazoo Regional Educational
Service Agency

November 6, 2013

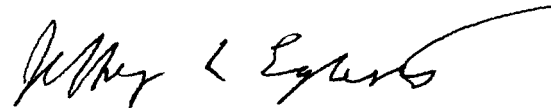
Other Information in Documents Containing Audited Financial Statements

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.

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".

Jeffery L. Egberts, CPA
Partner

A handwritten signature in black ink, appearing to read "Matthew Kelly".

Matthew Kelly, CPA
Manager

To the Board of Education
Kalamazoo Regional Educational
Service Agency

November 6, 2013

Client: **Kalamazoo Regional Educational Service Agency**
Opinion Unit: **Governmental Activities**
Y/E: **6/30/2013**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax 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	Income Statement Impact
FACTUAL MISSTATEMENTS:									
AI	Adjustment to record copier lease as a capital		\$ 46,253		\$ 48,908			\$ 2,655	\$ (2,655)
JUDGMENTAL ADJUSTMENTS:									
BI	None								
PROJECTED ADJUSTMENTS:									
CI	None								
		\$ -	-	\$ -	-	\$ -	\$ -	-	-
	Total	\$ -	\$ 46,253	\$ -	\$ 48,908	\$ -	\$ -	\$ 2,655	\$ (2,655)

PASSED DISCLOSURES:

DI None

Client: **Kalamazoo Regional Educational Service Agency**
Opinion Unit: **General Fund**
Y/E: **6/30/2013**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax 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 Income Statement Impact
FACTUAL MISSTATEMENTS:									
AI	Adjustment to record copier lease as a capital lease on a fund level						\$ 55,504	\$ 55,504	
JUDGMENTAL ADJUSTMENTS:									
BI	None								
PROJECTED ADJUSTMENTS:									
CI	None								
		\$ -	\$ -	\$ -	\$ -	\$ -	-	-	\$ -
	Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,504	\$ 55,504	\$ -

PASSED DISCLOSURES:

DI None

Informational Items

Current Events

State Aid Act Changes Impacting 2013-2014

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

2013-2014 Intent Language for Funding Levels - One legislature cannot bind another legislature. However, the State Aid Act includes intent language regarding funding levels for 2014-2015.

Technology Infrastructure Grants - A total of \$50 million will continue to be appropriated for FY 2013-2014 to support technology improvements. The bill provides for \$5 million of these funds to be used for “whole school” technology projects. Grants to aid agencies in preparing for upcoming computer adaptive testing did not pass the conference agreement.

Federal Grants

Federal Grants Management Update

Supplement vs. Supplant - Most federal grant agreements require that federal funds add to or “supplement” current nonfederal programs. It is important for the Agency to understand the specific rules for supplement vs. supplant for each grant and be able to document how the requirement was met. One program where significant funding increases could create increased risk is Title I. Annually reviewing the spending plan for Title I and similar programs is an important element when meeting supplement requirements.

Special Education Excess Cost Determination - “Excess costs” are those costs incurred for the education of an elementary school or secondary school student with a disability that are in excess of the average annual per-student expenditure in an agency during the preceding school year. Agencies are required to compute the minimum average amount of per-pupil expenditure separately for children with disabilities in its elementary schools and for children with disabilities in its secondary schools, and not on a combination of the enrollments in both. The Michigan Department of Education (MDE) is currently working on a tool which would assist agencies in computing the minimum average amount. Once this tool is finalized, the MDE will provide additional guidance and the Agency will be required to show compliance. It is important the Agency be aware of this requirement and be prepared to demonstrate compliance for fiscal year 2013-2014.

Special Education Proportionate Share - One of the requirements of the IDEA federal grant is that the Agency expend a proportionate share of its allocation on services related to parentally placed private school children with disabilities enrolled in private elementary and secondary schools. Recently, the Michigan Department of Education issued guidance on the computation for determining the percentage. The Agency should be aware of this requirement and should retain documentation supporting the percentage computed as well as evidence of expenditures related to these required services.

Fiscal Monitoring - The Michigan Department of Education (MDE) has instituted a grants fiscal monitoring process. The MDE has performed grants performance reviews in the past and will continue to do so. In addition, they are now also looking at agencies' accountability process. This process will focus on the financial aspects of grants management with an emphasis on control procedures assessments in the key compliance areas of the grant. These actions are the result of an increased federal emphasis for pass-through entities (the State of Michigan) to improve their monitoring efforts. To assist agencies in their compliance efforts, the State has issued a self-evaluation checklist which will allow agencies to identify areas which may require additional attention. We highly recommend the Agency obtain the checklist (located on the MDE website) and self-assess its processes against the types of items the MDE is focused upon.

Documenting Work Performed - A fundamental requirement for federal grants is to document the work performed to fulfill the grant requirements. The method defined in the regulations prescribes the use of a Personnel Activity Report (PAR). Essentially, this is a more detailed time sheet. When performing our audit, we requested a PAR to prove effort and allocation of cost for employees charged to your federal grants. Agencies retain the ability to use a "certification" in certain situations in lieu of a PAR and certifications are acceptable when allowable. If the criteria for certifications are not met, a PAR must be used.

Written Procedures for Grants

As part of your single audit annually, the auditors are required to assess the written procedures that exist related to the specific compliance requirements for the federal programs that are selected for testing. It is important for the Agency to be aware of the comprehensive list of required written procedures required for federal grant participation. The Michigan Department of Education continues to emphasize the importance of maintaining adequate written procedures for grants, as discussed in the 2012-2013 Accounting and Audit Alert. The department has added example procedures to the Office of Audits website for reference. These requirements are described in 34 CFR Part 80, 2 CFR Part 215, and OMB Circular A-133 Compliance Supplement Part 6 and include the following:

- Financial management systems
- Payments
- Allowable costs
- Period of availability
- Matching or cost sharing (if applicable)
- Program income (if applicable)
- Procurement
- Equipment and real property (if applicable)
- Supplies
- Copyrights (if applicable)
- Subawards to debarred and suspended parties
- Monitoring and reporting program performance (if applicable)
- Financial reporting
- Retention and access requirements for records

- In addition, agencies should also have written procedures for:
 - Cash management
 - Conflict of interest
 - Payroll
 - Federal timekeeping

The Agency should be aware the written procedures are more extensive in nature than the written documentation required for a financial statement audit, which focuses on key controls related to grants management.

We encourage the Agency to review its procedures and the documentation of such procedures to ensure that the items listed above have been addressed. The procedure itself is not required to be specific to federal grants as long as it has applicability to the grants as well. Many, if not all, of the items may already be addressed in various different forms throughout the Agency's policies and procedures. It is important the Agency be aware of where the documentation resides to cover the items listed above. The MDE has been performing Federal Program Fiscal Monitoring and will request these procedures when on site. If any items are not currently addressed, we recommend the Agency evaluate putting procedures in place and document them accordingly. The MDE has placed sample policies on its website which can be used as either a guide or implemented as provided. Please note, the MDE views these as "safe harbor" and will accept their approved documents as demonstrated compliance with the rules. The documents can be located at www.michigan.gov/mde and then navigate to the Office of Audits webpage.

MPSERS Reform and Future Contribution Rates

Over the last five years, the Michigan legislature enacted several reforms designed to curb the rising contribution rates and perpetual under-funded situation of the Michigan Public School Employees' Retirement System (MPSERS). These reforms included early retirement incentives, employee funding of a portion of retiree health costs, a tiered rate and benefit structure for employees hired after July 1, 2010, and certain other provisions. These provisions were designed to avert a long-term financial crisis with the plan. The impact of investment declines during 2008 and 2009, coupled with a shrinking base of contributing active lives funding an ever-increasing number of retirees, continue to result in rising costs of sustaining the MPSERS program.

The 2011-2012 State Aid Bill contained two provisions designed to defray a portion of these costs. A total of \$155 million was set aside from the School Aid Fund (SAF) for one-time allocations that agencies used to offset their annual retirement contribution in 2012. Similar funding for MPSERS offsets are being provided in 2012-2013 in the amount of \$160 million. Also in 2011-2012, \$133 million was taken from the SAF to be held in a "Retirement Obligation Reform Reserve Fund" and utilized for future pension reform needs. During 2012-2013, an additional \$41 million was added to this fund. To date, these funds remain in the Reserve Fund and no decision has been made regarding their use.

Public Act 300, signed by the governor in September 2012, created certain caps that essentially placed the employer contribution rate at 24.46 percent, created retirement plan alternatives which could modify the rate, increased employee contributions, provided for future employees to receive defined contribution instead of the current defined benefit for health care, and began prefunding health care benefits from a pay-as-you-go method to a combination of employee contributions, employer contributions, and state funding. The capped elements of the overall rate will mean that the SAF will be responsible to fund any unmet required contributions determined by the actuaries. A concern is that the state funding needed to keep the rate down may limit the ability for the SAF to provide any increases in the foundation allowance and other categoricals. This will be a key factor to watch over the next few years. Shortly after PA 300 was signed, agencies were notified that due to the legal challenges submitted related to the 3 percent contribution from employees, the retirement rate would increase. The overall rate, effective October 1, 2012, increased to 25.36 percent of covered payroll, and on February 1, 2013, once the temporary restraining order on PA 300 was lifted, decreased slightly to 24.32 percent. The rate for 2013-2014 again increased slightly to 24.79 percent of covered payroll. This .47 percentage point increase represents an actual increase of 1.9 percent. Until the Supreme Court rules on the constitutionality of the 3 percent contribution from employees, the rate is expected to remain at this higher number.

Accounting Items

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will be 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 difference between the Agency's share of the MPERS pension plan net assets and the pension obligation liability as an asset or liability in the basic financial statements (at the government-wide level and in proprietary funds - but not in governmental funds). This will be called the "net pension liability" or "net pension asset." The data required to record this liability will come from the retirement system. 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 health care is not included in the computation, but may be added in the future. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

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 recent DOL, IRS, and/or Treasury notices have been provided, specifically the delay of the shared responsibility mandate for large employers in 2014. Employers should take care and consider an advance strategy to ensure compliance with PPACA so that application of any penalties due to noncompliance with the play or pay/shared responsibility mandates are avoided.

The Patient Protection and Affordable Care Act (PPACA) sets 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 your Agency should consider:

- Have you reviewed the staffing of your Agency to determine your status as a large employer - 50 or more staff including full-time and full-time equivalents?
- Have you examined the affiliated business relationships to determine if the shared responsibility rules apply to your Agency (possible with some contractual relationships)?
- Are you certain that your Agency's eligibility rules meet the requirements of PPACA (staff working 30 or more hours/week)?
- Have you evaluated the plans that are available to ensure they satisfy the minimum essential coverage requirements (are all the required coverage elements included at or above the minimum values)?
- Are your plans affordable, as defined by the law?

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

Clarity Standards

Recently, the auditing standards have changed in order to better clarify the auditor's role and to communicate the planning and end result of the audit. The auditing standards changed certain elements of auditor communication with those charged with governance (TCWG), primarily the Board of Education. The primary changes the board will see as a result will be as follows:

- Revised format to the financial statement opinion letter, including emphasis of matter paragraphs for accounting changes in the current year. Additionally, headings have been added to the letter to draw attention to salient points for the board.
- Revised pre-audit planning communication which more clearly delineates the risks identified by the auditor for the current year assignment.
- Revised format to the federal program compliance letters, again including headings for better understanding of certain elements of the audit.

To the Board of Education
Kalamazoo Regional Educational
Service Agency

November 6, 2013

Overall, the audit process did not change substantially, but the look of certain documents the board is accustomed to reviewing has changed and should be read carefully in the year-end process.

Kalamazoo Regional Educational Service Agency

**Federal Awards
Supplemental Information
June 30, 2013**

Kalamazoo Regional Educational Service Agency

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 the 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 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, 2013 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, 2013, which contained unmodified opinions on those 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 financial statements subsequent to November 6, 2013.

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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Plante & Moran, PLLC

Portage, Michigan
November 6, 2013

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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2013 and 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, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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 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 & Morse, PLLC

Portage, Michigan
November 6, 2013

Report on Compliance for the 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 the 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 its major federal program for the year ended June 30, 2013. Kalamazoo Regional Educational Service Agency's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Kalamazoo Regional Educational Service Agency's major federal program 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 the 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 Program

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 its major federal program for the year ended June 30, 2013.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 & Morse, PLLC

Portage, Michigan
November 6, 2013

Kalamazoo Regional Educational Service Agency

Schedule of Expenditures of Federal Awards Year Ended June 30, 2013

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	Prior Year Expenditures	Accrued (Deferred) Revenue at June 30, 2012	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2013
Clusters:								
Employment Services Cluster -								
U.S. Department of Labor -								
Passed through W.E. Upjohn Institute								
for Employment Research -								
State-wide Employment Services:								
Employment Services - Project 11-53(11-12)	17.207	\$ 216,718	\$ 215,064	\$ 39,911	\$ -	\$ 39,911	\$ -	\$ -
ES - Project 11-011-07 (11-12)		52,061	51,539	13,099	-	13,099	-	-
ES NCRC WorkKeys RS 10-012-53 (11-12)		10,561	10,561	2,307	-	2,307	-	-
Employment Services - Project 12-53(12-13)		277,867	-	-	-	205,737	254,469	48,732
ES - Project 12-011-07 (12-13)		72,172	-	-	-	53,422	65,158	11,736
ES NCRC WorkKeys RS 12-012-53 (12-13)		10,290	-	-	-	8,246	9,263	1,017
Total Employment Services Cluster		639,669	277,164	55,317	-	322,722	328,890	61,485
WIA Cluster -								
U.S. Department of Labor -								
Passed through W.E. Upjohn Institute								
for Employment Research:								
Workforce Investment Act - Adult:								
State-wide funds - Project 10-011-07 (10-11)	17.258	6,387	6,387	959	-	959	-	-
Project No. 11-011-02 (11-12)		617,619	574,135	106,678	-	106,678	-	-
Core - Project 11-53(11-12)		55,550	42,283	7,868	-	7,868	-	-
State-wide funds - Project 11-011-07 (11-12)		28,039	25,903	4,103	-	4,103	-	-
State-wide funds - Project 11-011-07 (11-12)		10,000	10,000	10,000	-	10,000	-	-
State-wide funds - Project 11-011-05 (11-12)		4,425	4,425	2,635	-	2,635	-	-
ES NCRC WorkKeys Adult 11-012-53 (11-12)		3,478	3,478	1,885	-	1,885	-	-
Core - Project 12-53(12-13)		55,159	-	-	-	40,526	51,278	10,752
State-wide funds - Project 12-011-07 (12-13)		15,873	-	-	-	11,751	13,543	1,792
State-wide funds - Project 12-011-07 (12-13)		10,000	-	-	-	7,402	9,028	1,626
State-wide funds - Project 12-011-05 (12-13)		6,158	-	-	-	5,058	6,158	1,100
ES NCRC WorkKeys Adult 12-012-53 (12-13)		3,400	-	-	-	2,724	2,906	182
Total Workforce Investment Act - Adult		816,088	666,611	134,128	-	201,589	82,913	15,452

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, 2013

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	Prior Year Expenditures	Accrued (Deferred) Revenue at June 30, 2012	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2013
Clusters (Continued):								
WIA Cluster (Continued) -								
U.S. Department of Labor -								
Passed through W.E. Upjohn Institute								
for Employment Research:								
Workforce Investment Act - Youth:	17.259							
WIA State-wide Funds Youth - Project 11-011-07 (11-12)		\$ 6,277	\$ 6,189	\$ 1,425	\$ -	\$ 1,425	\$ -	\$ -
Project No. 11-011-03		1,328,931	1,158,633	149,590	-	149,590	-	-
ES NCRC WorkKeys Youth 11-012-53		4,431	4,431	969	-	969	-	-
WIA State-wide Funds Youth - Project 12-011-07 (12-13)		3,341	-	-	-	2,472	2,851	379
Project No. 12-011-03		1,494,438	-	-	-	1,094,275	1,219,240	124,965
WIA-Youth PY12-02 Branch		135,321	-	-	-	95,273	110,182	14,909
ES NCRC WorkKeys Youth 12-012-53		4,317	-	-	-	3,459	3,690	231
Total Workforce Investment Act - Youth		2,977,056	1,169,253	151,984	-	1,347,463	1,335,963	140,484
Workforce Investment Act - Dislocated Worker:								
Project 11-011-07 (11-12)	17.278	35,654	35,157	8,103	-	8,103	-	-
Project 11-53 (11-12)		43,408	34,608	5,760	-	5,760	-	-
TGAAA - Project 11-53		27,000	3,719	1,822	-	1,822	-	-
TRADE - Project 10-53		41,213	10,091	4,420	-	4,420	-	-
ES NCRC WorkKeys DW 11-012-53		3,024	3,024	1,639	-	1,639	-	-
Project 12-011-07 (12-13)		29,384	-	-	-	21,750	25,070	3,320
Project 12-53 (12-13)		24,233	-	-	-	18,304	22,497	4,193
TGAAA - Project 12-53		23,281	-	-	-	23,281	23,281	-
TRADE - Project 12-53		89,309	-	-	-	40,171	41,826	1,655
ES NCRC WorkKeys DW 12-012-53		2,957	-	-	-	2,369	2,528	159
WIA DW SAG 12-53 (12-13)		20,500	-	-	-	20,500	20,500	-
Total Workforce Investment Act - Dislocated Worker		339,963	86,599	21,744	-	148,119	135,702	9,327
Total WIA Cluster		4,133,107	1,922,463	307,856	-	1,697,171	1,554,578	165,263

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, 2013

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	Prior Year Expenditures	Accrued (Deferred) Revenue at June 30, 2012	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2013
Clusters (Continued):								
Special Education Cluster -								
U.S. Department of Labor -								
Passed through the Michigan Department of Education:								
IDEA (PL-94-142):	84.027							
Project No. 120490/TS		\$ 65,000	\$ 65,000	\$ 12,242	\$ -	\$ 12,242	\$ -	\$ -
Project No. 120450/11112		7,213,552	7,213,552	2,744,251	-	2,744,251	-	-
Project No. 120480/EOSD		55,000	55,000	4,602	-	4,602	-	-
Project No. 130490/TS		65,000	-	-	-	41,923	65,000	23,077
Project No. 130450/1213		7,383,721	-	-	-	4,087,029	7,383,721	3,296,692
Project No. 130480/EOSD		55,000	-	-	-	55,000	55,000	-
Total IDEA		14,837,273	7,333,552	2,761,095	-	6,945,047	7,503,721	3,319,769
Handicapped Preschool (94-142):	84.173							
Project No. 120460/11112		236,390	236,390	77,709	-	77,709	-	-
Project No. 120460/1213		237,173	-	-	-	184,428	237,173	52,745
Total Handicapped Preschool		473,563	236,390	77,709	-	262,137	237,173	52,745
Total Special Education Cluster (IDEA)		15,310,836	7,569,942	2,838,804	-	7,207,184	7,740,894	3,372,514
Educational Technology State Grants Cluster -								
U.S. Department of Education -								
Passed through the Michigan Department of Education -								
Title II Part D - Project No. 114240-RDI-2	84.318	110,000	11,763	9,912	-	108,146	98,234	-
TANF Cluster -								
U.S. Department of Health and Human Services -								
Passed through W.E. Upjohn Institute								
for Employment Research -								
JET TANF:	93.558							
Project 11-011-07		52,620	52,620	4,833	-	4,833	-	-
ES NCRC WorkKeys JET 11-012-53		68,789	68,789	13,596	-	13,596	-	-
Project 12-011-07		48,665	-	-	-	41,528	45,021	3,493
ES NCRC WorkKeys JET 12-012-53		59,996	-	-	-	49,729	54,831	5,102
Total TANF Cluster		230,070	121,409	18,429	-	109,686	99,852	8,595

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, 2013

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	Prior Year Expenditures	Accrued (Deferred) Revenue at June 30, 2012	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2013
Clusters (Continued):								
Medicaid Cluster -								
U.S. Department of Health and Human Services - Passed through the Michigan Department of Community Health - Medicaid Outreach Claims	93.778	\$ 110,687	\$ -	\$ -	\$ -	\$ 110,687	\$ 110,687	\$ -
Total cluster programs		20,534,369	9,902,741	3,230,318	-	9,555,596	9,933,135	3,607,857
Other federal awards:								
U.S. Department of Education:								
Direct Programs -								
American History -	84.215X							
Project U215X090440 GILDED AGE		998,675	639,100	66,979	-	248,693	181,714	-
Passed through the Michigan Department of Education:								
Vocational Education - Basic grants to states:	84.048A							
Project No. 123520/1212-20		584,852	584,852	152,232	-	152,232	-	-
Project No. 123530		7,663	3,517	3,517	-	3,517	-	-
Project No. 133520/1213-20		665,729	-	-	-	332,732	665,729	332,997
Total Vocational Education - Basic grants		1,258,244	588,369	155,749	-	488,481	665,729	332,997
Handicapped Infants and Toddlers:	84.181							
Project No. 121340/190		259,281	259,281	49,529	-	49,529	-	-
Project No. 131340/190		264,136	-	-	-	215,045	264,136	49,091
Total Handicapped Infants and Toddlers		523,417	259,281	49,529	-	264,574	264,136	49,091
Education Jobs Fund - Project No. 112545-1011	84.410	87,697	87,697	9,378	-	9,378	-	-
Total noncluster programs passed through Michigan Department of Education		1,869,358	935,347	214,656	-	762,433	929,865	382,088
Total U.S. Department of Education noncluster programs		2,868,033	1,574,447	281,635	-	1,011,126	1,111,579	382,088
National Endowment for the Arts -								
Passed through the Kalamazoo Community Mental Health Education For The Arts: MCAC - Control# 13OP0130PS	45.025	2,890	-	-	-	2,890	2,890	-

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, 2013

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	Prior Year Expenditures	Accrued (Deferred) Revenue at June 30, 2012	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2013
Other federal awards (Continued):								
U.S. Department of Labor - Passed through W.E. Upjohn Institute for Employment Research - Reemployment Services - Emergency Unemployment Compensation - RES-EUC 12-53 (12-13)	17.225	\$ 178,050	\$ -	\$ -	\$ -	\$ 136,465	\$ 137,341	\$ 876
Total noncluster programs		3,046,083	1,574,447	281,635	-	1,147,591	1,248,920	382,964
Total federal financial assistance		<u>\$ 23,580,452</u>	<u>\$ 11,477,188</u>	<u>\$ 3,511,953</u>	<u>\$ -</u>	<u>\$ 10,703,187</u>	<u>\$ 11,182,055</u>	<u>\$ 3,990,821</u>

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, 2013

Program Title/Project Number/Subrecipient Name	CFDA Number	Subrecipient Award/Contract Amount	Subrecipient Prior Year Expenditures	Due to (from) Subrecipients July 1, 2012	Current Year Cash Transferred to Subrecipient	Subrecipient Current Year Expenditures	Due to (from) Subrecipients June 30, 2013
Clusters - Special Education Cluster - IDEA -	84.027						
Project No. 130450/1213:							
Comstock		\$ 76,111	\$ -	\$ -	\$ 76,111	\$ 76,111	\$ -
Kalamazoo		509,411	-	-	509,411	509,411	-
Portage		458,660	-	-	458,660	458,660	-
Schoolcraft		50,370	-	-	50,370	50,370	-
Vicksburg		45,608	-	-	45,608	45,608	-
Total Special Education Cluster		1,140,160	-	-	1,140,160	1,140,160	-
Other federal awards - Vocational Education:	84.048						
Project No. 133520/1213-20:							
St. Joseph ISD		173,090	-	-	173,090	173,090	-
Kalamazoo		21,607	-	-	21,607	21,607	-
Vicksburg		30,000	-	-	30,000	30,000	-
Total Vocational Education		224,697	-	-	224,697	224,697	-
Total payments to subrecipients		<u>\$ 1,364,857</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,364,857</u>	<u>\$ 1,364,857</u>	<u>\$ -</u>

See Notes to Schedule of Expenditures
of Federal Awards.

Kalamazoo Regional Educational Service Agency

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2013

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, 2013. 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, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major program:

CFDA Numbers	Name of Federal Program or Cluster
84.027, 84.173	Special Education Cluster (IDEA)

Dollar threshold used to distinguish between type A and type B programs: \$335,548

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None