Kalamazoo Regional Educational Service Agency

Financial Report
with Supplemental Information
June 30, 2021

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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, 2021 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Kalamazoo Regional Educational Service Agency as of June 30, 2021 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 2 to the basic financial statements, as of July 1, 2020, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

To the Board of Education
Kalamazoo Regional Educational Service Agency

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2021 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 solely 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 effectiveness of Kalamazoo Regional Educational Service Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kalamazoo Regional Educational Service Agency's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 20, 2021

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, 2021. 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 financial statements. These statements are organized so the reader can understand Kalamazoo Regional Educational Service Agency financially as a whole. The agency-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 and what remains for future spending. The fund financial statements look at the Agency’s operations in more detail than the agency-wide financial statements by providing information about the Agency’s most significant funds, the General Fund, the Special Education Fund, and the Career Technical Education Fund, as well as information on the Agency's debt service, capital projects, enterprise, and internal service funds. This report is composed of the following elements:

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

Basic Financial Statements

Agency-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

Required Supplemental Information

Budgetary Comparison Schedule - General Fund

Budgetary Comparison Schedules - Special Revenue Funds

Schedule of the Agency's Proportionate Share of the Net Pension Liability

Schedule of Pension Contributions

Schedule of the Agency's Proportionate Share of the Net OPEB Liability

Schedule of OPEB Contributions

Other Supplemental Information

Reporting the Agency as a Whole - Agency-wide Financial Statements

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. We prepare these statements to include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

These two statements report the Agency’s net position, the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, as reported in the statement of net position. 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 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 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 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 many 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. The governmental and proprietary funds of the Agency use the following accounting approach:

Governmental Funds

The General Fund, Special Education Fund, Career Technical Education Fund, General Education Capital Projects Fund, Special Education Capital Projects Fund, and 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 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 (or differences) 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 one internal service fund that are reported as proprietary funds. These funds are reported using the accrual basis of accounting, just as in the agency-wide statements described above.

The Agency as a Whole

Recall that the statement of net position provides the perspective of the Agency as a whole. The following table provides a summary of the Agency's net position as of June 30, 2021 and 2020:

	Governmental Activities		Business-type Activities	
	2021	2020	2021	2020
	(in millions)		(in millions)	
Assets				
Current and other assets	$ 41.9	$ 30.8	$ 0.6	$ 0.2
Capital assets	26.1	25.8	-	-
Total assets	68.0	56.6	0.6	0.2
Deferred Outflows of Resources	36.4	43.1	0.7	0.7
Liabilities				
Current liabilities	16.2	14.5	0.2	0.1
Noncurrent liabilities	133.1	136.4	1.9	1.9
Total liabilities	149.3	150.9	2.1	2.0
Deferred Inflows of Resources	18.0	16.7	0.3	0.3
Net Position (Deficit)				
Net investment in capital assets	26.1	23.2	-	-
Restricted	0.4	0.6	-	-
Unrestricted	(89.4)	(91.7)	(1.1)	(1.4)
Total net position (deficit)	**$ (62.9)**	**$ (67.9)**	**$ (1.1)**	**$ (1.4)**

The above analysis focuses on net position. The change in net position of the Agency's governmental activities is discussed below. The Agency's governmental net position was $(62.9) million at June 30, 2021. Net investment in capital assets totaling $26.1 million compares the original cost, less depreciation of the Agency's capital assets, to long-term debt used to finance the acquisition of those assets. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Agency's ability to use that net position for day-to-day operations. The remaining amount of governmental activities net position ($(89.4) million) and the business-type activities net position ($(1.1) million) was unrestricted.

The $(89.4) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Without GASB Statement Nos. 68 and 75, total net position would be $49.0 million. The unrestricted net position balance enables the Agency to meet working capital and cash flow requirements and 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.

As required by the Governmental Accounting Standards Board (GASB), the Agency adopted GASB Statement No. 84, *Fiduciary Activities*, as of July 1, 2020. This standard provides guidance on the identification and reporting of fiduciary activities and required the Agency to evaluate activities to determine if they were fiduciary in nature. The standard also changed the reporting and presentation requirements of fiduciary activities. The governmental statement of net position at June 30, 2021 and statement of activities for the year ended June 30, 2021 include all the balances and transactions for those activities that used to be reported as fiduciary but are now reported as governmental. All districts were required to adopt this new standard.

The results of this year's operations for the Agency as a whole are reported in the condensed statement of activities below, which shows the changes in net position for the years ended June 30, 2021 and 2020:

	Governmental Activities		Business-type Activities	
	2021	2020	2021	2020
	(in millions)		(in millions)	
Revenue				
Program revenue:				
Charges for services	$ 7.4	$ 7.2	$ 1.6	$ 1.4
Operating grants	48.6	47.3	-	-
General revenue:				
Taxes	61.0	51.8	-	-
State aid not restricted to specific purposes	5.7	5.9	-	-
Other	0.8	0.7	-	-
Total revenue	123.5	112.9	1.6	1.4
Expenses				
Instruction	26.0	26.6	-	-
Support services	42.2	40.3	-	-
Community services	6.0	6.6	-	-
Intergovernmental transfers	43.0	43.7	-	-
Debt service	0.1	0.1	-	-
Depreciation expense (unallocated)	1.0	1.0	-	-
Technology services	-	-	1.5	1.7
Total expenses	118.3	118.3	1.5	1.7
Transfers	(0.2)	-	0.2	-
Change in Net Position	5.0	(5.4)	0.3	(0.3)
Net Position (Deficit) - Beginning of year	(67.9)	(62.5)	(1.4)	(1.1)
Net Position (Deficit) - End of year	**$ (62.9)**	**$ (67.9)**	**$ (1.1)**	**$ (1.4)**

As reported in the statement of activities, the cost of all of our governmental activities this year was $118.3 million. Certain activities were partially funded from those who benefited from the programs ($7.4 million) or by other governments and organizations that subsidized certain programs with grants and contributions ($48.6 million). We paid for the remaining public benefit portion of our governmental activities with $61.0 million in taxes, $5.7 million in state foundation allowance, and other revenue (i.e., interest and general entitlements). The Agency experienced an increase in net position of $5.0 million.

As reported in the statement of activities, the cost of all business-type activities this year was $1.5 million and was funded entirely by those who benefited from the services.

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 $1.5 million, which included the effects of GASB Statement Nos. 68 and 75 and the business-type activities proportionate share of the net pension and OPEB liabilities. These activities were funded by those who benefited from the services provided ($1.6 million).

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 $23.5 million, which is an increase of $9.1 million from last year. General Fund fund balance is available to fund costs related to allowable agency operating purposes. The Special Education Fund fund balance is available to fund future costs related to the Agency's special education programs. The Career Technical Education Fund fund balance will fund future costs related to a county-wide vocational and trade education program, and the capital projects funds fund balances are available to fund capital project needs within the Agency.

Budgetary Highlights

Over the course of the year, the Agency revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2021. A schedule showing the Agency’s original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

General Fund Budgetary Highlights

The General Fund's actual revenue was $50.8 million. That amount is below the original budget estimate of $52.1 million and below the final amended budget of $53.6 million. The $2.8 million variance between the final amended budget and the 2021 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.

The actual expenditures and other financing uses of the General Fund were $49.9 million and below the final amended budget of $53.6 million. The $3.7 million variance between the final amended budget and the 2021 actual results was primarily due to the anticipation of fully expending grant revenue. Expenditures related to these grants will be incurred in the next fiscal year.

The General Fund had total revenue of $50.8 million and total expenditures and transfers of $49.9 million, with an ending fund balance of $8.4 million.

Special Education Fund Budgetary Highlights

The Special Education Fund's actual revenue was $62.7 million. That amount is above the original budget estimate of $57.4 million and above the final amended budget of $62.4 million.

The actual expenditures and other financing uses of the Special Education Fund were $60.4 million and are below the final amended budget of $63.1 million. The $2.7 million variance between the final amended budget and the 2021 actual results was due primarily to the anticipation of fully expending grant revenue. Expenditures related to these grants will be incurred in the next fiscal year.

Career Technical Education Fund Highlights

The Career Technical Education Fund actual revenue was $8.3 million. That amount is in line with the original budget and above the final amendment budget of $8.2 million.

The actual expenditures and other financing uses of the Career Technical Education Fund were $2.2 million and are below the final amended budget of $2.2 million. The variance between the final amended budget and the 2021 actual results was primary due to budgeting for the anticipation of hiring a CTE principal and that position not being filled until July 2021.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2021, the Agency had $26.1 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment:

	Governmental Activities	
	2021	2020
Land	$ 390,377	$ 390,377
Construction in progress	1,204,402	12,000
Buildings and improvements	34,926,940	34,894,906
Furniture and equipment	4,910,220	7,395,636
Total capital assets	41,431,939	42,692,919
Less accumulated depreciation	15,327,113	16,911,743
Total capital assets - Net of accumulated depreciation	**$ 26,104,826**	**$ 25,781,176**

Debt

At the end of this year, the Agency did not have any outstanding bonds versus $2.6 million in the previous year, as the final debt obligation payment was made this fiscal year.

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 did not have any outstanding unqualified general obligation debt.

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

Statement of Net Position

June 30, 2021

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents (Note 4)	$ 30,511,136	$ 347,524	$ 30,858,660
Receivables:			
Taxes receivable	152,091	-	152,091
Accounts receivable	1,247,211	61,374	1,308,585
Due from other governments	9,459,584	-	9,459,584
Due from governmental funds (Note 7)	-	199,809	199,809
Inventories	46,147	-	46,147
Prepaid assets	54,125	11,413	65,538
Restricted assets (Note 4)	389,761	-	389,761
Capital assets - Net (Note 6)	26,104,826	-	26,104,826
Total assets	67,964,881	620,120	68,585,001
Deferred Outflows of Resources			
Deferred pension costs (Note 10)	26,916,278	510,361	27,426,639
Deferred OPEB costs (Note 10)	9,500,903	144,856	9,645,759
Total deferred outflows of resources	36,417,181	655,217	37,072,398
Liabilities			
Accounts payable	2,814,884	-	2,814,884
Due to other governmental units	3,690,419	-	3,690,419
Due to governmental funds (Note 7)	-	4,952	4,952
Accrued payroll and other liabilities	4,201,839	19,238	4,221,077
Unearned revenue (Note 5)	5,605,173	172,987	5,778,160
Noncurrent liabilities:			
Due within one year (Note 8)	878,212	-	878,212
Due in more than one year:			
Early termination obligation (Note 8)	1,739,163	-	1,739,163
Net pension liability (Note 10)	112,620,678	1,683,326	114,304,004
Net OPEB liability (Note 10)	17,820,365	264,106	18,084,471
Total liabilities	149,370,733	2,144,609	151,515,342
Deferred Inflows of Resources			
Revenue in support of pension contributions made subsequent to the report date (Note 10)	4,362,685	60,024	4,422,709
Deferred pension costs (Note 10)	287,541	53,495	341,036
Deferred OPEB costs (Note 10)	13,302,364	195,024	13,497,388
Total deferred inflows of resources	17,952,590	308,543	18,261,133
Net Position (Deficit)			
Net investment in capital assets	26,104,826	-	26,104,826
Restricted - Debt service	353,035	-	353,035
Unrestricted	(89,399,122)	(1,177,815)	(90,576,937)
Total net position (deficit)	**$ (62,941,261)**	**$ (1,177,815)**	**$ (64,119,076)**

Statement of Activities

Year Ended June 30, 2021

		Program Revenue		Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs						
Primary government:						
Governmental activities:						
Instruction	$ 25,993,416	$ 41,942	$ 17,883,772	$ (8,067,702)	$ -	$ (8,067,702)
Support services	42,234,776	7,265,513	17,348,166	(17,621,097)	-	(17,621,097)
Community services	6,076,669	123,614	5,728,714	(224,341)	-	(224,341)
Intergovernmental transfers	42,977,905	-	7,619,226	(35,358,679)	-	(35,358,679)
Interest	83,427	-	-	(83,427)	-	(83,427)
Depreciation expense (unallocated)	1,023,601	-	-	(1,023,601)	-	(1,023,601)
Total governmental activities	118,389,794	7,431,069	48,579,878	(62,378,847)	-	(62,378,847)
Business-type activities - Technology	1,499,576	1,557,820	-	-	58,244	58,244
Total primary government	**$ 119,889,370**	**$ 8,988,889**	**$ 48,579,878**	(62,378,847)	58,244	(62,320,603)
General revenue:						
Taxes:						
Property taxes levied for general purposes				13,728,796	-	13,728,796
Property taxes levied for debt service				2,408,495	-	2,408,495
Property taxes levied for career technical education				8,306,943	-	8,306,943
Property taxes levied for special education (ISD)				36,522,268	-	36,522,268
State aid not restricted to specific purposes				5,677,217	-	5,677,217
Interest and investment earnings				15,350	-	15,350
Other				868,763	-	868,763
Total general revenue				67,527,832	-	67,527,832
Transfers				(200,000)	200,000	-
Change in Net Position				4,948,985	258,244	5,207,229
Net Position (Deficit) - Beginning of year				(67,890,246)	(1,436,059)	(69,326,305)
Net Position (Deficit) - End of year				**$ (62,941,261)**	**$ (1,177,815)**	**$ (64,119,076)**

See notes to financial statements.

Governmental Funds Balance Sheet

June 30, 2021

	General Fund	Special Education Fund	Career Technical Education Fund	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments (Note 4)	$ 13,044,087	$ 9,381,584	$ 5,633,032	$ 2,452,433	$ 30,511,136
Receivables:					
Taxes receivable	36,894	98,413	9,445	7,339	152,091
Accounts receivable	1,214,967	32,232	12	-	1,247,211
Due from other governments	4,438,453	5,021,131	-	-	9,459,584
Due from other funds (Note 7)	791,265	-	311,910	1,250,000	2,353,175
Inventories	46,147	-	-	-	46,147
Prepaid assets	13,194	40,931	-	-	54,125
Restricted assets (Note 4)	-	-	-	389,761	389,761
Total assets	**$ 19,585,007**	**$ 14,574,291**	**$ 5,954,399**	**$ 4,099,533**	**$ 44,213,230**
Liabilities					
Accounts payable	$ 2,001,335	$ 312,548	$ 6,833	$ 299,311	$ 2,620,027
Due to other governmental units	446,899	3,243,520	-	-	3,690,419
Due to other funds (Note 7)	1,444,169	2,899,414	16,320	41,853	4,401,756
Accrued payroll and other liabilities	2,048,093	2,063,927	89,819	-	4,201,839
Unearned revenue (Note 5)	5,208,062	397,111	-	-	5,605,173
Total liabilities	11,148,558	8,916,520	112,972	341,164	20,519,214
Deferred Inflows of Resources - Unavailable revenue (Note 5)	35,465	94,606	8,756	7,082	145,909
Total liabilities and deferred inflows of resources	11,184,023	9,011,126	121,728	348,246	20,665,123
Fund Balances					
Nonspendable:					
Inventory	46,147	-	-	-	46,147
Prepaids	13,194	40,931	-	-	54,125
Restricted:					
Debt Service	-	-	-	353,035	353,035
Special Education	-	5,522,234	-	-	5,522,234
Career and Technical Education	-	-	5,832,671	-	5,832,671
Committed - Building and site improvements:					
Capital projects	-	-	-	1,797,942	1,797,942
Building operating budgets	-	-	-	1,600,310	1,600,310
Assigned - Regional transportation and safety institute	307,078	-	-	-	307,078
Unassigned	8,034,565	-	-	-	8,034,565
Total fund balances	8,400,984	5,563,165	5,832,671	3,751,287	23,548,107
Total liabilities, deferred inflows of resources, and fund balances	**$ 19,585,007**	**$ 14,574,291**	**$ 5,954,399**	**$ 4,099,533**	**$ 44,213,230**

See notes to financial statements.

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

		June 30, 2021
Fund Balances Reported in Governmental Funds	$	23,548,107
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		41,431,939
Accumulated depreciation		(15,327,113)
Net capital assets used in governmental activities		26,104,826
Receivables that are not collected soon after year end are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds		145,909
Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities:		
Employee compensated absences		(763,652)
Early termination incentive obligations		(1,853,723)
Net pension liability and related deferred inflows and outflows		(85,991,941)
Retiree health care benefits		(21,621,826)
Revenue in support of pension contributions made subsequent to the measurement date is reported as a deferred inflow of resources in the statement of net position and is not reported in the funds		(4,362,685)
Internal service funds are included as part of governmental activities		1,853,724
Net Position (Deficit) of Governmental Activities	**$**	**(62,941,261)**

Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2021

	General Fund	Special Education Fund	Career Technical Education Fund	Nonmajor Funds	Total Governmental Funds
Revenue					
Local sources	$ 17,711,091	$ 39,233,875	$ 8,337,729	$ 2,301,653	$ 67,584,348
State sources	16,140,137	14,574,430	-	112,242	30,826,809
Federal sources	10,112,599	8,879,672	-	-	18,992,271
Interdistrict sources	6,863,010	-	-	-	6,863,010
Total revenue	50,826,837	62,687,977	8,337,729	2,413,895	124,266,438
Expenditures					
Current:					
Instruction	4,944,170	18,651,936	-	-	23,596,106
Support services	19,030,155	17,199,929	2,183,364	-	38,413,448
Community services	5,545,265	31,090	-	-	5,576,355
Debt service:					
Principal	-	-	-	2,590,000	2,590,000
Interest	-	-	-	40,762	40,762
Other debt costs	-	-	-	7,950	7,950
Capital outlay	358,077	147,141	18,706	1,205,362	1,729,286
Intergovernmental transfers	19,655,425	23,322,480	-	-	42,977,905
Total expenditures	49,533,092	59,352,576	2,202,070	3,844,074	114,931,812
Excess of Revenue Over (Under) Expenditures	1,293,745	3,335,401	6,135,659	(1,430,179)	9,334,626
Other Financing Sources (Uses)					
Transfers in (Note 7)	-	-	-	1,250,000	1,250,000
Transfers out (Note 7)	(450,000)	(1,000,000)	-	-	(1,450,000)
Total other financing (uses) sources	(450,000)	(1,000,000)	-	1,250,000	(200,000)
Net Change in Fund Balances	843,745	2,335,401	6,135,659	(180,179)	9,134,626
Fund Balances (Deficit) - Beginning of year	7,557,239	3,227,764	(302,988)	3,931,466	14,413,481
Fund Balances - End of year	**$ 8,400,984**	**$ 5,563,165**	**$ 5,832,671**	**$ 3,751,287**	**$ 23,548,107**

See notes to financial statements.

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

Year Ended June 30, 2021

Net Change in Fund Balances Reported in Governmental Funds	$	9,134,626
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:		
Capitalized capital outlay		1,347,251
Depreciation expense		(1,023,601)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available		(7,241)
Revenue in support of pension contributions made subsequent to the measurement date		(720,418)
Repayment of bond principal is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt); amortization of deferred changes related to bond refundings are not expenses in the governmental funds		2,547,601
Interest expense is recognized in the agency-wide statements as it accrues		7,684
Some employee costs (pension, OPEB, compensated absences, and early retirement incentives) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds		(6,465,038)
Internal service funds are included as part of governmental activities		128,121
Change in Net Position of Governmental Activities	**$**	**4,948,985**

See notes to financial statements.

Proprietary Funds
Statement of Net Position

June 30, 2021

	Enterprise Fund	Governmental Activities
	Technology Fund	Internal Service Fund
Assets		
Current assets:		
Cash (Note 4)	$ 347,524	$ -
Receivables - Other receivables	61,374	-
Due from other funds (Note 7)	199,809	1,853,724
Prepaid assets	11,413	-
Total assets	620,120	1,853,724
Deferred Outflows of Resources		
Deferred pension costs (Note 10)	510,361	-
Deferred OPEB costs (Note 10)	144,856	-
Total deferred outflows of resources	655,217	-
Liabilities		
Current liabilities:		
Due to governmental funds	4,952	-
Accrued payroll and other liabilities	19,238	-
Unearned revenue	172,987	-
Total current liabilities	197,177	-
Noncurrent liabilities:		
Net pension liability (Note 10)	1,683,326	-
Net OPEB liability (Note 10)	264,106	-
Total noncurrent liabilities	1,947,432	-
Total liabilities	2,144,609	-
Deferred Inflows of Resources (Note 10)		
Revenue in support of pension contributions made subsequent to the report date	60,024	-
Deferred pension costs	53,495	-
Deferred OPEB costs	195,024	-
Total deferred inflows of resources	308,543	-
Net Position (Deficit) - Unrestricted	**$ (1,177,815)**	**$ 1,853,724**

See notes to financial statements.

Proprietary Funds
Statement of Revenue, Expenses, and Changes in Net Position

Year Ended June 30, 2021

	Enterprise Fund	Governmental Activities
	Technology Fund	Internal Service Fund
Operating Revenue		
Charges to other funds	$ -	$ 471,264
Charges to other districts	1,557,820	-
Total operating revenue	1,557,820	471,264
Operating Expenses		
Technology support expenses	1,499,576	-
Retirement program benefits	-	343,143
Total operating expenses	1,499,576	343,143
Operating Income	58,244	128,121
Transfers In	200,000	-
Change in Net Position	258,244	128,121
Net Position (Deficit) - Beginning of year	(1,436,059)	1,725,603
Net Position (Deficit) - End of year	**$ (1,177,815)**	**$ 1,853,724**

See notes to financial statements.

Proprietary Funds
Statement of Cash Flows

Year Ended June 30, 2021

	Enterprise Fund	Governmental Activities
	Technology Fund	Internal Service Fund
Cash Flows from Operating Activities		
Receipts from interfund services and other governments	$ (80,899)	$ -
Payments for supplies and purchased services	(1,016,164)	-
Payments to employees and fringes	(444,025)	-
Payments to other funds	1,699,058	-
Net Increase in Cash - Net cash provided by operating activities	157,970	-
Cash - Beginning of year	189,554	-
Cash - End of year	**$ 347,524**	**$ -**
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 58,244	$ 128,121
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:		
Receivables	(38,575)	-
Due to and from other funds	(80,899)	(128,121)
Inventories and prepaid assets	(11,413)	-
Accounts payable and accrued liabilities	238,948	-
Net pension liability	46,859	-
Net OPEB liability	(55,194)	-
Total adjustments	99,726	(128,121)
Net cash provided by operating activities	**$ 157,970**	**$ -**

Note 1 - Nature of Business

Kalamazoo Regional Educational Service Agency (the "Agency") is a regional educational service agency in the state of Michigan that provides educational services to students.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

The Agency follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies used by the Agency:

Reporting Entity

The Agency is governed by an elected seven-member Board of Education. In accordance with government accounting principles, there are no separate legal entities appropriate to be reported within these financial statements.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives, the agency-wide perspective and the fund-based perspective. The agency-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. The agency-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes, unrestricted intergovernmental receipts, and other items not properly included among program revenue are reported instead as general revenue.

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

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

Note 2 - Significant Accounting Policies (Continued)

Fund Accounting

The Agency accounts for its various activities in several different funds in order to demonstrate accountability for how it spends certain resources; separate funds allow the Agency to show the particular expenditures for which specific revenue is used. The various funds are aggregated into two broad fund types:

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. Governmental funds can include the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. The Agency reports the following funds as major governmental funds:

- The General Fund is the primary operating fund because it accounts for all financial resources of the Agency other than those specifically assigned to another fund.
- The Special Education Fund is a special revenue fund used to account for resources that provide special education programs for the Agency. These programs are funded primarily by taxes, state aid categoricals, Medicaid funding, and federal grants. Any operating deficit generated by these activities is the responsibility of the General Fund.
- The Career Technical Education Fund is a special revenue fund used to account for resources that provide technical career education programs for the Agency. These programs are funded primarily by taxes, staid aid categoricals, and federal grants. Any operating deficit generated by these activities is the responsibility of the General Fund.

Additionally, the Agency reports the following nonmajor governmental fund types:

- Capital projects funds are used to account for non-bond-funded resources specifically designed for the acquisition and construction of facilities and for major capital improvements. The Agency has the General Education Capital Projects Fund and the Special Education Capital Projects Fund for related improvements.
- The Debt Service Fund is used to record tax, interest, and state aid revenue and for the payment of principal and interest on long-term debt related to the 2017 Refunding Bonds.

Proprietary Funds

Proprietary funds include enterprise funds (which provide goods or services to users in exchange for charges or fees) and internal service funds (which provide goods or services to other funds of the Agency). The Agency reports the following funds as major enterprise funds:

- The Technology Fund is an enterprise fund used to account for the operations of the Agency's Technology Services Consortium.
- The Internal Service Fund accounts for retirement incentives provided to retirees of the Agency.

Specific Balances and Transactions

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 amortized cost.

Note 2 - Significant Accounting Policies (Continued)

Receivables

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 agency-wide financial statements as internal balances. The Agency considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Inventories and Prepaid Items

Inventories are valued at cost on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both agency-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 activities column in the agency-wide financial statements. Capital assets are defined by the Agency as assets with initial individual costs of more than $5,000 and estimated useful lives 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 acquisition value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

	Depreciable Life - Years
Buildings and improvements	20 to 50
Furniture and equipment	5 to 20
Vehicles	5 to 20

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then.

The Agency reports deferred outflows related to deferred charges on refundings and deferred pension and OPEB costs.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

The Agency reports deferred inflows related to revenue in support of pension contributions made subsequent to the measurement date and deferred pension and OPEB cost reductions.

Note 2 - Significant Accounting Policies (Continued)

Net Position

Net position of the Agency is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Net Position Flow Assumption

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

Fund Balance Flow Assumptions

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

Fund Balance Policies

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

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

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Agency has, by resolution, authorized the assistant superintendent to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally exist only temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential either to remove or revise a commitment.

Note 2 - Significant Accounting Policies (Continued)

Property Tax Revenue

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. The Agency considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Pension and Other Postemployment Benefit (OPEB) Plans

For the purpose of measuring the net pension and net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to each plan, and pension and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. MPSERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expenses when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

Compensated Absences and Early Retirement Incentive

It is the Agency's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Sick pay is accrued for the estimated amount that the Agency will pay upon employment termination; vacation pay is accrued when incurred. Both of these are reported in the agency-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. Generally, the funds that report each employee’s compensation are used to liquidate the obligations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncements

During the current year, the Agency adopted GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying and reporting fiduciary activities. As a result of implementing this standard, student activities that were previously reported as fiduciary activities no longer meet the definition of such; therefore, these activities are now reported within the General Fund.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncement

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87, *Leases,* which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Agency is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the Agency's financial statements for the year ended June 30, 2021 but were extended to June 30, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance.*

Note 3 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all special revenue funds. The presentation of the budget information is consistent except that capital outlay is presented within the functional categories in the budget. All annual appropriations lapse at fiscal year end. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Agency to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Agency changed budgeted amounts during the year in response to revised revenue estimates.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders and contracts) 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

The Agency did not have significant expenditure budget variances.

Note 4 - 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, certificates of deposit, commercial paper rated prime at the time of purchase that matures no 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 two financial institutions for the deposit of its funds.

Note 4 - Deposits and Investments (Continued)

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 had bank deposits of $15,720,465 (certificates of deposit and 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.

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. At June 30, 2021, 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 has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Amortized Cost	Rating	Rating Organization
Michigan Liquid Asset Fund - MAX Class	$ 15,104,171	AAAm	S&P

Investment Restrictions

The Michigan Liquid Asset Fund - MAX Class investment may not be redeemed for at least 14 calendar days, with the exception of direct investments of funds distributed by the State of Michigan. In addition, redemptions made prior to the 14-day period are subject to a penalty equal to 15 days' interest on the amount so redeemed.

Concentration of Credit Risk

The Agency's investment 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. The Agency does not have any investments subject to concentration of credit risk.

Note 4 - Deposits and Investments (Continued)

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 investment policy prohibit investments in foreign currency.

Note 5 - Unavailable/Unearned Revenue

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 June 30, 2021, the various components of unearned and unavailable revenue were as follows:

	Governmental Funds	
	Deferred Inflow - Unavailable	Liability - Unearned
Delinquent property taxes	$ 145,909	$ -
Grant and categorical aid payment received prior to meeting all eligibility requirements	-	5,605,173
Total	$ 145,909	$ 5,605,173

Note 6 - Capital Assets

Capital asset activity of the Agency's governmental and business-type activities was as follows:

Governmental Activities

	Balance July 1, 2020	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2021
Capital assets not being depreciated:					
Land	$ 390,377	$ -	$ -	$ -	$ 390,377
Construction in progress	12,000	-	1,192,402	-	1,204,402
Subtotal	402,377	-	1,192,402	-	1,594,779
Capital assets being depreciated:					
Buildings and improvements	34,894,906	-	32,034	-	34,926,940
Vehicles, furniture, and equipment	7,395,636	-	122,815	(2,608,231)	4,910,220
Subtotal	42,290,542	-	154,849	(2,608,231)	39,837,160
Accumulated depreciation:					
Buildings and improvements	10,337,324	-	751,010	-	11,088,334
Vehicles, furniture, and equipment	6,574,419	-	272,591	(2,608,231)	4,238,779
Subtotal	16,911,743	-	1,023,601	(2,608,231)	15,327,113
Net capital assets being depreciated	25,378,799	-	(868,752)	-	24,510,047
Net governmental activities capital assets	$ 25,781,176	$ -	$ 323,650	$ -	$ 26,104,826

Note 6 - Capital Assets (Continued)

Business-type Activities

	Balance July 1, 2020	Additions	Disposals and Adjustments	Balance June 30, 2021
Capital assets being depreciated - Furniture and equipment	$ 11,580	$ -	$ -	$ 11,580
Accumulated depreciation - Furniture and equipment	11,580	-	-	11,580
Net business-type activities capital assets	$ -	$ -	$ -	$ -

Depreciation expense was not charged to activities, as the Agency's assets to benefit multiple activities, and allocation is not practical.

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

	Fund Due From					
Fund Due To	General Fund	Special Education Fund	Career Technical Education Fund	Nonmajor Governmental Funds	Enterprise Fund - Technology Fund	Total
General Fund	$ -	$ 749,412	$ -	$ 41,853	$ -	$ 791,265
Career Technical Education Fund	311,910	-	-	-	-	311,910
Internal Service Fund	682,450	1,150,002	16,320	-	4,952	1,853,724
Enterprise fund - Technology Fund	199,809	-	-	-	-	199,809
Nonmajor governmental funds	250,000	1,000,000	-	-	-	1,250,000
Total	$ 1,444,169	$ 2,899,414	$ 16,320	$ 41,853	$ 4,952	$ 4,406,708

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

Interfund transfers reported in the fund financial statements are composed of the following:

Paying Fund (Transfer Out)	Receiving Fund (Transfer In)	Amount
General Fund	General Education Capital Projects Fund	$ 250,000
	Enterprise fund - Technology Fund	200,000
	Total General Fund	450,000
Special Education Fund	Special Education Capital Projects Fund	1,000,000
	Total	$ 1,450,000

Note 7 - Interfund Receivables, Payables, and Transfers (Continued)

Transfers from the General Fund to the General Education Capital Projects Fund and transfers from the Special Education Fund to the Special Education Capital Projects Fund are to provide funding for future capital projects. Transfers from the General Fund to the Technology Fund are to provide support for general operations.

Note 8 - Long-term Debt

Long-term debt activity for the year ended June 30, 2021 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable - Other debt - General obligations - Bonds	$ 2,590,000	$ -	$ (2,590,000)	$ -	$ -
Compensated absences	751,177	377,502	(365,027)	763,652	763,652
Early termination obligation	1,725,603	471,264	(343,144)	1,853,723	114,560
Total governmental activities long-term debt	$ 5,066,780	$ 848,766	$ (3,298,171)	$ 2,617,375	$ 878,212

General Obligation Bonds and Contracts

The Agency issued general obligation bonds to provide for the acquisition and construction of major capital facilities. General obligations had been issued for governmental activities. General obligation bonds were direct obligations and pledge the full faith and credit of the Agency. The primary source of any required repayment was from the Agency’s property tax levy; however, the State of Michigan may withhold the Agency’s state aid funding in order to recover amounts it has paid on behalf of the Agency. The Agency's general obligation bonds were paid off in full during the year ended June 30, 2021.

Other Long-term Liabilities

The liability for compensated absences reported in the agency-wide financial statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for retirement incentives reported in the agency-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 the normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

Note 9 - Risk Management

The Agency is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Agency has purchased commercial insurance for property loss, torts, errors and omissions claims, and health, vision, and dental claims. The Agency 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.

Note 10 - Michigan Public School Employees' Retirement System

Plan Description

The Agency participates in the Michigan Public School Employees' Retirement System (the "System"), 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. Certain agency employees also receive defined contribution retirement and health care benefits through the System. 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 System is administered by the Office of Retirement Services (ORS). 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.

Benefits Provided

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

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of services times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Depending on the member’s date of hire, MPSERS offers the option of participating in the defined contribution (DC) plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions.

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

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

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

MPSERS provides medical, prescription drug, dental, and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by MPSERS, with the balance deducted from the monthly pension of each retiree health care recipient. Depending on the member’s date of hire, this subsidized portion ranges from 80 percent to the maximum allowed by the statute.

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Contributions

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

Under the OPEB plan, retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits. Participating employers are required to contribute at that rate.

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

The Agency's contributions are determined based on employee elections. There are multiple different pension and health care benefit options included in the plan available to employees based on date of hire and the elections available at that time. Contribution rates are adjusted annually by the ORS.

The ranges of rates are as follows:

	Pension	OPEB
October 1, 2019 - September 30, 2020	13.39% - 19.59%	7.57% - 8.09%
October 1, 2020 - September 30, 2021	13.39% - 19.78%	7.57% - 8.43%

Depending on the plan selected, member pension contributions range from 0 percent up to 7.0 percent of gross wages. For certain plan members, a 4 percent employer contribution to the defined contribution pension plan is required. In addition, for certain plan members, a 3 percent employer match is provided to the defined contribution pension plan.

The Agency's required and actual pension contributions to the plan for the year ended June 30, 2021 were $10,706,119, which include the Agency's contributions required for those members with a defined contribution benefit. The Agency's required and actual pension contributions include an allocation of $2,840,688 in revenue received from the State of Michigan and remitted to the System to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended June 30, 2021.

The Agency's required and actual OPEB contributions to the plan for the year ended June 30, 2021 were $4,422,709, which include the Agency's contributions required for those members with a defined contribution benefit.

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Net Pension Liability

At June 30, 2021, the Agency reported a liability of $114,304,004 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2019, which used update procedures to roll forward the estimated liability to September 30, 2020. The Agency's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2020 and 2019, the Agency's proportion was 0.332752 and 0.330080 percent, respectively, representing a change of 0.81 percent.

Net OPEB Liability

At June 30, 2021, the Agency reported a liability of $18,084,471 for its proportionate share of the net OPEB liability. The net OPEB liability for fiscal year 2021 was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2019, which used update procedures to roll forward the estimated liability to September 30, 2020. The Agency’s proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2020 and 2019, the Agency’s proportion was 0.337569 and 0.333870 percent, respectively, representing a change of 1.11 percent.

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

For 2021, the Agency recognized pension expense of $19,082,892, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2021, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 1,746,471	$ (243,965)
Changes in assumptions	12,665,986	-
Net difference between projected and actual earnings on pension plan investments	480,254	-
Changes in proportion and differences between the Agency's contributions and proportionate share of contributions	3,655,077	(97,071)
The Agency's contributions to the plan subsequent to the measurement date	8,878,851	-
Total	$ 27,426,639	$ (341,036)

The $4,422,709 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to the UAAL payment will be recognized as state appropriations revenue for the year ending June 30, 2022. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending	Amount
2022	$ 8,518,165
2023	5,880,759
2024	2,958,750
2025	849,078
Total	$ 18,206,752

Note 10 - Michigan Public School Employees' Retirement System (Continued)

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

OPEB Recovery and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2021, the Agency recognized OPEB recovery of $17,520.

At June 30, 2021, the Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ (13,474,622)
Changes in assumptions	5,962,809	-
Net difference between projected and actual earnings on OPEB plan investments	150,935	-
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	1,562,034	(22,766)
Employer contributions to the plan subsequent to the measurement date	1,969,981	-
Total	$ 9,645,759	$ (13,497,388)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB recovery as follows (note that employer contributions subsequent to the measurement date will reduce the net OPEB liability and, therefore, will not be included in future OPEB recovery):

Years Ending	Amount
2022	$ (1,481,357)
2023	(1,271,265)
2024	(1,107,090)
2025	(1,073,646)
2026	(888,252)
Total	$ (5,821,610)

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2020 are based on the results of an actuarial valuation as of September 30, 2019 and rolled forward. The total pension liability and OPEB liability were determined using the following actuarial assumptions:

Actuarial cost method		Entry age normal
Investment rate of return - Pension	6.00% - 6.80%	Net of investment expenses based on the groups
Investment rate of return - OPEB	6.95%	Net of investment expenses based on the groups
Salary increases	2.75% - 11.55%	Including wage inflation of 2.75%
Health care cost trend rate - OPEB	7.00%	Year 1, graded to 3.5% in year 15, 3.0% in year 120
Mortality basis		RP-2014 Male and Female Employee Annuitant Mortality tables, scaled 100% (retirees: 82% for males and 78% for females) and adjusted for mortality improvements using projection scale MP-2017 from 2006
Cost of living pension adjustments	3.00%	Annual noncompounded for MIP members

Assumption changes as a result of an experience study for the periods from 2012 to 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation.

Significant assumption changes since the prior measurement date, September 30, 2019, for the OPEB plan include a reduction in the health care cost trend rate of 0.5 percentage points, and the actual per person health benefit costs were lower than projected. There were no significant changes in assumptions for the pension actuarial valuation. There were no significant benefit terms changes for the pension or OPEB plans since the prior measurement date of September 30, 2019.

Discount Rate

The discount rate used to measure the total pension liability was 6.00 to 6.80 percent as of September 30, 2020 depending on the plan option. The discount rate used to measure the total OPEB liability was 6.95 percent as of September 30, 2020. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that district contributions will be made at statutorily required rates.

Based on those assumptions, the pension plan's fiduciary net position and the OPEB plan’s fiduciary net position were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB liability.

Note 10 - Michigan Public School Employees' Retirement System (Continued)

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	25.00 %	5.60 %
Private equity pools	16.00	9.30
International equity pools	15.00	7.40
Fixed-income pools	10.50	0.50
Real estate and infrastructure pools	10.00	4.90
Absolute return pools	9.00	3.20
Real return/opportunistic pools	12.50	6.60
Short-term investment pools	2.00	(0.10)
Total	100.00 %	

Long-term rates of return are net of administrative expense and inflation of 2.1 percent.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Agency, calculated using the discount rate depending on the plan option. The following also reflects what the Agency's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (5.00 - 5.80%)	Current Discount Rate (6.00 - 6.80%)	1 Percentage Point Increase (7.00 - 7.80%)
Net pension liability of the Agency	$ 149,947,143	$ 114,304,004	$ 86,421,340

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Agency, calculated using the current discount rate. It also reflects what the Agency's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (5.95%)	Current Discount Rate (6.95%)	1 Percentage Point Increase (7.95%)
Net OPEB liability of the Agency	$ 23,231,559	$ 18,084,471	$ 13,751,055

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

The following presents the net OPEB liability of the Agency, calculated using the current health care cost trend rate. It also reflects what the Agency's net OPEB liability would be if it were calculated using a health care cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (6.00%)	Current Rate (7.00%)	1 Percentage Point Increase (8.00%)
Net OPEB liability of the Agency	$ 13,585,137	$ 18,084,471	$ 23,201,910

Pension Plan and OPEB Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan and OPEB Plan

At June 30, 2021, the Agency reported a payable of $1,333,887 and $234,037 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2021.

Note 11 - Tax Abatements

The Agency receives reduced property tax revenue as a result of industrial facilities tax exemptions (PA 198 of 1974) and brownfield redevelopment agreements granted by cities, villages, and townships within the boundaries of the Agency. Industrial facility exemptions are intended to promote construction of new industrial facilities or to rehabilitate historical facilities; brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal year ended June 30, 2021, the Agency's property tax revenue was reduced by approximately $3,160,000 under these programs.

The Agency is reimbursed for lost revenue caused by tax abatements on the operating millage of nonhomestead properties from the State of Michigan under the school aid formula. The Agency received approximately $1,310,000 in reimbursements from the State of Michigan. The Agency is not reimbursed for lost revenue from debt service millages. There are no abatements made by the Agency.

Note 12 - Subsequent Events

On October 15, 2021, it was announced that Southwest Michigan First secured an anonymous gift of land and $100 million in cash for the Agency to construct a Career and Technical Education Center. The parties involved are in the process of finalizing the details related to the land and cash donation and preparing donation agreements.

Required Supplemental Information

Required Supplemental Information
Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
Revenue				
Local sources	$ 18,032,367	$ 18,136,630	$ 17,711,091	$ (425,539)
State sources	16,487,764	16,478,206	16,140,137	(338,069)
Federal sources	10,476,760	12,097,897	10,112,599	(1,985,298)
Interdistrict sources	7,153,527	6,873,727	6,863,010	(10,717)
Total revenue	52,150,418	53,586,460	50,826,837	(2,759,623)
Expenditures				
Current:				
Instruction:				
Basic programs	4,806,863	5,574,789	4,918,851	(655,938)
Added needs	50,500	136,817	149,389	12,572
Support services:				
Pupil	2,104,132	2,212,047	1,826,238	(385,809)
Instructional staff	4,739,470	4,224,797	4,439,453	214,656
General administration	482,356	467,837	428,100	(39,737)
School administration	402,177	487,178	447,544	(39,634)
Business	1,102,869	1,184,510	1,161,909	(22,601)
Operations and maintenance	1,143,829	1,221,199	1,050,215	(170,984)
Pupil transportation services	913,236	1,017,899	661,653	(356,246)
Central	9,685,465	9,474,075	9,139,375	(334,700)
Other supporting services	-	75,000	97,833	22,833
Community services	6,055,241	6,833,304	5,557,107	(1,276,197)
Intergovernmental transfers	19,874,559	20,232,557	19,655,425	(577,132)
Total expenditures	51,360,697	53,142,009	49,533,092	(3,608,917)
Other Financing Uses - Transfers out	(450,000)	(450,000)	(450,000)	-
Net Change in Fund Balance	339,721	(5,549)	843,745	849,294
Fund Balance - Beginning of year	7,557,239	7,557,239	7,557,239	-
Fund Balance - End of year	**$ 7,896,960**	**$ 7,551,690**	**$ 8,400,984**	**$ 849,294**

See notes to required supplemental information.

Required Supplemental Information
Budgetary Comparison Schedule - Special Education Fund

Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	$ 39,295,440	$ 38,921,506	$ 39,233,875	$ 312,369
State sources	9,297,475	14,354,459	14,574,430	219,971
Federal sources	8,798,431	9,092,075	8,879,672	(212,403)
Total revenue	57,391,346	62,368,040	62,687,977	319,937
Expenditures				
Current:				
Instruction - Added needs	16,883,610	21,460,600	18,703,234	(2,757,366)
Support services:				
Pupil	7,462,778	7,206,739	7,493,728	286,989
Instructional staff	4,275,120	4,471,813	4,418,200	(53,613)
General administration	190,891	535,618	527,041	(8,577)
School administration	118,732	125,822	120,270	(5,552)
Business	493,062	489,435	532,724	43,289
Operations and maintenance	1,904,750	2,362,066	2,206,187	(155,879)
Pupil transportation services	485,000	272,500	149,093	(123,407)
Central	1,776,833	1,879,188	1,848,529	(30,659)
Community services	31,134	31,090	31,090	-
Intergovernmental transfers	23,817,874	23,293,672	23,322,480	28,808
Total expenditures	57,439,784	62,128,543	59,352,576	(2,775,967)
Other Financing Uses - Transfers out	(1,000,000)	(1,000,000)	(1,000,000)	-
Net Change in Fund Balance	(1,048,438)	(760,503)	2,335,401	3,095,904
Fund Balance - Beginning of year	3,227,764	3,227,764	3,227,764	-
Fund Balance - End of year	**$ 2,179,326**	**$ 2,467,261**	**$ 5,563,165**	**$ 3,095,904**

See notes to required supplemental information.

Required Supplemental Information
Budgetary Comparison Schedule - Career Technical Education Fund

Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue - Local sources	$ 8,278,888	$ 8,261,570	$ 8,337,729	$ 76,159
Expenditures				
Current:				
Instruction - Added needs	-	5,000	-	(5,000)
Supporting services:				
Pupil	1,386,940	1,293,857	1,232,671	(61,186)
Instructional staff	308,340	418,036	389,867	(28,169)
General administration	64,657	65,803	60,489	(5,314)
School administration	191,083	5,500	162	(5,338)
Business	103,844	105,733	107,776	2,043
Operations and maintenance	90,539	90,910	73,946	(16,964)
Pupil transportation services	56,256	51,952	46,967	(4,985)
Central	293,944	314,712	290,192	(24,520)
Total expenditures	2,495,603	2,351,503	2,202,070	(149,433)
Net Change in Fund Balance	5,783,285	5,910,067	6,135,659	225,592
Fund Balance (Deficit) - Beginning of year	(302,988)	(302,988)	(302,988)	-
Fund Balance - End of year	**$ 5,480,297**	**$ 5,607,079**	**$ 5,832,671**	**$ 225,592**

See notes to required supplemental information.

Required Supplemental Information
Schedule of the Agency's Proportionate Share of the Net Pension Liability
Michigan Public School Employees' Retirement System

Last Seven Plan Years

Plan Years Ended September 30

	2020	2019	2018	2017	2016	2015	2014
Agency's proportion of the net pension liability	0.33275 %	0.33008 %	0.31828 %	0.30456 %	0.29347 %	0.28589 %	0.26398 %
Agency's proportionate share of the net pension liability	$ 114,304,004	$ 109,311,961	$ 95,681,471	$ 78,923,572	$ 73,217,461	$ 69,827,793	$ 58,145,605
Agency's covered payroll	$ 30,147,104	$ 29,324,674	$ 28,214,648	$ 25,949,644	$ 25,305,032	$ 24,133,670	$ 21,982,381
Agency's proportionate share of the net pension liability as a percentage of its covered payroll	379.15 %	372.76 %	339.12 %	304.14 %	289.34 %	289.34 %	264.51 %
Plan fiduciary net position as a percentage of total pension liability	59.49 %	60.08 %	62.12 %	63.96 %	63.01 %	62.92 %	66.20 %

See notes to required supplemental information.

Required Supplemental Information
Schedule of Pension Contributions
Michigan Public School Employees' Retirement System

Last Seven Fiscal Years

Years Ended June 30

	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	$10,339,620	$ 9,180,243	$ 8,805,283	$ 8,196,468	$ 7,281,956	$ 6,836,654	$ 5,065,624
Contributions in relation to the statutorily required contribution	10,339,620	9,180,243	8,805,283	8,196,468	7,281,956	6,836,654	5,065,624
Contribution Deficiency	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Agency's Covered Payroll	$31,675,281	$29,663,964	$29,319,604	$27,733,502	$26,591,414	$24,983,413	$23,143,913
Contributions as a Percentage of Covered Payroll	32.64 %	30.95 %	30.03 %	29.55 %	27.38 %	27.36 %	21.89 %

See notes to required supplemental information.

Kalamazoo Regional Educational Service Agency

Required Supplemental Information
Schedule of the Agency's Proportionate Share of the Net OPEB Liability
Michigan Public School Employees' Retirement System

Last Four Plan Years

Plan Years Ended September 30

	2020	2019	2018	2017
Agency's proportion of the net OPEB liability	0.33757 %	0.33387 %	0.33023 %	0.03523 %
Agency's proportionate share of the net OPEB liability	$ 18,084,471	$ 23,964,555	$ 26,249,928	$ 27,029,254
Agency's covered payroll	$ 30,147,104	$ 29,324,674	$ 28,214,648	$ 25,949,644
Agency's proportionate share of the net OPEB liability as a percentage of its covered payroll	59.99 %	81.72 %	93.04 %	104.16 %
Plan fiduciary net position as a percentage of total OPEB liability	59.76 %	48.67 %	43.10 %	36.53 %

See notes to required supplemental information.

Required Supplemental Information
Schedule of OPEB Contributions
Michigan Public School Employees' Retirement System

Last Four Fiscal Years

Years Ended June 30

	2021	2020	2019	2018
Statutorily required contribution	$ 2,604,025	$ 2,372,287	$ 2,293,313	$ 2,003,115
Contributions in relation to the statutorily required contribution	2,604,025	2,372,287	2,293,313	2,003,115
Contribution Deficiency	**$ -**	**$ -**	**$ -**	**$ -**
Agency's Covered Payroll	$ 31,675,281	$ 29,663,964	$ 29,319,604	$ 27,733,502
Contributions as a Percentage of Covered Payroll	8.22 %	8.00 %	7.82 %	7.22 %

See notes to required supplemental information.

Pension Information

Ultimately, 10 years of data will be presented in both of the pension-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of benefit assumptions for each of the reported plan years ended September 30 except for the following:

- 2019 - The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.25 percentage points.

- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.45 percentage points. The valuation also includes the impact of an updated experience study for periods from 2012 to 2017.

- 2017 - The discount rate used in the September 30, 2016 actuarial valuation decreased by 0.50 percentage points.

OPEB Information

Ultimately, 10 years of data will be presented in both of the OPEB-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of benefit assumptions for each of the reported plan years ended September 30 except for the following:

- 2020 - The health care cost trend rate used in the September 30, 2019 actuarial valuation decreased by 0.5 percentage points. This, in addition to actual per person health benefit cost being lower than projected, reduced the plan's total OPEB liability by an additional $1.8 billion in 2020.

- 2019 - The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.20 percentage points. The valuation also includes the impact of an updated experience study for the periods from 2019 to 2017. This resulted in a lower than projected per person health benefit cost to reduce the plan's total OPEB liability by an additional $1.4 billion in 2019.

- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.35 percentage points. The valuation also includes the impact of an updated experience study for the periods from 2019 to 2017. This resulted in a lower than projected per person health benefit cost to reduce the plan's total OPEB liability by $1.4 billion in 2018.

Other Supplemental Information

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2021

	Debt Service Fund	Capital Projects Funds: General Education Capital Projects Fund	Capital Projects Funds: Special Education Capital Projects Fund	Total
Assets				
Cash and investments	$ -	$ 1,367,198	$ 1,085,235	$ 2,452,433
Receivables - Taxes receivable	7,339	-	-	7,339
Due from other funds	-	250,000	1,000,000	1,250,000
Restricted assets	389,761	-	-	389,761
Total assets	**$ 397,100**	**$ 1,617,198**	**$ 2,085,235**	**$ 4,099,533**
Liabilities				
Accounts payable	$ 43	$ 16,888	$ 282,380	$ 299,311
Due to other funds	36,940	-	4,913	41,853
Deferred Inflows of Resources - Unavailable revenue	7,082	-	-	7,082
Total liabilities and deferred inflows of resources	44,065	16,888	287,293	348,246
Fund Balances				
Restricted - Debt service	353,035	-	-	353,035
Committed:				
Capital projects	-	-	1,797,942	1,797,942
Building operating budgets	-	1,600,310	-	1,600,310
Total fund balances	353,035	1,600,310	1,797,942	3,751,287
Total liabilities, deferred inflows of resources, and fund balances	**$ 397,100**	**$ 1,617,198**	**$ 2,085,235**	**$ 4,099,533**

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

Year Ended June 30, 2021

	Debt Service Fund	Capital Projects Funds: General Education Capital Projects Fund	Capital Projects Funds: Special Education Capital Projects Fund	Total
Revenue				
Local sources	$ 2,297,904	$ 1,078	$ 2,671	$ 2,301,653
State sources	112,242	-	-	112,242
Total revenue	2,410,146	1,078	2,671	2,413,895
Expenditures				
Debt service:				
Principal	2,590,000	-	-	2,590,000
Interest	40,762	-	-	40,762
Other	7,950	-	-	7,950
Capital outlay	-	87,291	1,118,071	1,205,362
Total expenditures	2,638,712	87,291	1,118,071	3,844,074
Excess of Expenditures Over Revenue	(228,566)	(86,213)	(1,115,400)	(1,430,179)
Other Financing Sources - Transfer in	-	250,000	1,000,000	1,250,000
Net Change in Fund Balances	(228,566)	163,787	(115,400)	(180,179)
Fund Balances - Beginning of year	581,601	1,436,523	1,913,342	3,931,466
Fund Balances - End of year	**$ 353,035**	**$ 1,600,310**	**$ 1,797,942**	**$ 3,751,287**

Kalamazoo Regional Educational Service Agency

Federal Awards Supplemental Information

June 30, 2021

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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Education
Kalamazoo Regional Educational Service Agency

We have audited the financial statements of the governmental activities, the 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, 2021, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements. We issued our report thereon dated October 20, 2021, which contained an unmodified opinion on the financial statements. Our audit was conducted for the purpose of forming opinions 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 October 20, 2021.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis, as required by the Uniform Guidance, and is 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

October 20, 2021

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the 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, 2021 and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated October 20, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. 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.*

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

Purpose of This Report

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

Plante & Moran, PLLC

October 20, 2021

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Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Education
Kalamazoo Regional Educational Service Agency

Report on Compliance for Each Major Federal Program

We have audited Kalamazoo Regional Educational Service Agency's (the "Agency") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the Agency's major federal program for the year ended June 30, 2021. The 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the 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 the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

To the Board of Education
Kalamazoo Regional Educational Service Agency

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.

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

Plante & Moran, PLLC

October 20, 2021

Federal Agency/Pass-through Agency/Program Title	Pass-through Entity Identifying Number	CFDA Number	Award Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2020	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued Revenue at June 30, 2021	Current Year Cash Transferred to Subrecipients
Clusters:										
Employment Services Cluster -										
U.S. Department of Labor -										
Passed through W.E. Upjohn Institute for Employment Research -										
State-wide Employment Services:		17.207								
Employment Services - 19-20	19-53		$ 598,807	$ 530,369	$ 52,863	$ -	$ 52,863	$ -	$ -	$ -
Employment Services - 20-21	20-53		465,626	-	-	-	224,357	285,379	61,022	-
Wagner Peyser ES Other - 20-21	20-53		75,000	-	-	-	32,365	75,000	42,635	-
ES - 19-20	19-07		14,887	14,887	1,809	-	1,809	-	-	-
ES - 20-21	20-07		144,107	-	-	-	129,392	144,107	14,715	-
Employment and Training Local Partners 19-20	19-07		41,801	41,801	4,379	-	4,379	-	-	-
Employment and Training Local Partners 20-21	20-07		47,578	-	-	-	34,894	47,578	12,684	-
Total Employment Services Cluster			1,387,806	587,057	59,051	-	480,059	552,064	131,056	-
WIOA Cluster - U.S. Department of Labor:										
Passed through W.E. Upjohn Institute for Employment Research -										
Workforce Innovation and Opportunity Act - Adult:		17.258								
Core - 19-20	19-53		132,028	115,720	16,528	-	16,528	-	-	-
Core - 20-21	20-53		151,216	-	-	-	95,393	107,841	12,448	-
State-wide funds - 19-20	19-07		27,689	27,689	2,949	-	2,949	-	-	-
State-wide funds - 20-21	20-07		23,268	-	-	-	16,468	23,268	6,800	-
Total Workforce Innovation and Opportunity Act - Adult			334,201	143,409	19,477	-	131,338	131,109	19,248	-
Passed through W.E. Upjohn Institute for Employment Research -										
Workforce Innovation and Opportunity Act - Youth:		17.259								
WIOA State-wide funds Youth - 19-20	19-07		13,090	13,090	1,351	-	1,351	-	-	-
WIOA State-wide funds Youth - 20-21	20-07		16,084	-	-	-	11,449	16,084	4,635	-
WIOA - 19-20	19-03		1,199,254	968,018	106,640	-	106,640	-	-	-
WIOA - 20-21	20-03		1,263,692	-	-	-	716,752	910,428	193,676	-
High Concentration Youth - 19-20	19-05		6,952	6,952	713	-	713	-	-	-
High Concentration Youth - 20-21	20-03		12,797	-	-	-	8,662	12,797	4,135	-
ES WIOA Youth - 19-20	19-53		42,847	38,273	3,199	-	3,199	-	-	-
ES WIOA Youth - 20-21	20-53		47,574	-	-	-	29,384	34,496	5,112	-
Total Workforce Innovation and Opportunity Act - Youth			2,602,290	1,026,333	111,903	-	878,150	973,805	207,558	-

Federal Agency/Pass-through Agency/Program Title	Pass-through Entity Identifying Number	CFDA Number	Award Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2020	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued Revenue at June 30, 2021	Current Year Cash Transferred to Subrecipients
Clusters (continued):										
WIOA Cluster - U.S. Department of Labor (continued):										
Passed through W.E. Upjohn Institute for Employment Research -										
Workforce Innovation and Opportunity Act - Dislocated Worker:		17.278								
WIOA - 19-20	19-07		$ 24,476	$ 24,476	$ 2,484	$ -	$ 2,484	$ -	$ -	$ -
WIOA - 20-07	20-07		23,494	-	-	-	17,835	23,494	5,659	-
Project 19-20	19-53		78,093	70,430	8,509	-	8,509	-	-	-
Project 20-21	20-53		94,843	-	-	-	58,915	66,032	7,117	-
TRADE - Project 19-20	19-53		190,879	186,694	9,430	-	9,430	-	-	-
TRADE - Project 20-21	20-53		146,614	-	-	-	88,273	113,357	25,084	-
TRADE - 19-20	19-07		8,491	8,450	547	-	547	-	-	-
TRADE - 20-21	20-07		6,968	-	-	-	5,373	6,968	1,595	-
Total Workforce Innovation and Opportunity Act - Dislocated Worker			573,858	290,050	20,970	-	191,366	209,851	39,455	-
Total WIOA Cluster			3,510,349	1,459,792	152,350	-	1,200,854	1,314,765	266,261	-
Special Education Cluster - U.S. Department of Labor:										
Passed through the Michigan Department of Education -										
IDEA (PL-94-142):		84.027								
IDEA Flowthrough 1920	200450		8,145,332	8,145,332	2,243,077	-	2,243,077	-	-	-
IDEA Flowthrough 2021	210450		8,385,104	-	-	-	5,696,411	8,181,303	2,484,892	-
IDEA General Supervision 1920	200493		132,000	132,000	32,835	-	32,835	-	-	-
IDEA General Supervision 2021	210493		158,400	-	-	-	116,843	158,400	41,557	-
Total IDEA (PL-94-142)			16,820,836	8,277,332	2,275,912	-	8,089,166	8,339,703	2,526,449	-
Handicapped Preschool:		84.173								
IDEA Handicapped Preschool 1920	200460		252,563	252,563	60,192	-	60,192	-	-	-
IDEA Handicapped Preschool 2021	210460		254,188	-	-	-	167,954	254,188	86,234	-
Total Handicapped Preschool (94-142)			506,751	252,563	60,192	-	228,146	254,188	86,234	-
Total Special Education Cluster (IDEA)			17,327,587	8,529,895	2,336,104	-	8,317,312	8,593,891	2,612,683	-

Federal Agency/Pass-through Agency/Program Title	Pass-through Entity Identifying Number	CFDA Number	Award Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2020	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued Revenue at June 30, 2021	Current Year Cash Transferred to Subrecipients
Clusters (continued):										
TANF Cluster - U.S. Department of Health and Human Services -										
Passed through W.E. Upjohn Institute for Employment Research -										
PATH TANF:		93.558								
TANF Passthrough 19/20	19-07		$ 93,564	$ 93,499	$ 8,751	$ -	$ 8,751	$ -	$ -	$ -
TANF Passthrough 20/21	20-07		97,298	-	-	-	78,488	97,298	18,810	-
ES PATH-TANF 19/20	19-53		118,227	118,227	10,563	-	10,563	-	-	-
ES PATH-TANF 20/21	20-53		139,121	-	-	-	110,505	139,121	28,616	-
Total TANF Cluster			448,210	211,726	19,314	-	208,307	236,419	47,426	-
Head Start Cluster - U.S. Department of Health and Human Services -										
Passed through Michigan Department of Education:		93.600								
Award No. 05CH010699-02-00 (11/19 - 10/20)	05CH010699		6,266,533	4,295,243	683,781	-	2,226,138	1,542,357	-	-
COVID-19 - Award No. 05CH010699-02-C3 (11/19 - 10/20)	05CH01069902C3		523,769	31,656	31,656	-	258,175	310,400	83,881	-
Award No. 05CH010699-03-02 (11/20 - 10/21)	05CH0106990302		6,342,131	-	-	-	4,073,431	4,450,586	377,155	-
COVID-19 - Award No. 05HE001091-01-01 (04/21 - 03/23)	05HE001091-01-01		892,492	-	-	-	-	9,150	9,150	-
Total Head Start			14,024,925	4,326,899	715,437	-	6,557,744	6,312,493	470,186	-
Medicaid Cluster - U.S. Department of Health and Human Services -										
Passed through the Michigan Department of Community Health -										
Medicaid Outreach Claims	N/A	93.778	95,664	-	-	-	95,664	95,664	-	-
Total cluster programs			36,794,541	15,115,369	3,282,256	-	16,859,940	17,105,296	3,527,612	-
Other federal awards:										
U.S. Department of Education -										
Early Intervention Services (IDEA) -										
Passed through the Michigan Department of Education:										
Handicapped Infants and Toddlers:		84.181								
IDEA ELS GEER 20-21	201230		25,847	-	-	-	9,559	17,245	7,686	-
IDEA ELS 19-20	200460		262,735	262,735	51,587	-	51,587	-	-	-
IDEA ELS 20-21	211340		268,536	-	-	-	201,974	268,536	66,562	-
Total Handicapped Infants and Toddlers			557,118	262,735	51,587	-	263,120	285,781	74,248	-
Title I Regional Assistance Grant:		84.010								
Project No. 201570 - 19/20	201570		696,170	411,163	117,881	-	155,604	37,723	-	-
Project No. 211570 - 20/21	211570		897,284	-	-	-	277,041	466,436	189,395	-
Total Title I Regional Assistance Grant			1,593,454	411,163	117,881	-	432,645	504,159	189,395	-
Title IV, Effective Use of Technology:		84.424A								
Project No. 180770 - 19/20	190770		230,000	195,160	93,345	-	93,345	-	-	-
Project No. 180770 - 20/21	200770		230,000	-	-	-	57,748	191,699	133,951	-
Total Title IV, Effective Use of Technology			460,000	195,160	93,345	-	151,093	191,699	133,951	-

Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2021

Federal Agency/Pass-through Agency/Program Title	Pass-through Entity Identifying Number	CFDA Number	Award Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2020	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued Revenue at June 30, 2021	Current Year Cash Transferred to Subrecipients
Other federal awards (continued):										
U.S. Department of Education -										
Early Intervention Services (IDEA) -										
Passed through the Michigan Department of Education (continued):										
Vocational Education - Basic grants to states:		84.048								
Project No. 201220/1920-20	201220		$ 567,828	$ 567,828	$ 137,695	$ -	$ 137,695	$ -	$ -	$ -
Project No. 201230/20-21	211220		544,492	-	-	-	375,135	544,492	169,357	141,568
Total Vocational Education - Basic grants to states			1,112,320	567,828	137,695	-	512,830	544,492	169,357	141,568
Total U.S. Department of Education noncluster programs			3,722,892	1,436,886	400,508	-	1,359,688	1,526,131	566,951	141,568
U.S. Department of Health and Human Services:										
Passed through the Michigan Department of Education -										
Trusted Advisors:		93.434								
Project No. 203910 - 1920	203910		20,000	-	-	-	20,000	20,000	-	-
Project No. 3.621	213910		25,000	-	-	-	9,245	13,891	4,646	-
Total Trusted Advisors			45,000	-	-	-	29,245	33,891	4,646	-
Workforce Investment Act (WIA) - U.S. Department of Labor -										
Passed through W.E. Upjohn Institute for Employment Research										
Reemployment Services - Emergency Unemployment Compensation:		17.225								
RESEA 19-53 (19-20)	19-53		130,354	126,765	4,638	-	4,638	-	-	-
RESEA 20-53 (20-21)	20-53		111,477	-	-	-	86,363	111,477	25,114	-
Total Reemployment Services			241,831	126,765	4,638	-	91,001	111,477	25,114	-
Unemployment Insurance -		17.225								
UIA 20-53 (20-21)	20-53		123,400	-	-	-	123,400	123,400	-	-
Total U.S. Dept of Labor WIA			365,231	126,765	4,638	-	214,401	234,877	25,114	-
Education Stabilization Fund Program - U.S. Department of Education										
Passed through the Michigan Department of Education -		84.425C								
COVID-19 Governor's Emergency Education Relief Fund (GEER)	201200		45,500	-	-	-	45,500	45,500	-	-
Coronavirus Relief Fund - U.S. Department of Treasury -										
Passed through Copper Country ISD -		21.019								
COVID-19 - CRF MiConnect/MAISA	20-21		16,767	-	-	-	16,767	16,767	-	-
Department of the Treasury - Internal Revenue Service										
Volunteer Income Tax Assistance (VITA):		21.009								
IRS VITA 20-2009	20-2009		27,000	25,996	25,996	-	25,996	-	-	-
IRS VITA 21VITA0220	21-0220		38,000	-	-	-	1,004	29,809	28,805	-
Total Department of the Treasury Services - IRS			65,000	25,996	25,996	-	27,000	29,809	28,805	-
Total noncluster programs			4,260,390	1,589,647	431,142	-	1,692,601	1,886,975	625,516	141,568
Total federal financial assistance			**$ 41,054,931**	**$ 16,705,016**	**3,713,398**	**$ -**	**$ 18,552,541**	**$ 18,992,271**	**$ 4,153,128**	**$ 141,568**

See notes to schedule of expenditures of federal awards.

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Kalamazoo Regional Educational Service Agency (the “Agency”) under programs of the federal government for the year ended June 30, 2021. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of the Agency, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Agency.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the same basis of accounting as the basic financial statements. Such expenditures, except for those except for those related to CFDA 21.019, Coronavirus Relief Fund (CRF), are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

CRF does not apply the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, but rather applies the U.S. Department of Treasury’s guidance and frequently asked questions, as codified in the Federal Register.

The pass-through entity identifying numbers are presented where available.

The Agency has elected not to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance.

Note 3 - 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.

Note 4 - Federal Awards Provided to Subrecipients

The expenditures related to federal awards provided to subrecipients for the year ended June 30, 2021 were $141,568. These federal awards were provided to St. Joseph Intermediate School District through the career and technical education - basic grants to states, CFDA 84.048, project number 201230.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2021

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__ None reported

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

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster	Opinion
84.027, 84.173	Special Education Cluster (IDEA)	Unmodified

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

Auditee qualified as low-risk auditee? ____ Yes __X__ No

Section II - Financial Statement Audit Findings

Reference Number	Finding
Current Year	None

Section III - Federal Program Audit Findings

Reference Number	Finding	Questioned Costs
Current Year	None	

Kalamazoo Regional Educational Service Agency

Report to the Board of Education

June 30, 2021

Plante & Moran, PLLC
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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, 2021. In addition to our audit report, we are providing the following results of the audit, summary of unrecorded possible adjustments, other recommendations, and informational items that impact the Agency:

	Page
Results of the Audit	1-4
Summary of Unrecorded Possible Adjustments	5-6
Other Recommendations	7-10
Informational Items	11-17

We are grateful for the opportunity to be of service to Kalamazoo Regional Educational Service Agency. We would also like to extend our thanks to Scott Thomas, Brad Storms, and the entire business office for their assistance and preparedness during the audit. We recognize that preparing for the audit is carried out in addition to your staff's normal daily activities. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

October 20, 2021

Results of the Audit

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October 20, 2021

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, 2021 and have issued our report thereon dated October 20, 2021. 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 19, 2021, 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 the 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 Kalamazoo Regional Educational Service 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, and 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 October 20, 2021 regarding our consideration of the Agency’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated July 23, 2021.

To the Board of Education
Kalamazoo Regional Educational Service Agency

October 20, 2021

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 2 to the financial statements.

As described in Note 2, the Agency adopted the provisions of Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*.

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

We noted 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.

The most sensitive estimates affecting the financial statements were the Agency's share of the MPSERS net liabilities for the pension and other postemployment benefit (OPEB) plans recorded on the government-wide statements related to GASB Statement Nos. 68 and 75, respectively. The Agency's estimates as of June 30, 2021 were $114,304,004 and $18,084,471 for the pension and OPEB plans, respectively, based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole. There were no additional particularly sensitive estimates included in the Agency's financial statements, other than the determination of self-insurance liabilities.

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.

To the Board of Education
Kalamazoo Regional Educational Service Agency

October 20, 2021

The attached schedule summarizes uncorrected misstatements of the financial statements that 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 our 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.

As required by 2 CFR Part 200, 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 2 CFR Part 200 dated October 20, 2021.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 20, 2021.

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.

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

Jeffrey L. Egberts, CPA
Partner

Corey VanDyke, CPA
Principal

Summary of Unrecorded Possible Adjustments

Kalamazoo Regional Educational Service Agency

Summary of Unrecorded Possible Adjustments

Client: Kalamazoo Regional Educational Service Agency
Opinion Unit: Governmental Activities
Y/E: 6/30/2021

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	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Net Position	Revenue	Expenses	Change in Net Position Impact
FACTUAL MISSTATEMENTS:											
A1	To account for the implementation of GASB 84 as a retrospective adjustment in accordance with GAAP (rather than a prospective adjustment), reducing current year revenue and restating beginning of the year net position							$ 181,515	$ (181,515)		$ (181,515)
											-
JUDGMENTAL ADJUSTMENTS:											
B1	None										-
											-
PROJECTED ADJUSTMENTS:											
C1	None										-
		$ -	$ -	$ -	$ -	$ -	$ -	-	-	$ -	-
	Total	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 181,515**	**$ (181,515)**	**$ -**	**$ (181,515)**

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

D1 None

Client: Kalamazoo Regional Educational Service Agency
Opinion Unit: General Fund
Y/E: 6/30/2021

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	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Fund Balance	Revenue	Expenses	Change in Fund Balance Impact
FACTUAL MISSTATEMENTS:											
A1	Record unavailable revenue for receivables not collected within 60 days of June 30, 2021 in accordance with GASB 33				$ 99,219				$ (99,219)		$ (99,219)
A2	To account for the implementation of GASB 84 as a retrospective adjustment in accordance with GAAP (rather than a prospective adjustment), reducing current year revenue and restating beginning of the year fund balance							$ 181,515	(181,515)		(181,515)
											-
JUDGMENTAL ADJUSTMENTS:											-
B1	None										-
											-
PROJECTED ADJUSTMENTS:											
C1	None										-
		$ -	$ -	$ -	-	$ -	$ -	-	-	$ -	-
	Total	**$ -**	**$ -**	**$ -**	**$ 99,219**	**$ -**	**$ -**	**$ 181,515**	**$ (280,734)**	**$ -**	**$ (280,734)**

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

D1 None

Other Recommendations

Understanding and Managing Potential Threats to Your Data

Education continues to be one of the top targets for ransomware attacks. Legislation called the "Enhancing K-12 Cybersecurity Act" was introduced in the House in June 2021 and would appropriate $10 million yearly for two years to fund a program to improve cybersecurity in school districts and agencies.

Working remotely during the pandemic has led to a global rise in cyberattacks. School districts and agencies shifted to remote learning quickly; in so doing, security controls may have been relaxed. In today's age of continual reports of cyberattacks, school districts and agencies need to be aware of where potential risks lie and how they are addressed and communicated to employees and the public.

When it comes to cybersecurity, the human element is still the weakest link and most targeted, as passwords like "August2021" can be easily guessed, and emails continue to trick people into clicking links and opening attachments. Information security is a district-wide issue, not just an IT department responsibility, requiring a combination of people, processes, and technology to effectively secure student, employee, and financial data. Now is the time to take a step back and assess exactly where your data is and the controls surrounding it. Key questions to ask include the following:

- Are our teachers and staff appropriately aware of phishing and other cyberattacks?
- Do you know where all of the various data resides in the Agency? Are employees storing agency data with personally identifiable information (PII) or data that is subject to FERPA on file-sharing sites or flash drives? Is the data being emailed to personal accounts?
- How secure is your data with at least a portion of your students and teachers working remotely?

Having an external party do an assessment on vulnerabilities may provide additional support to the IT team for initiatives it is implementing, providing peace of mind for the board that vulnerabilities have been assessed and addressed and allowing for confident communication to the public that its student and employee data is secure. If you are interested in discussing this further, we would be happy to continue the conversation.

Taking Advantage of Data Analytics within K-12 School Districts and Agencies

The Agency collects more data than ever before, but has it helped you take meaningful action? The complexity of drawing actionable insight from larger disparate data sources often stands in the way of making better data-driven decisions. The landscape of opportunity within advanced analytics can create order from the chaos and transform your data into actions that make a difference. Understanding the right approach is based on an assessment of the goals of the Agency. Based on our experience, we suggest school districts and agencies begin considering a few initial questions:

1. How can we better understand the needs of our student population?

   It has become increasingly important to develop a deeper understanding of individual student, school, and district-wide performance. Actionable insight into your student population to create data-driven strategies is achievable through advanced analytics.

2. Where might we be overspending?

   When faced with tighter budgets in an evolving and fiercely competitive funding environment, schools are relying more heavily on their data than their instinct to detect leakages and eliminate inefficiencies in their operations. Leveraging advanced analytics can optimize your in-district delivery model and identify opportunities to reduce operational costs.

3. How can we develop a data-driven strategy?

   A staggering volume of education data is underutilized by school districts and agencies. Asking meaningful questions about the alignment of your data vision, people, processes, technology, and data governance is the first step toward preparing a data-driven strategy.

Fraud Prevention and Detection

Over the last few years and currently in the news, the issues surrounding fraud have received increased attention. New and changing technologies have created additional threats and opportunities for fraud, as well as potential gaps in internal control. Has the Agency reviewed the three components that, together, lead to fraudulent behavior?

These three components are as follows:

- Incentive (the reason to commit fraud)
- Opportunity (the ability to commit fraud)
- Rationalization/Attitude (the view of the world that makes fraud acceptable)

Generally, it is necessary for all three to be present to experience fraud. In any case, the Agency can significantly impact one of the three elements: opportunity.

To the degree the Agency effectively identifies the opportunities that exist and implements controls to prevent and/or detect them, the likelihood of significant fraud occurring is greatly reduced. While schools have often evaluated and revised internal controls, a continual reassessment of areas where the potential for fraud has increased is essential. By doing so, processes and controls can be effectively modified to reduce potential exposure. Studies show that being proactive with fraud prevention and detection results in a more than 50 percent reduction of losses due to fraud.

The following are some of the hot topics school districts and agencies should be considering in regard to fraud risk management.

1. Our forensic accounting team has recently performed multiple school district investigations surrounding off-system point-of-sale fraud schemes, including one at a local district in which two people were arrested and charged for over $75,000 in losses. You should consider identifying the quantity and locations of these collection systems within your district and what internal controls govern them. Examples of these off-system collection systems may include programs such as cafeteria collections, day care/latchkey, athletics, fundraisers, and student activity funds.

2. In a recent survey of certified fraud examiners (CFEs), 70 percent of the CFEs polled have seen an uptick in vendor fraud (with 33 percent of them noting a significant increase). Now is an important time to review with whom your district does business and, potentially, perform vendor risk assessments to ensure your district is not being taken advantage of.

Our forensic accountants are happy to assist you with these reviews, which typically begin with data analytics to identify anomalies on a macro level, followed by more detailed reviews on the specific vendors flagged by the analytics. The detailed reviews may involve tasks such as performing background research to identify conflicts of interest, comparing invoices to contractual agreements, reviewing supporting documentation to ensure work was performed as invoiced, etc.

Informational Items

A Year Like No Other

The past year has been challenging for everyone, particularly those who have continued to keep our schools running throughout this pandemic. While some businesses and employees were able to seamlessly transition to the work-from-home environment, educators and administrators faced a number of hurdles. The Agency has faced a continuously changing environment during the pandemic. New federal grants and targeted state funding have placed new accounting and compliance requirements on the Agency. Planning will become increasingly important to put the Agency in the best position to take advantage of the substantial new, nonrecurring resources provided.

We have worked closely with state and federal decision-makers throughout the pandemic. As the Agency's strategic partner, our goal has been to advocate for school districts and agencies by meeting with these decision-makers before actions are finalized so that these groups can be well-informed of the implications their actions will have on the Agency, your business office, and your financial statements. New or revised accounting and compliance guidance continues to be released from numerous agencies, and school districts and agencies are left with the task of deciphering this information to ensure adherence to these new requirements. To that end, as guidance is updated and opportunities are identified, we will continue to work with the Agency in navigating the complexities and make sure that your team is always aware of the most current information that impacts the Agency. We want to recognize the hard work that everyone at the Agency has put in over the past year. We appreciate all that you have done for the students in your communities, and we want to thank you for the opportunity to work side by side with your team during these difficult times.

State Aid Funding

Background

From 18 Months of Financial Uncertainty to Projected Stability: Since the winter of 2020, the factors surrounding school funding have been uncertain, difficult to predict, and even more difficult to manage.

- **Pre-pandemic:** Prior to the onset of the pandemic, the State's financial resources were stable, predictable, and suggested a predictable, improving financial picture for Michigan schools.

- **Financial Concerns during the Onset of the Pandemic:** During the spring of 2020, predictions were made that there would be significant negative impacts to the State's School Aid Fund and the potential for substantial proration of state aid for school districts and agencies due to the grinding halt that the pandemic placed on Michigan's economy. The specific impact was difficult to predict, resulting in two Revenue Estimating Conferences: the normally scheduled one in May 2020 and an additional conference in August 2020. The May conference suggested substantial proration would need to occur (estimated at $685 per pupil), and many districts adopted a final budget amendment in 2020 to reflect this estimate. By August 2020, the economic impacts of the pandemic were slightly clearer, and the result was a proration of $175 per pupil for the 2019-2020 fiscal year. While significant, it was much less than what was predicted in May 2020.

- **Federal Resources:** Beginning in March 2020, the federal government initiated financial assistance that directly impacted school districts and agencies, with the funding being provided in several waves throughout 2020 and 2021. As is the case with most federal resources, unique spending requirements were attached; however, the guidance and stipulations continued to evolve and change. This resulted in significant uncertainty throughout the year in terms of how and when to expend the available funds. Ultimately, the COVID-19 relief funds did provide more flexibility in spending than traditional federal grants.

- **2020-2021 State Funding:** With a more predictable revenue stream into the School Aid Fund, sustainable school funding was put in place. The foundation allowance was held at the 2019-2020 level, no prorations were required, and a $65 one-time per pupil payment was provided to school districts and agencies. The State also provided additional funding to those districts that did not receive a minimum threshold of per pupil funding from the new Educational Stabilization Fund federal program.

- **2021-2022 State Funding:** Stability within the School Aid Fund continues to improve, and the fund was predicted to have a surplus for fiscal year 2021 and would have sustainable revenue looking out the next few years. This provided the governor and Legislature an opportunity to increase the State's investments in public education. The most significant outcome from their efforts was improved equity in the foundation allowance funding. All schools will be at the target foundation allowance of $8,700 per pupil. This means the equity gap between the base foundation and the target foundation has finally been eliminated. In addition, all schools, including hold harmless districts, will receive at least a $171 per pupil increase. In addition, funding progress was made related to recommendations resulting from the School Finance Research Collaborative, which includes increased funding levels for special education; At-Risk; wraparound services, such as nurses and counselors; and Great Start School Readiness (GSRP).

- **Looking Forward:** The most recent Revenue Estimating Conference estimates that the School Aid Fund will remain healthy when projecting out the financial picture over the next few years. Based on the current facts and circumstances, it is expected there will be room for continued foundation allowance funding increases over time, in addition to the ability to invest in specific programming or educational support. However, the key funding lesson from the last 18 months is that predictions are a best estimate based on the current facts and circumstances, and those estimates can be significantly impacted by subsequent events.

2021 Funding Implications for the Agency

2020-2021 Foundation: Due to pandemic-related funding concerns, foundation allowance levels were maintained at 2019-2020 levels. The target foundation allowance (formerly known as the basic foundation allowance) was $8,529. The minimum foundation allowance remained at $8,111; however, the Agency did receive a one-time per pupil payment of $65. This was not added to the foundation allowance formula and was not retained for 2021-2022.

A Unique 2020-2021 Pupil Count: In order to smooth the impacts of reduced pupil counts during the remote learning period, a temporary one-year change was made to the pupil count method used for the purpose of the foundation allowance formula. For 2020-2021, a super blend was used, combining the pupil counts from the 2019-2020 school year and the 2020-2021 school year. The 2019-2020 count was weighted at 75 percent, and the 2020-2021 count was weighted at 25 percent. This blended pupil count was multiplied by the foundation allowance per pupil to determine the Agency's total foundation allowance funding for the year.

MPSERS Cost Support: Amounts contributed by the Agency to the retirement system are computed as a percentage of payroll. The required contribution rate applicable for all school districts and agencies continues to increase. The estimated contribution rate for 2020-2021 ranged from 35.47 to 42.72 percent, with the rate, net of state funding support, paid directly by the employer, ranging from 20.96 to 28.21 percent. The State's funding support is provided in three separate sections of the State Aid Act: Sections 147a, 147c, and 147e. The Agency received a total of $585,973 in 147a2, $4,422,709 in 147c1, and $198,788 in 147e. In general terms, this means the total cost of the retirement system contributions in 2020-2021, representing approximately 42 percent of covered payroll, is recognized as an expenditure in the Agency's financial statements, along with related revenue that was previously considered state support to the system. The net effect is that the Agency is responsible for approximately a 28 percent contribution to the retirement system.

Looking Forward to 2023 and Beyond

The May 2021 Revenue Estimating Conference provided a look into 2023 and 2024. 2021 has a projected surplus to carry over to 2022, and surpluses are expected for 2023 and 2024. These surpluses are uncharted territory for school funding in Michigan. In the short term, two supplemental funding measures were put in place. Most of the funds provided were related to appropriating federal funds provided to the State for the benefit of school districts and agencies. As we have learned from the past, the Revenue Estimating Conferences provide projections based on the best facts in hand. Experience has told us that those facts can change with the potential for both a positive or negative impact on the projections. Factors to monitor as we look into the future include the following:

- The extent of a continuing economic "bounce back" currently experienced by the State
- The impact as federal stimulus provided tails off during the next two years and the extent of state funding to assist in replacing those resources for recurring services
- The success of returning to in-class instruction
- Extent and duration of resources needed to address learning loss resulting from the pandemic
- Short-term and longer-term student enrollment changes resulting from the pandemic
- Personnel shortages and the impact on providing learning-related services
- Potential staffing cost increases
- Cost trends for the retirement system and the extent to which state support is used from the School Aid Fund

The next Revenue Estimating Conference will occur in January 2022. School districts and agencies will need to carefully monitor those results and compare projections to the May 2021 conference results. That information will allow school districts and agencies to better project the longer-term implications for school funding.

Michigan Public School Employees' Retirement System (MPSERS) - Update on the Plans' Net Pension/OPEB Liabilities

Similar to the State of Michigan, the MPSERS plan has a September 30 year end. With the adoption of GASB Statement Nos. 68 and 75 several years ago, districts have been reporting their share of the MPSERS plan funded status in the government-wide financial statements of the district.

At September 30, 2020, the pension portion of the MPSERS plan had a net pension liability of approximately $35 billion. This is an increase from the reported amount of $33.8 billion at September 30, 2019, an increase of approximately 3.5 percent. This increase meant that, for the year ended June 30, 2021, districts reported a higher net pension liability than they had in the previous year, despite the fact that districts continued to make their required contributions to the plan during fiscal year 2021. One of the primary reasons for the increase in the liability was due to a less than favorable actuarial experience compared to the actuarial assumptions.

At September 30, 2020, the retiree health care portion (OPEB) of the MPSERS plan had a net OPEB liability of approximately $5.4 billion. This is a decrease from the reported amount of $7.3 billion at September 30, 2019, a decrease of approximately 26 percent. The valuation of the OPEB liability included a reduction of the health care cost trend rate from 7.5 percent to 7.0 percent, and the plan also experienced a favorable plan experience adjustment related to lower than projected health benefit costs, which had a positive impact by reducing the total liability.

Significant Changes in the Future to the GASB Financial Reporting Model

Under the current Governmental Accounting Standards Board (GASB) standards, school districts and agencies have been reporting using the current framework for approximately two decades. While the current financial statement presentation has worked, the GASB is looking to improve its effectiveness for all governments.

This project kicked off in August 2013. An exposure draft was issued in June 2020 titled "Financial Reporting Model Improvements." The exposure draft comment period ended during February 2021, and, as a firm, Plante & Moran, PLLC provided comments to the GASB on our thoughts of the proposed standards. The GASB's goal is to have final standards issued by June 2022.

Once adopted by the GASB, these new standards will have a significant impact on the accounting and financial reporting for school districts and agencies. Currently, school districts and agencies account for activity in the funds using the modified accrual basis of accounting. The exposure drafts argue that, under the current model, there is no sufficient framework that ensures that governmental entities are consistently reporting similar types of transactions in their financial statements. They also argue that the time period looked at for certain transactions in fund accounting is too short and that the current method has too many piecemeal guidance points rather than a conceptual framework against which transactions can be applied in order to determine the correct accounting. Some of the proposed changes in the exposure drafts (which are significantly different compared to the current model) include the following:

- Requiring additional information in the management's discussion and analysis (MD&A)
- In the budget-to-actual statements, requiring a column that would show the variances between the original and amended budget

- In the fund-based statements:
    - Significant terminology changes - “Revenue” would be referred to as “inflows of resources” and “expenditures” as “outflows of resources.” In addition, many of the statements will be renamed, and some of the fund-type definitions will be changed.
    - “Modified accrual” accounting would change to “short-term financial resources measurement focus.” Generally, transactions would be accounted for in the governmental funds if they are expected to be converted to cash or paid in cash within 12 months of the agency’s year end. A typical example would be revenue recognition. Under today’s rules, if a receivable is not collected within 60 days of the Agency’s year end, then the related revenue, generally, must be deferred until the following year. Under the proposed changes, the revenue can be recognized in the current period as long as it will be collected within one year of the current period end. In this example, revenue in the funds may be recognized sooner in the proposed new model as compared to the current model. This change will impact the timing of when revenue and expenditures are recorded in the governmental funds; in addition, the actual financial statements themselves will actually look quite different from a presentation perspective. This is a significant change.

The exposure draft allows for a phased adoption. Districts with total annual revenue (across all funds) over $75 million would adopt in the year ending June 30, 2025. Those under $75 million would adopt in the year ending June 30, 2026. We will continue to monitor progression very closely. When the new standards ultimately get issued, we will work with your business office to ensure smooth and efficient adoption.

A separate but somewhat related project is also ongoing. In June 2020, the GASB released its preliminary views titled “Revenue and Expense Recognition.” The objective of this project is to develop a comprehensive, principles-based model that would establish categorization, recognition, and measurement guidance applicable to a wide range of revenue and expense transactions. When the new standard is issued and adopted, it could result in revenue and expense transactions being reported either earlier or later than they currently are in school district and agency financial statements. The GASB’s current work plan anticipates that this new standard could be issued during 2025.

GASB Statement No. 87 - Leases

This statement is effective for the Agency’s June 30, 2022 financial statements. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on payment provisions of the lease. The statement was issued to improve accounting and financial reporting for leases by governments. The statement establishes a single model for lease accounting for both lessees and lessors based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-of-use lease asset on the lessee’s government-wide financial statements, and a lessor is required to recognize a lease receivable and a deferred inflow of resources on the lessor’s government-wide financial statements. Furthermore, there are additional financial statement disclosures required for the lessee and lessor as a result of the standard.

To adopt the standard, the Agency will have to identify and analyze all significant lease contracts to determine the lease asset and lease liability or deferred inflow or outflow of resources that will be required to be recognized upon implementation of the standard. This review should include all existing lease agreements and other contracts that may have embedded lease arrangements that were not previously considered. Other departments outside of the business office may need to be involved in order to properly identify and locate all agreements subject to the new leasing standard. It is important to begin the process of inventorying lease agreements early on to then determine the financial impact upon adoption.

Lessee Accounting Under GASB 87

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the maximum lease term per the lease contract is 12 months or less or it transfers ownership of the underlying asset. The lease liability is measured at the present value of lease payments expected to be made during the lease term (less any lease incentives). The right-of-use asset is measured at the amount of initial measurement of the lease liability, plus any payments made to the lessor at or before commencement of the lease term and certain direct costs incurred to place the leased asset in service. The lessee should reduce the lease liability as payments are made and recognize an outflow of resources (i.e., expense) for interest on the liability. The lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Lessor Accounting Under GASB 87

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, lease contracts with a maximum lease term of 12 months or less, and leases that transfer ownership of the underlying asset. The lease receivable is measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources is measured at the value of the lease receivable plus any payments made by the lessee at or before commencement of the lease term relating to future periods. The lessor should recognize interest revenue on the lease receivable and an inflow of resources (i.e., revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. A lessor should not derecognize the asset underlying the lease.