

# **Kalamazoo Regional Educational Service Agency**

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**Financial Report  
with Supplemental Information  
June 30, 2016**

# Kalamazoo Regional Educational Service Agency

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# **Kalamazoo Regional Educational Service Agency**

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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, 2016 and the related notes to the financial statements, which collectively comprise Kalamazoo Regional Educational Service Agency's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Kalamazoo Regional Educational Service Agency as of June 30, 2016 and the respective changes in its financial position, and, where applicable, cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension system schedules of funding progress and employer contributions, and the major funds budgetary comparison schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kalamazoo Regional Educational Service Agency's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

To the Board of Education  
Kalamazoo Regional Educational  
Service Agency

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016 on our consideration of Kalamazoo Regional Educational Service Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kalamazoo Regional Educational Service Agency's internal control over financial reporting and compliance.



October 24, 2016

# **Kalamazoo Regional Educational Service Agency**

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

This section of Kalamazoo Regional Educational Service Agency's (the "Agency") annual financial report presents our discussion and analysis of the Agency's financial performance during the year ended June 30, 2016. Please read it in conjunction with the Agency's financial statements, which immediately follow this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Kalamazoo Regional Educational Service Agency financially as a whole. The 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 as well as 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 and the Special Education Fund - as well as information on the Agency's debt service, enterprise, and internal service fund. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the Agency acts solely as an agent for the benefit of students and parents.

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

#### **Basic Financial Statements**

Agency-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

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

Schedule of Agency's Contributions MPSERS

Other Supplemental Information

### ***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 and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

# **Kalamazoo Regional Educational Service Agency**

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

These two statements report the Agency's net position - the difference between assets and liabilities, as reported in the statement of net position. The relationship between revenue and expenses is the Agency's operating results. However, the Agency's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education and services provided, to assess the overall health of the Agency.

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

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

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

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

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



# Kalamazoo Regional Educational Service Agency

## Management's Discussion and Analysis (Continued)

### The Agency as a Whole

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

	Governmental Activities		Business-type Activities	
	June 30		June 30	
	2016	2015	2016	2015
	(in millions)		(in millions)	
<b>Assets</b>				
Current and other assets	\$ 25.1	\$ 21.5	\$ 0.2	\$ 0.2
Capital assets	<u>27.2</u>	<u>27.7</u>	-	-
Total assets	52.3	49.2	0.2	0.2
<b>Deferred Outflows of Resources -</b>				
Deferred outflows related to pensions	<u>11.8</u>	<u>4.0</u>	-	-
Total assets and deferred outflows of resources	64.1	53.2		
<b>Liabilities</b>				
Current liabilities	17.1	11.1	0.2	0.2
Long-term liabilities	11.4	16.4	-	-
Net pension liability	<u>69.8</u>	<u>58.1</u>	-	-
Total liabilities	98.3	85.6	0.2	0.2
<b>Deferred Inflows of Resources -</b>				
Deferred inflows	<u>2.2</u>	<u>4.3</u>	-	-
Total liabilities and deferred inflows of resources	<u>100.5</u>	<u>89.9</u>	<u>0.2</u>	<u>0.2</u>
<b>Net Position</b>				
Net investment in capital assets	14.5	12.9	-	-
Restricted	0.2	1.9	-	-
Unrestricted	<u>(51.1)</u>	<u>(51.5)</u>	-	-
Total net position	<u>\$ (36.4)</u>	<u>\$ (36.7)</u>	<u>\$ -</u>	<u>\$ -</u>

The above analysis focuses on the net position (see Table I). The change in net position of the Agency's governmental activities is an increase of \$0.3 million and is discussed below (see Table 2). The Agency's net position was (\$36.4) million at June 30, 2016. Net investment in capital assets totaling \$14.5 million compares the original cost, less depreciation of the Agency's capital assets, to long-term debt used to finance the acquisition of those assets. Restricted net position is reported separately to show legal constraints associated with special education expenditures and enabling legislation that limit the Agency's ability to use that net position for day-to-day operations. The Agency has restricted net position in the amount of \$0.2 million relating to the debt funds. The remaining amount of net position (\$51.1) million was unrestricted.

# Kalamazoo Regional Educational Service Agency

## Management's Discussion and Analysis (Continued)

The (\$51.1) million in unrestricted net position of governmental activities for fiscal year 2016 represents the accumulated results of all past years' changes in net position. Without GASB Statement No. 68, total net position would be \$23.8 million. This balance enables the Agency to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have an impact on the change in unrestricted net position from year to year.

Table 2

	Governmental Activities		Business-type Activities	
	Year Ended June 30		Year Ended June 30	
	2016	2015	2016	2015
	(in millions)		(in millions)	
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 6.0	\$ 5.6	\$ 3.2	\$ 3.1
Operating grants and contributions	36.6	36.3	-	-
General revenue:				
Property taxes	47.9	35.9	-	-
Unrestricted state revenue	2.4	3.5	-	-
Other	0.3	0.3	-	-
Total revenue	<u>93.2</u>	<u>81.6</u>	<u>3.2</u>	<u>3.1</u>
<b>Functions/Program Expenses</b>				
Instruction	20.3	18.3	-	-
Support services	27.2	25.8	-	-
Community services	3.4	3.4	-	-
Intergovernmental transfers	40.3	29.8	-	-
Interest on long-term debt	0.6	0.7	-	-
Depreciation (unallocated)	1.1	1.3	-	-
Technology services	-	-	3.1	3.2
Total functions/program expenses	<u>92.9</u>	<u>79.3</u>	<u>3.1</u>	<u>3.2</u>
<b>Increase (Decrease) in Net Position</b>	0.3	2.3	0.1	(0.1)
<b>Net Position - Beginning of year</b>	<u>(36.7)</u>	<u>(39.0)</u>	<u>-</u>	<u>0.1</u>
<b>Net Position - End of year</b>	<u>\$ (36.4)</u>	<u>\$ (36.7)</u>	<u>\$ 0.1</u>	<u>\$ -</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$92.9 million. Certain activities were partially funded from those who benefited from the programs (\$6.0 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$36.6 million). We paid for the remaining "public benefit" portion of our governmental activities with \$47.9 million in taxes, \$2.4 million in unrestricted state revenue, and \$0.3 million in other revenue, i.e., interest and general entitlements. The Agency experienced an increase in net position of \$0.3 million.

# **Kalamazoo Regional Educational Service Agency**

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

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

The Agency joined with other adjoining intermediate school districts to develop a technology services consortium. The business-type activities show the results for this collaborative venture. The cost of our business-type activities this year was \$3.1 million. These activities were funded by those who benefited from the services provided (\$3.1 million). There was no change in net position for business-type activities.

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

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

As the Agency completed this year, the governmental funds reported a combined fund balance of \$9.6 million, which is an increase of \$0.5 million. General Fund fund balance is available to fund costs related to allowable Agency operating purposes. Special Education Fund fund balance is available to fund future costs related to the Agency's special education programs. Debt Service Fund fund balance will fund future debt service payments, and the Building and Site Improvement Capital Projects Fund fund balance is available to fund capital project needs within the Agency.

### **Budgetary Highlights**

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

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

The General Fund's actual revenue was \$41.3 million. That amount is below the original budget estimate of \$41.6 million and below the final amended budget of \$43.3 million. The \$2.0 million variance between the final amended budget and the 2016 actual results was due to the deferral of federal, state, and local grants received in the current fiscal year to be spent in the next fiscal year.

# Kalamazoo Regional Educational Service Agency

## Management's Discussion and Analysis (Continued)

The actual expenditures and other financing uses of the General Fund were \$40.7 million, which was below the original budget estimate of \$41.5 million and below the final amended budget of \$43.2 million. The \$2.5 million variance between the final amended budget and the 2016 actual results was primarily due to the anticipation of fully expending grant revenue. Expenditures will be incurred in the next fiscal year.

The General Fund had total revenue of \$41.3 million and total expenditures and transfers of \$40.7 million, with an ending fund balance of \$6.5 million.

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

The Special Education Fund's actual revenue was \$51.1 million. That amount is above the original budget estimate of \$47.7 million and in line with the final amended budget of \$51.0 million.

The actual expenditures and other financing sources of the Special Education Fund were \$51.4 million, which is above the original budget of \$47.7 million and below the final amended budget of \$51.9 million. The \$0.6 million variance between the final amended budget and the 2016 actual results was due to budgeted expenditures in the program areas that were not fully expended in the current year.

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

#### **Capital Assets**

As of June 30, 2016, the Agency had \$40.0 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment.

	<u>2016</u>	<u>2015</u>
Land	\$ 390,377	\$ 390,377
Construction in progress	242,072	6,900
Buildings and building improvements	33,175,534	32,925,408
Furniture and equipment	<u>6,191,194</u>	<u>5,997,128</u>
Total capital assets	39,999,177	39,319,813
Less accumulated depreciation	<u>12,721,900</u>	<u>11,625,055</u>
Net capital assets	<u><b>\$ 27,277,277</b></u>	<u><b>\$ 27,694,758</b></u>

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

# **Kalamazoo Regional Educational Service Agency**

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

### ***Debt***

At the end of this year, the Agency had \$12.5 million in bonds outstanding.

The State limits the amount of general obligation debt that intermediate school districts can issue to 15 percent of the assessed value of all taxable property within the Agency's boundaries. If the Agency issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The Agency has \$12.5 million of outstanding unqualified general obligation debt and is well below the State's statutory imposed limit.

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

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

There were many factors considered in preparing Kalamazoo Regional Educational Service Agency's budgets for the 2016-2017 fiscal year. The most important factor affecting the budget is our tax base, which has experienced minimal growth as compared to past years. Another factor the Agency is dependent upon is state funding. State revenue for intermediate school districts is expected to be flat. The third factor the Agency is dependent upon is federal grant revenue. All of these factors were considered when preparing the Agency's budgets.

# Kalamazoo Regional Educational Service Agency

## Statement of Net Position June 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and investments (Note 3)	\$ 14,390,275	\$ 240,036	\$ 14,630,311
Receivables (Note 4)	10,113,612	45,635	10,159,247
Internal balances (Note 6)	149,491	-	149,491
Inventories	102,907	2,850	105,757
Prepaid assets	24,340	-	24,340
Restricted assets (Note 3)	251,725	-	251,725
Capital assets - Net (Note 5)	27,277,277	-	27,277,277
Total assets	52,309,627	288,521	52,598,148
<b>Deferred Outflows of Resources -</b>			
Deferred outflows related to pensions (Note 9)	11,822,345	-	11,822,345
Total assets and deferred outflows of resources	64,131,972	288,521	64,420,493
<b>Liabilities</b>			
Accounts payable	2,011,427	42,180	2,053,607
Accrued payroll and other liabilities	3,638,621	36,899	3,675,520
Accrued interest	73,063	-	73,063
Internal balances (Note 6)	-	139,860	139,860
Due to other governmental units	2,982,255	-	2,982,255
Unearned revenue (Note 4)	5,377,657	-	5,377,657
Long-term liabilities (Note 7):			
Due within one year	3,051,091	-	3,051,091
Due in more than one year	11,418,003	-	11,418,003
Net pension liability (Note 9)	69,827,793	-	69,827,793
Total liabilities	98,379,910	218,939	98,598,849
<b>Deferred Inflows of Resources -</b>			
Deferred inflows (Notes 1 and 9)	2,159,092	-	2,159,092
Total liabilities and deferred inflows of resources	100,539,002	218,939	100,757,941
<b>Net Position</b>			
Net investment in capital assets	14,503,290	-	14,503,290
Restricted - Debt service	180,016	-	180,016
Unrestricted	(51,090,336)	69,582	(51,020,754)
Total net position	<b>\$ (36,407,030)</b>	<b>\$ 69,582</b>	<b>\$ (36,337,448)</b>

# Kalamazoo Regional Educational Service Agency

## Statement of Activities Year Ended June 30, 2016

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Net Position	
					Business-type Activities	Total
Primary government - Governmental activities:						
Instruction	\$ 20,283,743	\$ 138,443	\$ 13,823,458	\$ (6,321,842)	\$ -	\$ (6,321,842)
Support services	27,203,437	5,677,975	9,296,965	(12,228,497)	-	(12,228,497)
Community services	3,440,873	199,291	4,214,079	972,497	-	972,497
Intergovernmental transfers	40,265,567	-	9,245,408	(31,020,159)	-	(31,020,159)
Interest	593,109	-	-	(593,109)	-	(593,109)
Depreciation expense (unallocated)	1,138,036	-	-	(1,138,036)	-	(1,138,036)
Total governmental activities	92,924,765	6,015,709	36,579,910	(50,329,146)	-	(50,329,146)
Business-type activities - Technology	3,143,995	3,194,387	-	-	50,392	50,392
Total primary government and business-type activities	<b>\$ 96,068,760</b>	<b>\$ 9,210,096</b>	<b>\$ 36,579,910</b>	(50,329,146)	50,392	(50,278,754)
General revenue:						
Property taxes - Levied for general purposes				12,288,389	-	12,288,389
Property taxes - Levied for debt service				2,734,639	-	2,734,639
Property taxes - Levied for special education				32,840,233	-	32,840,233
State aid not restricted to specific purposes				2,420,877	-	2,420,877
Interest and investment earnings				10,064	253	10,317
Other				301,211	-	301,211
Total general revenue				50,595,413	253	50,595,666
<b>Changes in Net Position</b>				266,267	50,645	316,912
<b>Net Position - Beginning of year (Note 1)</b>				(36,673,297)	18,937	(36,654,360)
<b>Net Position - End of year</b>				<b>\$ (36,407,030)</b>	<b>\$ 69,582</b>	<b>\$ (36,337,448)</b>

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

# Kalamazoo Regional Educational Service Agency

## Governmental Funds Balance Sheet June 30, 2016

	General Fund	Special Education Fund	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments (Note 3)	\$ 8,706,303	\$ 4,122,830	\$ 1,561,142	\$ 14,390,275
Receivables (Note 4)	6,252,760	3,840,716	20,136	10,113,612
Due from other funds (Note 6)	152,388	-	586	152,974
Inventories	102,907	-	-	102,907
Prepaid assets	24,340	-	-	24,340
Restricted assets (Note 3)	-	-	251,725	251,725
<b>Total assets</b>	<b>\$ 15,238,698</b>	<b>\$ 7,963,546</b>	<b>\$ 1,833,589</b>	<b>\$ 25,035,833</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 1,500,401	\$ 230,091	\$ 280,935	\$ 2,011,427
Accrued payroll and other liabilities	1,440,247	2,198,374	-	3,638,621
Due to other governmental units	313,611	2,668,644	-	2,982,255
Due to other funds (Note 6)	202,122	913,422	-	1,115,544
Unearned revenue (Note 4)	5,226,689	150,968	-	5,377,657
<b>Total liabilities</b>	<b>8,683,070</b>	<b>6,161,499</b>	<b>280,935</b>	<b>15,125,504</b>
<b>Deferred Inflows of Resources -</b>				
Unavailable revenue (Note 4)	92,305	188,878	19,245	300,428
<b>Total liabilities and deferred inflows of resources</b>	<b>8,775,375</b>	<b>6,350,377</b>	<b>300,180</b>	<b>15,425,932</b>
<b>Fund Balances</b>				
Nonspendable:				
Inventory	102,907	-	-	102,907
Prepaid assets	24,340	-	-	24,340
Restricted:				
Debt service	-	-	253,079	253,079
Special education	-	1,613,169	-	1,613,169
Committed - Building and site improvements	-	-	1,280,330	1,280,330
Assigned:				
Regional transportation and safety institute	334,261	-	-	334,261
Budgeted use of fund balance for 2016-2017	88,809	-	-	88,809
Unassigned	5,913,006	-	-	5,913,006
<b>Total fund balances</b>	<b>6,463,323</b>	<b>1,613,169</b>	<b>1,533,409</b>	<b>9,609,901</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 15,238,698</b>	<b>\$ 7,963,546</b>	<b>\$ 1,833,589</b>	<b>\$ 25,035,833</b>



# Kalamazoo Regional Educational Service Agency

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2016

<b>Fund Balance Reported in Governmental Funds</b>	\$	9,609,901
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	\$ 39,999,177	
Accumulated depreciation	<u>(12,721,900)</u>	27,277,277
Deferred outflows related to pension payments made subsequent to the measurement date		5,576,914
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:		
Bonds payable including premiums	(12,773,987)	
Compensated absences	(583,047)	
Early retirement incentive liability	<u>(1,112,060)</u>	(14,469,094)
Accrued interest payable is not included as a liability in governmental funds		(73,063)
Other long-term assets not available to pay current period expenditures are therefore unavailable in the governmental funds		300,428
Deferred outflow related to pension		6,245,431
Internal Service Fund assets and liabilities are included in governmental activities in the statement of net position		1,112,061
Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities		(69,827,793)
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		(1,927,802)
Deferred inflows related to pensions		<u>(231,290)</u>
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>(36,407,030)</u></b>

# Kalamazoo Regional Educational Service Agency

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2016

	General Fund	Special Education Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenue</b>				
Local sources	\$ 14,895,764	\$ 34,730,128	\$ 2,885,514	\$ 52,511,406
State sources	13,029,385	8,310,177	-	21,339,562
Federal sources	7,771,701	7,898,533	-	15,670,234
Intergovernmental	5,594,259	123,741	-	5,718,000
Total revenue	<u>41,291,109</u>	<u>51,062,579</u>	<u>2,885,514</u>	<u>95,239,202</u>
<b>Expenditures</b>				
Current:				
Instruction	4,099,056	16,297,471	-	20,396,527
Support services	13,951,519	13,386,816	-	27,338,335
Community services	3,435,753	-	-	3,435,753
Debt service:				
Principal	10,688	-	2,000,000	2,010,688
Interest	(10,688)	-	660,500	649,812
Other	-	-	6,476	6,476
Capital outlay	174,585	85,585	421,202	681,372
Intergovernmental transfers	18,864,643	21,400,924	-	40,265,567
Total expenditures	<u>40,525,556</u>	<u>51,170,796</u>	<u>3,088,178</u>	<u>94,784,530</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	765,553	(108,217)	(202,664)	454,672
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	400,000	400,000
Transfers out	(200,000)	(200,000)	-	(400,000)
Total other financing (uses) sources	<u>(200,000)</u>	<u>(200,000)</u>	<u>400,000</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	565,553	(308,217)	197,336	454,672
<b>Fund Balances - Beginning of year</b>	<u>5,897,770</u>	<u>1,921,386</u>	<u>1,336,073</u>	<u>9,155,229</u>
<b>Fund Balances - End of year</b>	<u><b>\$ 6,463,323</b></u>	<u><b>\$ 1,613,169</b></u>	<u><b>\$ 1,533,409</b></u>	<u><b>\$ 9,609,901</b></u>

# Kalamazoo Regional Educational Service Agency

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2016

**Net Change in Fund Balances - Total Governmental Funds** \$ 454,672

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (1,138,036)	
Capitalized capital outlay	<u>720,555</u>	(417,481)

Revenue is reported in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end (120,368)

Underwriter's premium reported as revenue in the funds and amortized in the statement of activities 51,513

Repayment of bond principal, amortization of issuance premium, and repayment of capital lease obligations are expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 2,010,688

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 11,666

Compensated absences, as well as early retirement incentives, are recorded when earned in the statement of activities. In the current year, more was earned than paid out (147,127)

Change in pension expense related to deferred items 186,851

Revenue in support of pension contributions made subsequent to measurement date (1,927,802)

Internal service funds are included as part of governmental activities 163,655

**Change in Net Position of Governmental Activities** **\$ 266,267**

# Kalamazoo Regional Educational Service Agency

## Proprietary Funds Statement of Net Position June 30, 2016

	Enterprise Fund Technology Fund	Governmental Activities Internal Service Fund
<b>Assets - Current assets</b>		
Cash (Note 3)	\$ 240,036	\$ -
Receivables (Note 4)	45,635	-
Due from other funds (Note 6)	-	1,112,061
Inventories	2,850	-
Total assets	288,521	1,112,061
<b>Liabilities - Current liabilities</b>		
Accounts payable	42,180	-
Due to other funds (Note 6)	139,860	-
Accrued liabilities	36,899	-
Total liabilities	218,939	-
<b>Net Position - Unrestricted</b>	<b>\$ 69,582</b>	<b>\$ 1,112,061</b>

# Kalamazoo Regional Educational Service Agency

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2016

	Technology Fund	Internal Service Fund
<b>Operating Revenue</b>		
Charges to other funds	\$ -	\$ 363,565
Charges to other districts	3,194,387	-
Total operating revenue	3,194,387	363,565
<b>Operating Expenses</b>		
Retirement program benefits	-	199,910
Technology support expenses	3,143,995	-
Total operating expenses	3,143,995	199,910
<b>Operating Income</b>	50,392	163,655
<b>Nonoperating Revenue</b> - Interest and investment earnings	253	-
<b>Change in Net Position</b>	50,645	163,655
<b>Net Position</b> - Beginning of year	18,937	948,406
<b>Net Position</b> - End of year	<u>\$ 69,582</u>	<u>\$ 1,112,061</u>

# Kalamazoo Regional Educational Service Agency

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2016

	Technology Fund	Internal Service Fund
<b>Cash Flows from Operating Activities</b>		
Receipts from other funds	\$ 57,739	\$ -
Payments for supplies and purchased services	(2,160,075)	-
Payments for employee compensation	(991,277)	-
Receipts from other governments	3,231,856	-
Net cash provided by operating activities	138,243	-
<b>Cash Flows from Investing Activities - Interest</b>	253	-
<b>Net Increase in Cash</b>	138,496	-
<b>Cash - Beginning of year</b>	101,540	-
<b>Cash - End of year</b>	<b>\$ 240,036</b>	<b>\$ -</b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ 50,392	\$ 163,655
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:		
Receivables	37,469	-
Due to/from other funds	57,739	(163,655)
Inventories and prepaid assets	269	-
Accounts payable and accrued liabilities	(7,626)	-
Net cash provided by operating activities	<b>\$ 138,243</b>	<b>\$ -</b>

# Kalamazoo Regional Educational Service Agency

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## Fiduciary Funds Statement of Fiduciary Net Position June 30, 2016

	Student Activities <u>Agency Fund</u>
<b>Assets</b>	
Cash and investments (Note 3)	\$ 168,049
Receivables (Note 4)	<u>2,127</u>
Total assets	<u><u>\$ 170,176</u></u>
<b>Liabilities</b>	
Accounts payable	\$ 6,335
Due to student groups	154,210
Due to other funds (Note 6)	<u>9,631</u>
Total liabilities	<u><u>\$ 170,176</u></u>

# **Kalamazoo Regional Educational Service Agency**

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## **Notes to Financial Statements June 30, 2016**

### **Note I - Nature of Business and Significant Accounting Policies**

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

#### **Reporting Entity**

The Agency is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Agency's reporting entity, and which organizations are legally separate component units of the Agency. Based on the application of the criteria, the Agency does not contain any component units.

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

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

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

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



# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2016

### Note I - Nature of Business and Significant Accounting Policies (Continued)

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

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

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

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

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

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the Agency considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2016

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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

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

The Agency reports the following major governmental funds:

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

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

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

Additionally, the Agency reports the following fund types:

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

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

**Internal Service Funds** - The Internal Service Fund accounts for retirement incentives provided to retirees of the Agency.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2016

### Note I - Nature of Business and Significant Accounting Policies (Continued)

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

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

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

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

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

**Inventories and Prepaid Costs** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both 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 column in the agency-wide financial statements. Capital assets are defined by the Agency as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Agency does not have infrastructure-type assets.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2016

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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

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

**Compensated Absences and Early Termination Benefits** - 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.

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

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

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

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of net financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Agency has only one item that qualifies for reporting in this category. It is the deferred outflow related to the pension plan.

# Kalamazoo Regional Educational Service Agency

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## Notes to Financial Statements June 30, 2016

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

In addition to liabilities, the statement of net position 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 a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Agency has three types of items that qualify for reporting in this category. The first item arises only under a modified accrual basis of accounting, and is therefore only reported in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes that is not collected during the period of availability. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The two other items arise only under a full accrual basis of accounting, and are therefore only reported in the Agency-wide statement of net position. Deferred inflows at June 30, 2016 are comprised of \$1,927,802 for funding received through state appropriations for contributions to the MPSERS pension plan after the measurement date as well as \$231,290 related to the pension plan described in Note 9.

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

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

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- **Assigned:** Intent to spend resources on specific purposes expressed by the Board of Education or superintendent, who is authorized by policy approved by the Board of Education to make assignments.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2016

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

**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.

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

**Pensions** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS), and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS 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 expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

**Adoption of New Standard** - As of June 30, 2016, the Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 79, *Certain External Investment Pools and Pool Participants*. GASB Statement No. 79 provides guidance for determining whether certain investment pools can continue to be accounted for using amortized cost. The adoption did not have a significant impact on amounts reported in the financial statements.

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

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

# Kalamazoo Regional Educational Service Agency

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## Notes to Financial Statements June 30, 2016

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

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

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

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

### Note 3 - Deposits and Investments

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

The Agency has designated two financial institutions for the deposit of its funds.

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

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency has a deposit policy for custodial credit risk. At year end, the Agency's deposit balance of \$14,159,159 had \$13,659,159 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Agency believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Agency evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2016

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

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

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Agency's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The Agency's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools; and limiting the average maturity in accordance with the Agency's cash requirements.

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

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

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Rating Organization</u>
Michigan Liquid Asset Fund - MAX Class	<u>\$ 1,180,644</u>	N/A	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 places no limit on the amount the Agency may invest in any one issuer. The Agency's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.



# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2016

### Note 3 - 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 policy prohibit investment in foreign currency.

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

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

	General Fund	Special Education Fund	2008 Debt	Technology	Student Activities Fund	Total
Receivables:						
Taxes receivable	\$ 96,684	\$ 198,162	\$ 20,136	\$ -	\$ -	\$ 314,982
Accounts receivable	631,739	151,982	-	45,635	2,127	831,483
Due from other governmental units	5,524,337	3,490,572	-	-	-	9,014,909
Total receivables	<u>\$ 6,252,760</u>	<u>\$ 3,840,716</u>	<u>\$ 20,136</u>	<u>\$ 45,635</u>	<u>\$ 2,127</u>	<u>\$ 10,161,374</u>

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

	Governmental Funds	
	Deferred Inflow - Unavailable	Liability - Unearned
Delinquent property taxes	\$ 300,428	\$ -
Grant and categorical aid payment received prior to meeting all eligibility requirements	-	5,377,657
Total	<u>\$ 300,428</u>	<u>\$ 5,377,657</u>

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2016

### Note 5 - Capital Assets

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

	Balance July 1, 2015	Transfers	Additions	Disposals	Balance June 30, 2016
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	\$ 390,377	\$ -	\$ -	\$ -	\$ 390,377
Construction in progress	6,900	(6,900)	242,072	-	242,072
Subtotal	397,277	(6,900)	242,072	-	632,449
Capital assets being depreciated:					
Buildings and improvements	32,925,408	6,900	243,226	-	33,175,534
Vehicle, furniture, and equipment	5,997,128	-	235,257	41,191	6,191,194
Subtotal	38,922,536	6,900	478,483	41,191	39,366,728
Accumulated depreciation:					
Buildings and improvements	6,661,159	-	713,772	-	7,374,931
Vehicles, furniture, and equipment	4,963,896	-	424,264	41,191	5,346,969
Subtotal	11,625,055	-	1,138,036	41,191	12,721,900
Net capital assets being depreciated	27,297,481	6,900	(659,553)	-	26,644,828
Net capital assets	<u>\$ 27,694,758</u>	<u>\$ -</u>	<u>\$ (417,481)</u>	<u>\$ -</u>	<u>\$ 27,277,277</u>

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
<b>Business-type Activities</b>				
Capital assets being depreciated -				
Furniture and equipment	\$ 11,580	\$ -	\$ -	\$ 11,580
Accumulated depreciation - Furniture and equipment	11,580	-	-	11,580
Net capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense for governmental activities and business activities was not charged to activities as the Agency considers its assets to impact multiple activities and allocation is not practical.

**Construction Commitments** - The Agency has active construction projects at year end. At year end, the Agency's commitments with contractors related to ongoing projects are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
KRESA West Campus Renovation	\$ 233,902	\$ 870,494
YOU Parking Lot	8,170	128,330
Total	<u>\$ 242,072</u>	<u>\$ 998,824</u>

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2016

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

The composition of interfund balances is as follows:

Fund Due To	Fund Due From				Total
	General Fund	Special Education Fund	Enterprise Fund - Technology	Fiduciary Fund - Student Activities	
General Fund	\$ -	\$ 86,212	\$ 56,545	\$ 9,631	\$ 152,388
Internal Service Fund	201,536	827,210	83,315	-	1,112,061
Nonmajor governmental funds	586	-	-	-	586
Total	\$ 202,122	\$ 913,422	\$ 139,860	\$ 9,631	\$ 1,265,035

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

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

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

### Note 7 - Long-term Debt

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

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds	\$ 14,525,000	\$ -	\$ 2,000,000	\$ 12,525,000	\$ 2,150,000
Issuance premiums	300,500	-	51,513	248,987	51,513
Total bonds payable	14,825,500	-	2,051,513	12,773,987	2,201,513
Capital leases	10,688	-	10,688	-	-
Other obligations	1,547,980	587,004	439,877	1,695,107	849,578
Total governmental activities	\$ 16,384,168	\$ 587,004	\$ 2,502,078	\$ 14,469,094	\$ 3,051,091

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2016

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

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

Year Ending June 30	Governmental Activities		
	Principal	Interest	Total
2017	\$ 2,150,000	\$ 581,750	\$ 2,731,750
2018	2,350,000	501,125	2,851,125
2019	2,500,000	401,250	2,901,250
2020	2,760,000	276,250	3,036,250
2021	2,765,000	138,250	2,903,250
Total	<u>\$ 12,525,000</u>	<u>\$ 1,898,625</u>	<u>\$ 14,423,625</u>

#### Governmental Activities

General obligation bonds consist of the following:

\$24,675,000 Building and Site Bonds, Series 2008, principal annual installments of \$2,150,000 to \$2,765,000 through May 2021; interest at 3.75 percent to 5.00 percent \$ 12,525,000

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$ 583,047
Early retirement incentives	<u>1,112,060</u>
Total	<u>\$ 1,695,107</u>

### Note 8 - Risk Management

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

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

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2016

### Note 9 - Michigan Public School Employees Retirement System

**Plan Description** - The Agency participates in the Michigan Public School Employees Retirement System (MPSERS or 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. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

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

**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 contributing entity's contributions are 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.

Agency contributions are determined based on employee elections. There are seven different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS.

The range of rates is as follows:

**Agency**

October 1, 2014 - September 30, 2015	18.76% - 23.07%
October 1, 2015 - June 30, 2016	14.56% - 18.95%

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

The Agency's required and actual contributions to the plan for the year ended June 30, 2016 was \$7,057,033. Contributions include \$1,927,802 of 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, 2016.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2016

### Note 9 - Michigan Public School Employees Retirement System (Continued)

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

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of service times a pension factor ranging from 1.25 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.

Members are eligible for non-duty 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. For some members who do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

**Net Pension Liability, Deferrals, and Pension Expense** - At June 30, 2016, the Agency reported a liability of \$69,827,793 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014, which used updated procedures to roll forward the estimated liability to September 30, 2015. 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, 2015, the Agency's proportion was 0.285886 percent.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2016

### Note 9 - Michigan Public School Employees Retirement System (Continued)

For the year ended June 30, 2016, the Agency recognized pension expense of \$7,024,111, exclusive of payments to fund the MPSERS UAAL Stabilization Rate. At June 30, 2016, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ (231,290)
Changes of assumptions	1,719,308	-
Net difference between projected and actual earnings on pension plan assets	356,415	-
Changes in proportion and differences between the Agency's contributions and proportionate share of contributions	4,169,708	-
The Agency's contributions subsequent to the measurement date	<u>5,576,914</u>	<u>-</u>
Total	<u>\$ 11,822,345</u>	<u>\$ (231,290)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2017	\$ 1,318,110
2018	1,318,110
2019	1,224,878
2020	2,153,043
2021	-
Thereafter	<u>-</u>
Total	<u>\$ 6,014,141</u>

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

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2016

### Note 9 - Michigan Public School Employees Retirement System (Continued)

**Actuarial Assumptions** - The total pension liability as of September 30, 2015 is based on the results of an actuarial valuation date of September 30, 2014 and rolled forward:

Actuarial cost method	Entry age normal cost actuarial cost method
Investment rate of return	7.00 to 8.00 percent, net of investment expenses based on the groups
Salary increases	3.50 - 12.3 percent, including wage inflation of 3.5 percent
Mortality basis	RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost of living pension adjustments	3 percent annual noncompounded for MIP members

The actuarial assumptions used for the September 30, 2014 valuation were based on the results of an actuarial experience study for the period from October 1, 2007 to September 30, 2012. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.0-8.0 percent depending on the plan option. 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 employer contributions will be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2016

### Note 9 - Michigan Public School Employees Retirement System (Continued)

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

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.0 %	5.9 %
Private equity pools	18.0	9.2
International equity pools	16.0	7.2
Fixed-income pools	10.5	0.9
Real estate and infrastructure pools	10.0	4.3
Real return, opportunistic, and absolute pool	15.5	6.0
Short-term investment pools	2.0	-
Total	100.0 %	

**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 of 7.0 percent to 8.0 percent, 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 1.0 percentage point lower (7.0 percent) or 1.0 percentage point higher (9.0 percent) than the current rate:

1.00 Percent Decrease (6.0-7.0 Percent)	Current Discount Rate (7.0-8.0 Percent)	1.00 Percent Increase (8.0-9.0 Percent)
\$ 90,025,925	\$ 69,827,793	\$ 52,799,940

**Pension Plan Fiduciary Net Position** - Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial report.

**Payable to the Pension Plan** - At June 30, 2016, the Agency reported a payable of \$804,565 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016, consisting of pension payable plus other amounts owed to the pension plan including the UAAL payments for July and August 2016.

# Kalamazoo Regional Educational Service Agency

## Notes to Financial Statements June 30, 2016

### Note 9 - Michigan Public School Employees Retirement System (Continued)

**Postemployment Benefits Other Than Pensions (OPEB)** - Under the MPSERS act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate ranged from 2.2 percent to 2.71 percent of covered payroll for the period from July 1, 2015 to September 30, 2015 and from 6.4 percent to 6.83 percent of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 403(b) account.

The Agency's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2016, 2015, and 2014 were \$1,378,000, \$570,000, and \$1,608,000, respectively. In addition, a portion ranging from 35-100 percent of the the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate is considered a contribution to the retiree healthcare plan.

### Note 10 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Agency to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Agency is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Agency's financial statements for the year ending June 30, 2018.

## **Required Supplemental Information**

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# Kalamazoo Regional Educational Service Agency

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
<b>Revenue</b>				
Local sources	\$ 15,694,487	\$ 15,500,664	\$ 14,895,764	\$ (604,900)
State sources	13,050,277	13,952,256	13,029,385	(922,871)
Federal sources	7,560,309	8,252,235	7,771,701	(480,534)
Other sources	5,313,882	5,571,855	5,594,259	22,404
Total revenue	41,618,955	43,277,010	41,291,109	(1,985,901)
<b>Expenditures</b>				
Instruction:				
Basic program	3,877,580	4,019,379	3,983,270	(36,109)
Added needs	127,015	128,405	119,403	(9,002)
Support services:				
Pupil	1,190,411	1,212,801	1,207,448	(5,353)
Instructional	4,356,889	4,834,862	4,471,501	(363,361)
General administration	457,744	471,303	449,617	(21,686)
School administration	355,841	349,057	350,139	1,082
Business	1,093,933	1,039,495	1,018,132	(21,363)
Operations and maintenance	1,019,027	933,676	865,633	(68,043)
Pupil transportation services	736,372	819,653	804,477	(15,176)
Central	4,584,171	5,191,424	4,942,444	(248,980)
Community services	4,101,988	4,382,966	3,448,849	(934,117)
Other financing uses	19,636,652	19,791,708	19,064,643	(727,065)
Total expenditures	41,537,623	43,174,729	40,725,556	(2,449,173)
<b>Net Change in Fund Balance</b>	81,332	102,281	565,553	463,272
<b>Fund Balance - Beginning of year</b>	5,897,770	5,897,770	5,897,770	-
<b>Fund Balance - End of year</b>	<u>\$ 5,979,102</u>	<u>\$ 6,000,051</u>	<u>\$ 6,463,323</u>	<u>\$ 463,272</u>

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

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

# Kalamazoo Regional Educational Service Agency

## Required Supplemental Information Budgetary Comparison Schedule - Special Education Fund Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
<b>Revenue</b>				
Local sources	\$ 34,427,607	\$ 34,701,227	\$ 34,730,128	\$ 28,901
State sources	5,367,851	8,256,133	8,310,177	54,044
Federal sources	7,886,482	7,898,533	7,898,533	-
Other sources	55,000	110,000	123,741	13,741
Total revenue	47,736,940	50,965,893	51,062,579	96,686
<b>Expenditures</b>				
Instruction - Added needs	13,470,273	16,407,012	16,310,754	(96,258)
Support services:				
Pupil	6,245,216	6,673,377	6,658,413	(14,964)
Instructional	2,868,200	2,847,345	2,684,253	(163,092)
General administration	173,916	179,165	171,234	(7,931)
School administration	199,100	206,236	196,310	(9,926)
Business	522,042	521,731	495,395	(26,336)
Operations and maintenance	2,052,745	1,891,798	1,843,097	(48,701)
Pupil transportation	5,000	6,000	6,017	17
Central	1,374,181	1,453,417	1,404,399	(49,018)
Other financing uses	20,826,267	21,690,270	21,600,924	(89,346)
Total expenditures	47,736,940	51,876,351	51,370,796	(505,555)
<b>Net Change in Fund Balance</b>	-	(910,458)	(308,217)	602,241
<b>Fund Balance - Beginning of year</b>	1,921,386	1,921,386	1,921,386	-
<b>Fund Balance - End of year</b>	<b><u>\$ 1,921,386</u></b>	<b><u>\$ 1,010,928</u></b>	<b><u>\$ 1,613,169</u></b>	<b><u>\$ 602,241</u></b>

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

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

# **Kalamazoo Regional Educational Service Agency**

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## **Required Supplemental Information Schedule of Kalamazoo Regional Educational Service Agency's Proportionate Share of the Net Pension Liability Michigan Public School Employees Retirement System Determined as of the Plan Year Ended September 30**

	<u>2015</u>	<u>2014</u>
Agency's proportion of the net pension liability (asset)	0.28589 %	0.26398 %
Agency's proportionate share of the net pension liability	\$ 69,827,793	\$ 58,145,605
Agency's covered employee payroll	24,133,670	21,982,381
Agency's proportionate share of the net pension liability as a percentage of its covered employee payroll	289.34 %	264.51 %
Plan fiduciary net position as a percentage of the total pension liability	62.92 %	66.20 %

# **Kalamazoo Regional Educational Service Agency**

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## **Required Supplemental Information Schedule of Kalamazoo Regional Educational Service Agency's Contributions Michigan Public School Employees Retirement System Determined as of the Year Ended June 30**

	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 6,836,654	\$ 5,065,624
Contributions in relation to the statutorily required contribution	6,836,654	5,065,624
Contribution deficiency	-	-
Agency's covered employee payroll	24,983,413	23,143,913
Contributions as a percentage of covered employee payroll	27.36 %	21.89 %

# **Kalamazoo Regional Educational Service Agency**

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## **Note to Required Supplemental Information Year Ended June 30, 2016**

**Benefit Changes** - There were no changes of benefit terms for the plan year ended September 30, 2015.

**Changes in Assumptions** - There were no changes of benefit assumptions for the plan year ended September 30, 2015.



## **Other Supplemental Information**

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# Kalamazoo Regional Educational Service Agency

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2016

	Debt Service Fund	Capital Projects Fund Building and Site Improvement Fund	Total Nonmajor Governmental Funds
<b>Assets</b>			
Cash and investments	\$ -	\$ 1,561,142	\$ 1,561,142
Receivables	20,136	-	20,136
Due from other funds	586	-	586
Restricted assets	251,725	-	251,725
Total assets	<u>272,447</u>	<u>1,561,142</u>	<u>1,833,589</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>			
<b>Liabilities - Accounts payable</b>	\$ 123	\$ 280,812	\$ 280,935
<b>Deferred Inflows of Resources</b>	19,245	-	19,245
Total liabilities and deferred inflows of resources	19,368	280,812	300,180
<b>Fund Balances</b>			
Restricted - Debt service	253,079	-	253,079
Committed - Building and site improvements	-	1,280,330	1,280,330
Total fund balances	<u>253,079</u>	<u>1,280,330</u>	<u>1,533,409</u>
Total liabilities, deferred inflow of resources, and fund balances	<u>\$ 272,447</u>	<u>\$ 1,561,142</u>	<u>\$ 1,833,589</u>

# Kalamazoo Regional Educational Service Agency

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2016

	Debt Service Fund	Capital Projects Fund Building and Site Improvement Fund	Total Nonmajor Governmental Funds
<b>Revenue - Local sources</b>	\$ 2,883,735	\$ 1,779	\$ 2,885,514
<b>Expenditures - Debt service</b>			
Principal	2,000,000	-	2,000,000
Interest	660,500	-	660,500
Other	6,476	-	6,476
Capital outlay	-	421,202	421,202
Total expenditures	<u>2,666,976</u>	<u>421,202</u>	<u>3,088,178</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	216,759	(419,423)	(202,664)
<b>Other Financing Sources - Transfers in</b>	<u>-</u>	<u>400,000</u>	<u>400,000</u>
<b>Net Change in Fund Balances</b>	216,759	(19,423)	197,336
<b>Fund Balances - Beginning of year</b>	<u>36,320</u>	<u>1,299,753</u>	<u>1,336,073</u>
<b>Fund Balances - End of year</b>	<u><u>\$ 253,079</u></u>	<u><u>\$ 1,280,330</u></u>	<u><u>\$ 1,533,409</u></u>

# Kalamazoo Regional Educational Service Agency

## Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2016

<u>June 30</u>	<u>Kalamazoo Regional Educational Service Agency Principal</u>
2017	\$ 2,150,000
2018	2,350,000
2019	2,500,000
2020	2,760,000
2021	<u>2,765,000</u>
Total	<b><u>\$ 12,525,000</u></b>
Principal payments due	May 1
Interest payments due	May 1 and November 1
Interest rate	3.75% to 5.0%
Original issue	<b><u>\$ 24,675,000</u></b>