LIVINGSTON EDUCATIONAL SERVICE AGENCY

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

YEAR ENDED JUNE 30, 2015

Maner Costerisan
Certified Public Accountants
Business & Technology Advisors

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Livingston Educational Service Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Livingston Educational Service Agency, for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Livingston Educational Service Agency as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 10 to the financial statements, Livingston Educational Service Agency implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Livingston Educational Service Agency basic financial statements. The additional supplementary information, as identified in the table of contents, and schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The additional supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015 on our consideration of Livingston Educational Service Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Livingston Educational Service Agency's internal control over financial reporting and compliance.

Maner Costerisan PC

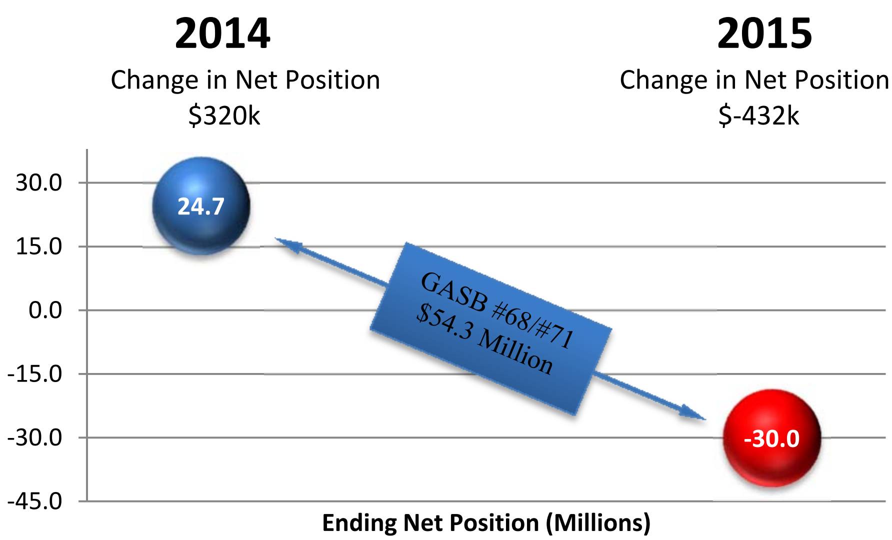
October 26, 2015

Management's Discussion and Analysis

This section of the annual financial report presents our discussion and analysis of the Agency's financial performance during the year ended June 30, 2015. Please read it in conjunction with the Agency's basic financial statements, which immediately follow this section. Should you ever have a question regarding the Agency's financial operations, feel free to contact Laura Walters, CPA, Livingston Educational Service Agency Finance & Budget Director at (517) 540-6812.

Please be aware that the basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide are discussed in the Notes to the Financial Statements - specifically in Note 1 - Summary of significant accounting policies. Said simply, the Government-Wide financial statements show the Agency's financial operations more like a business would, while the fund financial statements show the Agency's financial operations like they have been traditionally reported using a modified accrual basis of accounting.

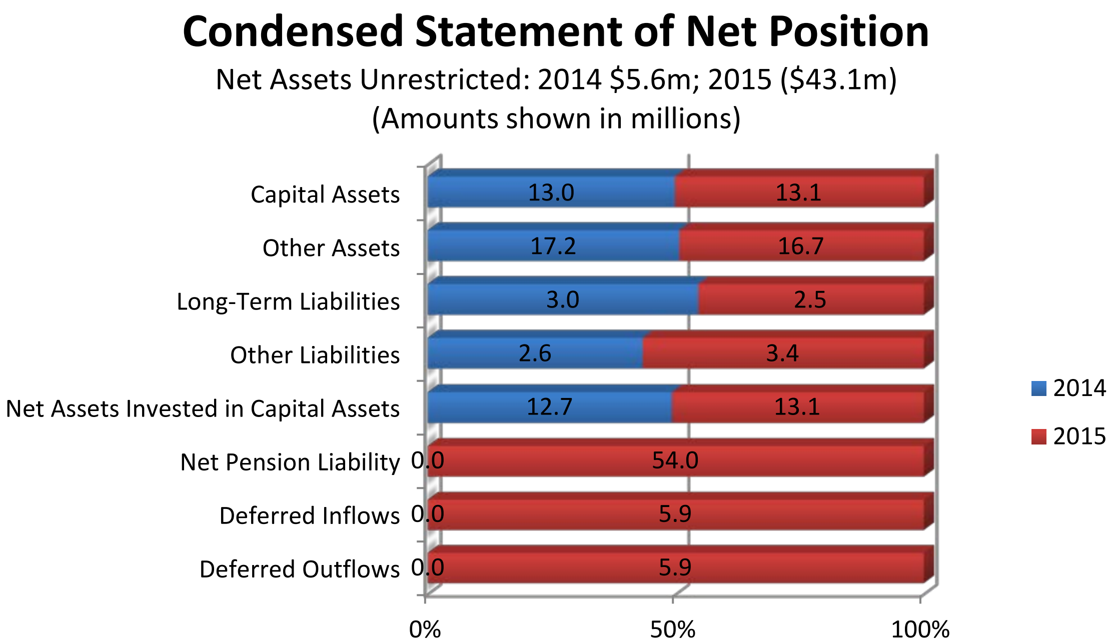
For the year ended June 30, 2015 Livingston Educational Service Agency implemented Governmental Accounting Standards Board (GASB) Statements No. 68, *Accounting and Financial Reporting for Pensions*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These changes do not impact the fund level financial statements but did significantly lower the Agency's Ending Net Position, which necessitated the restatement of the 2014 Government-Wide financial statements. It is important to note that the Change in Net Position of $320,714 for 2014 cannot be re-stated because the Office of Retirement Services was unable to provide essential data for 2013.



The Agency's Net Position for 2015, after re-statement, decreased by approximately $432,000. This decrease was slightly better than predicted in the Agency's financial plan. The decrease was primarily attributable to the one-time costs incurred in the Special Education fund near the end of the fiscal year. In general, the Agency has limited options when it comes to reducing operating budgets because so many of our programs are either tied to specialized educational services mandated by the state or federal government, or are required by a student's individualized educational plan. Therefore, the Agency cannot just close a building or lay-off a department of employees. Instead, the Agency has remained disciplined and worked carefully through the financial planning process to remain innovative and make the right changes at the right time.

2015	Budget	Actual
General Fund Change in Fund Balance	$26,213	$35,526
Special Education Fund Change in Fund Balance	(2,776,279)	(2,729,794)

The budget variance in the General Education fund as a percentage of total expenditures and transfers out was .06%. That same variance in the Special Education fund was .1%. Both of these variances were positive - in that each fund has slightly more than was projected in the budget. This will help to lessen some of the projected use of fund balance in the 2016 fiscal year.



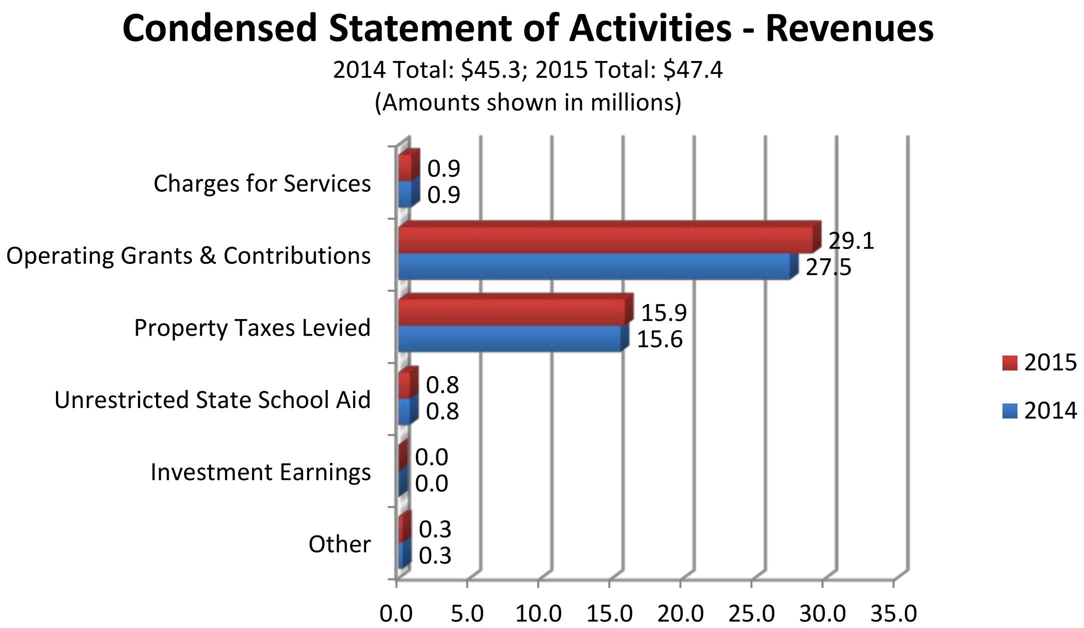
Capital Assets increased by approximately $70,000 in 2015, due primarily to upgrades to the Education Center and Construction in Progress for an addition to the Pathway School. These expenditures were offset by the depreciation of capital assets that was recorded during the year.

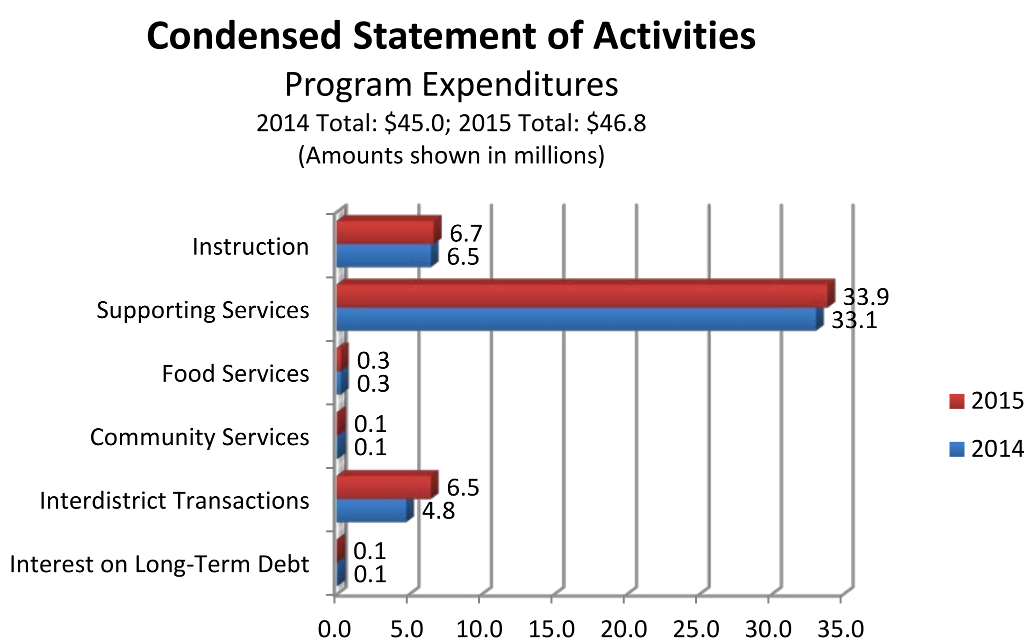
The decrease in the Other Assets of approximately $550,000 is attributable to a net decrease in cash and receivables that resulted from slower collection of accounts receivable in 2015 as compared to 2014. Additionally, the Agency received a $125,000 deposit for substitute services in 2015 that was recorded as a prepaid asset in 2014.

Long-Term Liabilities decreased by approximately $550,000 in 2015 due to the required annual payments for installment purchase agreements.

The Agency's Statement of Net Position now includes Deferred Outflows, Deferred inflows, and the Net Pension liability. These amounts, as well as the Net Position Restricted for Special Education, reflect the changes necessary for compliance with the GASB statements 68 & 71 reporting standards.

The Condensed Statement of Activities presented below compares 2015 to 2014 and provides additional information to support the discussion and analysis noted above. Overall, the amounts have changed in accordance with the Agency's financial plan.





The 2016 fiscal year will continue to show signs of financial improvement for the Agency. The property taxes are showing signs of growth and all labor contracts are settled. The property tax collections in 2017, however, are not likely to increase and so the 2016 budget revisions will include strategies to ready the Agency for the financial challenges projected for 2017.

BASIC FINANCIAL STATEMENTS

LIVINGSTON EDUCATIONAL SERVICE AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities
ASSETS:	
Cash and cash equivalents	$ 9,202,256
Accounts receivable	49,591
Intergovernmental receivables	4,703,676
Prepaids	58,622
Due within one year - receivable	529,801
Due in more than one year - receivable	2,197,670
Capital assets not being depreciated	291,823
Capital assets being depreciated, net of accumulated depreciation	12,852,993
TOTAL ASSETS	29,886,432
DEFERRED OUTFLOWS OF RESOURCES:	
Related to pensions	5,983,572
LIABILITIES:	
Accounts payable	1,462,264
Accrued payroll related liabilities	647,488
Accrued interest	14,931
Due to other governmental units	492,377
Unearned revenue	725,862
Claims payable	100,000
Noncurrent liabilities:	
Due within one year	639,613
Due in more than one year	1,806,855
Net pension liability	54,039,096
TOTAL LIABILITIES	59,928,486
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	5,974,044
NET POSITION:	
Net investment in capital assets	13,144,816
Unrestricted	(43,177,342)
TOTAL NET POSITION	$ (30,032,526)

See notes to financial statements.

LIVINGSTON EDUCATIONAL SERVICE AGENCY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

		Program Revenues		Governmental Activities
Functions / Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Net (Expense) Revenue and Changes in Net Position**
Governmental activities:				
Instruction	$ 6,737,819	$ 8,062	$ 15,356,907	$ 8,627,150
Supporting services	33,935,532	978,192	13,372,336	(19,585,004)
Food services	334,651	2,354	289,635	(42,662)
Community services	165,815	-	97,597	(68,218)
Interdistrict transactions	6,584,365	-	32,600	(6,551,765)
Interest on long-term debt	55,706	-	-	(55,706)
Total governmental activities	$ 47,813,888	$ 988,608	$ 29,149,075	(17,676,205)
General revenues:				
Property taxes levied for general education				456,523
Property taxes levied for special education				15,497,532
State sources- unrestricted				867,991
Revenue not restricted to specific programs				385,728
Investment earnings				35,707
Total general revenues				17,243,481
CHANGE IN NET POSITION				(432,724)
NET POSITION, beginning of year, as restated				(29,599,802)
NET POSITION, end of year				$ (30,032,526)

LIVINGSTON EDUCATIONAL SERVICE AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	General Fund	Special Education Fund	Capital Projects Fund	Total
ASSETS				
ASSETS:				
Cash and cash equivalents	$ 1,279,620	$ 5,333,994	$ 2,306,377	$ 8,919,991
Accounts receivable	39,591	10,000	-	49,591
Intergovernmental receivable	2,251,613	1,811,223	640,840	4,703,676
Due from other funds	-	-	2,559,512	2,559,512
Prepaids	31,490	3,132	-	34,622
TOTAL ASSETS	$ 3,602,314	$ 7,158,349	$ 5,506,729	$ 16,267,392
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	$ 486,855	$ 931,884	$ 21,780	$ 1,440,519
Accrued liabilities	292,031	355,457	-	647,488
Due to other governmental units	492,377	-	-	492,377
Due to internal service fund	1,155	2,791	-	3,946
Due to other funds	449,750	2,109,762	-	2,559,512
Unearned revenue	542,853	5,403	-	548,256
TOTAL LIABILITIES	2,265,021	3,405,297	21,780	5,692,098

See notes to financial statements.

	General Fund	Special Education Fund	Capital Projects Fund	Total
FUND BALANCES:				
Nonspendable:				
Prepaids	$ 31,490	$ 3,132	$ -	$ 34,622
Restricted for:				
Special education	-	3,385,311	-	3,385,311
Committed for:				
Captial outlay		-	1,900,000	1,900,000
Assigned for subsequent years expenditures	5,958	364,609	-	370,567
Assigned for capital projects			3,584,949	3,584,949
Unassigned	1,299,845	-	-	1,299,845
TOTAL FUND BALANCES	1,337,293	3,753,052	5,484,949	10,575,294
TOTAL LIABILITIES AND FUND BALANCES	$ 3,602,314	$ 7,158,349	$ 5,506,729	$ 16,267,392

See notes to financial statements.

LIVINGSTON EDUCATIONAL SERVICE AGENCY
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2015

Fund balances - total governmental funds	$ 10,575,294
Amounts reported for governmental activities in the statement of net position are different because:	
Amounts due from local districts on bus installment loans are not considered a current financial resource and are therefore not recognized in the governmental funds:	
Add - long-term receivables	2,727,471
An internal service fund is used by management to charge the costs of certain activities, such as compensated absences and insurance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities:	
Add - net position of governmental activities accounted for in the internal service fund	188,466
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Add - capital assets not being depreciated	291,823
Add - capital assets being depreciated, net	12,852,993
Certain liabilities, such as bonds and installment notes payable, are not due and payable in the current period and therefore are not reported in the funds. In addition, 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:	
Deduct - bonds and notes payable	(2,161,371)
Deduct - accrued interest on bonds and notes payable	(14,931)
Deduct - unearned revenue	(177,606)
Deduct - compensated absences	(285,097)
Some expenses reported in the statement of activities do not required the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Pension related items	(54,029,568)
Net position of governmental activities	$ (30,032,526)

See notes to financial statements.

LIVINGSTON EDUCATIONAL SERVICE AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

	General Fund	Special Education Fund	Capital Projects Fund	Nonmajor Debt Service Fund	Total Governmental Funds
REVENUES:					
Local sources:					
Property taxes	$ 456,523	$ 15,518,903	$ -	$ -	$ 15,975,426
Tuition	8,062	-	-	-	8,062
Investments	194	22,377	13,026	-	35,597
Other	133,391	1,069,023	-	-	1,202,414
Total local	598,170	16,610,303	13,026	-	17,221,499
State sources	4,324,762	8,829,918	-	-	13,154,680
Federal sources	2,063,973	5,975,162	-	-	8,039,135
Interdistrict	8,839,679	66,374	550,432	-	9,456,485
Total revenues	15,826,584	31,481,757	563,458	-	47,871,799
EXPENDITURES:					
Current:					
Instruction	1,851,578	4,464,794	-	-	6,316,372
Supporting services	12,296,441	21,745,103	-	300	34,041,844
Community service	79,971	85,844	-	-	165,815
Other services	342,014	-	-	-	342,014
Interdistrict transactions	1,113,319	5,471,046	-	-	6,584,365

See notes to financial statements.

	General Fund	Special Education Fund	Capital Projects Fund	Nonmajor Debt Service Funds	Total Governmental Funds
EXPENDITURES (Concluded):					
Debt service:					
Principal	$ -	$ -	$ 632,423	$ 385,000	$ 1,017,423
Interest	-	-	48,114	15,400	63,514
Capital outlay	-	17,268	1,086,629	-	1,103,897
Total expenditures	15,683,323	31,784,055	1,767,166	400,700	49,635,244
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	143,261	(302,298)	(1,203,708)	(400,700)	(1,763,445)
OTHER FINANCING SOURCES (USES):					
Proceeds from debt	-	-	410,435	-	410,435
Transfers in	-	29,904	2,535,231	400,700	2,965,835
Transfers out	(107,735)	(2,457,400)	(400,700)	-	(2,965,835)
Total other financing sources (uses)	(107,735)	(2,427,496)	2,544,966	400,700	410,435
NET CHANGE IN FUND BALANCES	35,526	(2,729,794)	1,341,258	-	(1,353,010)
FUND BALANCES, beginning of year	1,301,767	6,482,846	4,143,691	-	11,928,304
FUND BALANCES, end of year	$ 1,337,293	$ 3,753,052	$ 5,484,949	$ -	$ 10,575,294

See notes to financial statements.

LIVINGSTON EDUCATIONAL SERVICE AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

Net change in fund balances - total governmental funds	$ (1,353,010)
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, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add - capital outlay	1,150,158
Deduct - depreciation expense	(1,075,064)
Deduct - net disposal and adjustments of capital assets	(5,506)
Internal service funds are used by management to charge the costs of certain personnel costs to individual funds. The net decrease in the net position of the internal service funds are reported with governmental activities.	
Add - net income for the internal service fund	26,971
Installment note proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities.	
Deduct - installment loan	(410,435)
Amounts due from local districts on bus installment loans are not considered a current financial resource and are therefore not recognized in the governmental funds	
Deduct - reduction in long-term receivables net of unearned revenue of $177,606	(80,310)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Add - principal payments on long-term debt	1,017,423
Compensated absences are reported on the accrual method in the statement of activities and recorded as an expenditure when financial resources are used in the governmental funds.	
Deduct - increase in accrued compensated absences	(54,064)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the statement of revenues, expenditures and changes in fund balances.	
Add - decrease in accrued interest payable on bonds and notes payable	7,808
Add - pension related items	343,305
Change in net position of governmental activities	$ (432,724)

See notes to financial statements.

LIVINGSTON EDUCATIONAL SERVICE AGENCY
INTERNAL SERVICE FUND
STATEMENT OF NET POSITION
JUNE 30, 2015

	Internal Service Fund
ASSETS:	
Current assets:	
Cash and cash equivalents	$ 282,265
Due from other funds	3,946
Prepaid items	24,000
Total current assets	310,211
LIABILITIES:	
Current liabilities:	
Claims payable	121,745
NET POSITION:	
Unrestricted	$ 188,466

See notes to financial statements.

LIVINGSTON EDUCATIONAL SERVICE AGENCY
INTERNAL SERVICE FUND
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2015

	Internal Service Fund
OPERATING REVENUE:	
Charges for services	$ 297,594
Total operating revenues	297,594
OPERATING EXPENSES:	
Cost of insurance claims	247,650
Administrative costs	23,083
Total operating expenses	270,733
Operating income	26,861
NON OPERATING EXPENSES:	
Interest income	110
Change in net assets	26,971
NET POSITION, beginning of year	161,495
NET POSITION, end of year	$ 188,466

See notes to financial statements.

LIVINGSTON EDUCATIONAL SERVICE AGENCY
INTERNAL SERVICE FUND
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015

	Internal Service Fund
CASH FLOWS FROM OPERATING EXPENSES:	
Charges for services	$ 275,542
Claims paid	(225,905)
Administrative fees paid	(23,083)
Net cash provided by operating activities	26,554
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned on investments	110
Net increase in cash and cash equivalents	26,664
CASH AND CASH EQUIVALENTS, beginning of year	255,601
CASH AND CASH EQUIVALENTS, end of year	$ 282,265
CASH FROM OPERATING ACTIVITIES:	
Operating income	$ 26,861
Adjustments to reconcile operating income	
to net cash provided (used) by operating activities:	
Changes in operating assets and liabilities which provided (used) cash:	
Accounts receivable	749
Due from other governmental units	1,199
Prepaid items	(24,000)
Accounts payable	21,745
Net cash provided by operating activities	$ 26,554

See notes to financial statements.

LIVINGSTON EDUCATIONAL SERVICE AGENCY
FIDUCIARY FUND
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2015

		Agency Fund
ASSETS:		
Cash and cash equivalents	$	35,562
LIABILITIES:		
Accounts payable	$	504
Due to student activities		35,058
Total liabilities	$	35,562

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

B. Reporting Entity

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

C. Basis of Presentation - Government-wide Financial Statements

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

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

D. Basis of Presentation - Fund Financial Statements

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Agency reports the following major governmental funds:

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

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

The *capital projects fund* which accounts for bond proceeds or other revenue and the disbursements of invoices specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs.

Other Non-major Funds

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

The *internal service fund* is used to account for all activity related to self-insurance for health care.

Fiduciary Funds account for assets held by the Agency in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the Agency under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the Agency holds for others in an agency capacity (primarily student activities).

During the course of operations the Agency has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government- wide financial statements. Similarly, balances between the funds included in governmental activities (i.e., the governmental and the internal service fund) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included.

E. Measurement Focus and Basis of Accounting

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

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are generally collected within 60 days (90 days for certain federal grants) of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 or 90 days of year-end, depending on the revenue source).

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

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

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

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

The internal service fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. The capital projects fund is appropriated on a project-length basis. Other funds do not have appropriated budgets.

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

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

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

2. Public hearings are conducted to obtain taxpayer comments.

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund and special education fund are noted in the required supplementary information section.

4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

5. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2015. The Agency does not consider these amendments to be significant.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Cash and cash equivalents

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

2. Investments

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

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

3. Inventories and prepaid items

   Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/ expenses when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital assets

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

4. Capital assets (Concluded)

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

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

Capital asset classes	Lives/Years
Buildings, structures and improvements	25 - 50
Vehicles and buses	7
Furniture and other equipment	5 - 20

5. Defined benefit plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

6. Deferred outflows/inflows of resources

Deferred outflows

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

6. Deferred outflows/inflows of resources (Concluded)

Deferred inflows

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, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. It is the future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary.

7. Net position flow assumption

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

8. Fund balance flow assumptions

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

9. Fund balance policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Agency's highest level of decision-making authority. The board of education is the highest level of decision-making authority for the Agency that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation. The Agency has committed $1,900,000 for future capital outlay. The $1,900,000 will be used to rebuild the Adult Transition building and Special Education classrooms for the Renaissance Building.

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

H. Revenues and Expenditures/Expenses

1. Program revenues

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenues and Expenditures/Expenses (Continued)

2. Property taxes

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

For the year ended June 30, 2015, the Agency levied the following amounts per $1,000 of assessed valuation:

Fund	Mills	T.E.V. billions
General Fund	0.00670	6.7
Special revenue fund- special education	2.26910	6.7

3. Compensated absences

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

4. Long-term obligations

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses (Concluded)

5. Internal service fund operating and nonoperating revenues and expenses

   Internal service fund distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges for benefits and services. Operating expenses for the internal service fund include the cost of benefits and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 2 - DEPOSITS AND INVESTMENTS

State statues 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.

As of June 30, 2015, the Agency had designated two banks for the deposit of its funds.

Interest rate risk. In accordance with its investment policy, the Agency will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Agency's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The Agency will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. As of June 30, 2015, $9,113,262 of the Agency's bank balance of $9,863,262 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is $9,237,818.

Custodial credit risk - investments. For an investment, this 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 will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Agency will do business.

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

Cash and cash equivalents - agency fund	$	35,562
Cash and cash equivalents - internal service fund		282,265
Cash and cash equivalents - governmental funds		8,919,991
	$	9,237,818

NOTE 3 - LONG-TERM RECEIVABLES

A receivable for amounts due from local districts on bus installment financing agreements is recorded on the Agency-wide statements for the year ended June 30, 2015. These receivables are not considered a current financial resource and are therefore not recognized in the governmental funds. The following amounts represent the total amount to be paid by the local districts. At June 30, 2015, unearned revenue on these agreements totals $177,606.

As reported in the Statement of Net Position:

Current portion	$	529,801
Long-term receivables		2,197,670
	$	2,727,471

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Due from other governmental units at June 30, 2015 consist of the following:

State aid	$	2,384,261
Federal revenue		241,279
Local/intermediate sources		2,078,136
	$	4,703,676

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2014	Additions	Deletions and Adjustments	Balance June 30, 2015
Capital assets not being depreciated:				
Land	$ 224,007	$ -	$ -	$ 224,007
Construction in progress	9,828	57,988	-	67,816
Total capital assets not being depreciated	233,835	57,988	-	291,823
Capital assets being depreciated:				
Buildings and structures	13,318,697	435,280	-	13,753,977
Furniture and equipment	1,218,004	12,340	38,865	1,191,479
Site improvements	1,074,615	-	-	1,074,615
Vehicles and buses	5,729,264	644,550	-	6,373,814
Total capital assets being depreciated	21,340,580	1,092,170	38,865	22,393,885
Accumulated depreciation:				
Buildings and structures	3,794,376	283,657	-	4,078,033
Furniture and equipment	940,468	67,593	33,359	974,702
Site improvements	184,804	105,865	-	290,669
Vehicles	3,579,539	617,949	-	4,197,488
Total accumulated depreciation	8,499,187	1,075,064	33,359	9,540,892
Total capital assets being depreciated, net	12,841,393	17,106	5,506	12,852,993
Total capital assets, net	$ 13,075,228	$ 75,094	$ 5,506	$ 13,144,816

Depreciation for the fiscal year ended June 30, 2015 amounted to $1,075,064. The Agency allocated depreciation to the various activities as follows:

Governmental activities:	
Instruction	$ 478,946
Supporting services	596,118
Total governmental activities	$ 1,075,064

NOTE 6 - LONG-TERM DEBT

The Agency issues bonds, notes, and other contractual commitments to fund for the acquisition, construction and improvement of major facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Agency. Notes and installment purchase agreements are also general obligations to the Agency. Other long-term obligations include employee compensated absences.

Long-term obligations currently outstanding are as follows:

2012 installment purchase agreement due in annual installments of $60,000 to $63,200 through May 1, 2018, with interest at 1.98%.	$ 180,000
2010 installment purchase agreement due in annual installments of $92,000 to $95,728 through May 1, 2016, with interest at 3.25%.	95,728
2011 installment purchase agreement due in annual installments of $55,000 to $56,150 through May 1, 2017, with interest at 3.05%.	110,000
2013 installment purchase agreement due in semi-annual installments of $103,000 through November 1, 2019, with interest at 1.60%.	924,345
2013 installment purchase agreement due in annual installments of $124,927 to $132,769 through July 10, 2017, with interest at 2.05%.	390,359
2013 installment purchase agreement due in annual installments of $25,000 to $30,000 through September 1, 2018, with interest at 1.90%.	120,000
2015 installment purchase agreement due in annual installments of $65,397 to $71,037 through May 22, 2020, with interest at 2.09%.	340,939
Total bonds and notes payable	2,161,371
Self-insurance liability	100,000
Compensated absences	285,097
	$ 2,546,468

NOTE 6 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term obligations outstanding exclusive of compensated absences as of June 30, 2015, including interest of $95,645 are as follows:

Year ending June 30,	Principal	Interest	Total
2016	$ 639,613	$ 41,404	$ 681,017
2017	547,865	27,582	575,447
2018	496,928	16,786	513,714
2019	305,583	7,587	313,170
2020	171,382	2,286	173,668
	$ 2,161,371	$ 95,645	$ 2,257,016

The following is a summary of governmental long-term obligations for the Agency for the year ended June 30, 2015:

	General obligation bond	Installment purchase agreements	Total bonds and notes payable	Self-insurance liability	Compensated absences	Total
Balance, July 1, 2013	$ 385,000	$ 2,383,359	$ 2,768,359	$ 100,000	$ 231,033	$ 3,099,392
Additions	-	410,435	410,435	-	54,064	464,499
Deletions	(385,000)	(632,423)	(1,017,423)	-	-	(1,017,423)
Balance, June 30, 2014	-	2,161,371	2,161,371	100,000	285,097	2,546,468
Due within one year	-	(639,613)	(639,613)	(100,000)	-	(739,613)
Due in more than one year	$ -	$ 1,521,758	$ 1,521,758	$ -	$ 285,097	$ 1,806,855

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at http://michigan.gov/orsschools/0,1607,7-206-36585-,00.html.

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (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. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

Pension Reform 2010

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

Pension Reform 2012

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

Regular Retirement (no reduction factor for age)

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

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

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Pension Plus

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

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

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

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

Option 4 - None (Member will receive benefit through a Defined Contribution plan).

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

Member Contributions

The majority of the members currently participate on a contributory basis, under a variety of options "Benefits Provided." Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer Contributions

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

The District's pension contributions for the year ended June 30, 2015 were equal to the required contribution total. Pension contributions were approximately $6,747,000, with $5,830,000 specifically for the Defined Benefit Plan. These amounts include Section 147 contributions also.

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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

Pension Liabilities

At June 30, 2015, the District reported a liability of $54,039,096 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2014, the District's proportion was .24534 percent.

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

For the year ended June 30, 2015, the District recognized pension expense of $4,409,000**.** At June 30, 2015, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Changes of assumptions	$ 1,993,927	$ -
Net difference between projected and actual plan investments earnings	-	(5,974,044)
Changes in proportion and differences between employer contributions and proportionate share contributions	741	-
Reporting Unit's contributions subsequent to the measurement date	3,988,904	
	$ 5,983,572	$ (5,974,044)

$3,988,904, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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

Year ended June 30,	Amount
2016	$ (968,598)
2017	(968,598)
2018	(968,598)
2019	(1,073,582)

Actuarial Assumptions

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

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

Inflation - 2.5%

Mortality assumptions - The healthy life post-retirement mortality table used in this valuation of the System was the RP-2000 Male and Female Combined Healthy Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA. The final rates used include no margin for future mortality improvement. This assumption is used to measure the probabilities of each benefit payment being made after retirement.

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2014. An assumption experience study is performed every five years. The actuarial assumptions used in the September 30, 2014 valuation were based on the results of an actuarial experience study for the period October 1, 2008 to September 30, 2013. As a result of this actuarial experience study, the actuarial assumptions were adjusted to more closely reflect actual experience.

The long-term expected rate of return on pension plan investments - The rate was **8%** (**7%** Pension Plus Plan) net of investment and administrative expenses was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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	28.00%	4.80%
Alternate Investment Pools	18.00%	8.50%
International Equity	16.00%	6.10%
Fixed Income Pools	10.50%	1.50%
Real Estate and Infrastructure Pools	10.00%	5.30%
Absolute Return Pools	15.50%	6.30%
Short Term Investment Pools	2.00%	(.2)%
	100.00%	

* Long term rate of return does not include 2.50% inflation.

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

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

The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	1% Lower (7.0%)	Discount rate (8.0%)	1% Higher (9.0%)
Reporting Unit's proportionate share of the net pension liability	$ 71,245,842	$ 54,039,096	$ 39,542,158

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2014 Comprehensive Annual Financial Report, available here: http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html.

Benefit Provisions - Other Postemployment

Introduction

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

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

Retiree Healthcare Reform of 2012

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

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Concluded)

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

Employer Contributions

The District postemployment healthcare contributions to MPSERS for the year ended June 30, 2015 were approximately $579,000.

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2015 are as follows:

Receivable fund	Payable fund	
Capital projects fund	General fund	$ 449,750
Capital projects fund	Special education	2,109,762
		$ 2,559,512

The outstanding balances between funds results mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All amounts are expected to be repaid within the year.

NOTE 9 - INTERFUND TRANSFERS

The composition of interfund transfers at June 30, 2015 is as follows:

Transfer in fund	Transfer out fund	Amount
Special education	General fund	$ 29,904
Capital projects - general education	General fund	77,831
Capital projects - special education	Special education	557,400
Capital projects - special education	Special education	1,900,000
Debt service	Capital projects - general education	400,700
		$ 2,965,835

NOTE 9 - INTERFUND TRANSFERS (Concluded)

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) move receipts restricted to or allowed for debt service funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 10 - NEW ACCOUNTING STANDARDS

For the year ended June 30, 2015 the District implemented the following new pronouncements: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Summary:

GASB Statement No. 68 requires governments that participate in defined benefit pension plans to report in their statement of net position an actuarial calculation. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense.

GASB Statement No. 71 addressed the issue of contributions made to the defined benefit pension plans after the measurement date for the year in which GASB Statement No. 68 is implemented. The effect is to eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual basis financial statements.

The restatement of the beginning of the year net position is as follows:

	Governmental activities
Net position as previously stated July 1, 2014	$ 24,773,071
Adoption of GASB Statements 68 and 71	
Net pension liability	(57,487,612)
Deferred outflows	3,114,739
Net position as restated July 1, 2014	$ (29,599,802)

NOTE 11 - UPCOMING ACCOUNTING PRONOUNCEMENT

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

REQUIRED SUPPLEMENTARY INFORMATION

LIVINGSTON EDUCATIONAL SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2015

	Budget Amounts			
	Original	**Final**	**Actual**	**Variance with final budget**
REVENUES:				
Local sources:				
Property taxes	$ 452,489	$ 452,489	$ 456,523	$ 4,034
Tuition	-	-	8,062	8,062
Investments	400	175	194	19
Other	125,730	138,356	133,391	(4,965)
Total local	578,619	591,020	598,170	7,150
State sources	3,497,394	4,450,304	4,324,762	(125,542)
Federal sources	2,013,684	2,053,405	2,063,973	10,568
Interdistrict	9,109,024	8,798,669	8,839,679	41,010
Total revenues	15,198,721	15,893,398	15,826,584	(66,814)
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	1,730,627	1,804,271	1,781,001	23,270
Added needs	-	68,283	70,577	(2,294)
Supporting services:				
Pupil services	649,016	715,263	722,478	(7,215)
Instructional staff	1,190,275	1,414,324	1,384,192	30,132
General administration	367,969	376,493	365,343	11,150
School administration	550,038	525,423	542,059	(16,636)
Business services	250,513	266,792	262,636	4,156
Operation and maintenance	333,549	374,297	369,209	5,088
Transportation services	7,261,447	7,047,241	6,971,337	75,904
Central services	1,663,634	1,636,545	1,679,187	(42,642)
Food service	373,540	344,129	342,014	2,115
Community service	60,890	83,258	79,971	3,287
Interdistrict transactions	678,857	1,129,935	1,113,319	16,616
Total expenditures	15,110,355	15,786,254	15,683,323	102,931
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	88,366	107,144	143,261	36,117
OTHER FINANCING SOURCES (USES)				
Transfers out	(69,816)	(80,931)	(107,735)	(26,804)
Total other financing sources (uses)	(69,816)	(80,931)	(107,735)	(26,804)
NET CHANGE IN FUND BALANCE	18,550	26,213	35,526	9,313
FUND BALANCE, beginning of year	1,301,767	1,301,767	1,301,767	-
FUND BALANCE, end of year	$ 1,320,317	$ 1,327,980	$ 1,337,293	$ 9,313

LIVINGSTON EDUCATIONAL SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
YEAR ENDED JUNE 30, 2015

	Budget Amounts			Variance with
	Original	Final	Actual	final budget
REVENUES:				
Local sources:				
Property taxes	$ 15,453,220	$ 15,506,290	$ 15,518,903	$ 12,613
Investments	30,000	23,000	22,377	(623)
Other	1,081,500	1,060,151	1,069,023	8,872
Total local	16,564,720	16,589,441	16,610,303	20,862
State sources	8,888,549	8,814,217	8,829,918	15,701
Federal sources	5,834,339	5,975,162	5,975,162	-
Interdistrict	58,600	62,823	66,374	3,551
Total revenues	31,346,208	31,441,643	31,481,757	40,114
EXPENDITURES:				
Current:				
Instruction:				
Added needs	4,548,394	4,465,855	4,464,794	1,061
Supporting services:				
Pupil services	14,430,684	14,650,406	14,641,696	8,710
Instructional staff	1,943,893	1,960,741	1,956,748	3,993
General administration	125,756	124,698	119,522	5,176
Business services	880,908	693,515	688,635	4,880
Operation and maintenance	623,843	568,213	548,017	20,196
Transportation services	3,715,126	3,401,430	3,352,940	48,490
Central services	452,909	444,596	437,545	7,051
Community service	35,000	82,564	85,844	(3,280)
Interdistrict transactions	4,370,640	5,471,046	5,471,046	-
Capital outlay	-	17,300	17,268	32
Total expenditures	31,127,153	31,880,364	31,784,055	96,309
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	219,055	(438,721)	(302,298)	136,423
OTHER FINANCING SOURCES (USES):				
Transfers in	27,000	27,000	29,904	2,904
Transfers out	(228,577)	(2,364,558)	(2,457,400)	(92,842)
Total other financing sources (uses)	(201,577)	(2,337,558)	(2,427,496)	(89,938)
NET CHANGE IN FUND BALANCE	17,478	(2,776,279)	(2,729,794)	46,485
FUND BALANCE, beginning of year	6,482,846	6,482,846	6,482,846	-
FUND BALANCE, end of year	$ 6,500,324	$ 3,706,567	$ 3,753,052	$ 46,485

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

	2014
Reporting unit's proportion of net pension liability (%)	0.24534%
Reporting unit's proportionate share of net pension liability	$ 54,039,096
Reporting unit's covered-employee payroll	$ 20,915,186
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	258.37%
Plan fiduciary net position as a percentage of total pension liability	66.20%

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

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

	2015
Statutorily required contributions	$ 4,752,199
Contributions in relation to statutorily required contributions	4,752,199
Contribution deficiency (excess)	$ -
Reporting unit's covered-employee payroll	$ 21,407,201
Contributions as a percentage of covered-employee payroll	22.20%

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

LIVINGSTON EDUCATIONAL SERVICE AGENCY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015

Changes of benefit terms: There were no changes of benefit terms.

Changes of assumptions: Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

ADDITIONAL SUPPLEMENTARY INFORMATION

LIVINGSTON EDUCATIONAL SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Approved amount	Accrued 7/1/2014	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued 6/30/2015
U.S Department of Education:								
Passed through Michigan Department of Education:								
Special Education Cluster:								
IDEA	84.027	130450-1213	$ 5,620,399	$ -	$ 54,309	$ -	$ -	$ -
		140450-1314	5,393,521	373,221	5,393,521	373,221	-	-
		150450-1415	5,534,215	-	-	5,487,570	5,534,215	46,645
		140480	50,000	28,593	50,000	28,593	-	-
		150480	50,000	-	-	50,000	50,000	-
		140490-TC	65,000	33,599	65,000	33,599	-	-
		150490-TC	65,000	-	-	40,601	65,000	24,399
Total IDEA			16,778,135	435,413	5,562,830	6,013,584	5,649,215	71,044
Preschool Incentive	84.173	140460-1314	136,968	3,069	136,968	3,069	-	-
		150460-1415	137,400	-	-	137,400	137,400	-
Total Preschool Incentive			274,368	3,069	136,968	140,469	137,400	-
Total Special Education Cluster			17,052,503	438,482	5,699,798	6,154,053	5,786,615	71,044
Vocational Education - Basic Grants to States (Perkins II):	84.048A	143520-141217	183,735	10,645	183,735	10,645	-	-
		153520-151217	179,539	-	-	129,529	179,539	50,010
Total Vocational Education			363,274	10,645	183,735	140,174	179,539	50,010
Infant Toddler Formula	84.181A	141340-1314	138,607	-	138,607	-	-	-
		151340-1415	147,286	-	-	146,271	147,286	1,015
Total Infant Toddler Formula			285,893	-	138,607	146,271	147,286	1,015
Homeless Children & Youths	84.196	132320-1213	37,076	-	11,011	-	-	-
		142320-1314	33,363	4,403	24,414	11,741	7,338	-
		152320-1415	25,929	-	-	17,167	17,202	35
Total Homeless Children & Youths			96,368	4,403	35,425	28,908	24,540	35
Child Care and Development Block Grant	93.575	153QUA - 1314	50,000	9,716	44,240	15,476	5,760	-
		153QUA - 1415	100,000	-	-	72,102	81,133	9,031
Total Child Care and Development Block Grant			150,000	9,716	44,240	87,578	86,893	9,031
Title II		140520-1314	1,512	-	-	1,512	1,512	-
		140520-1415	800	-	-	796	796	-
Total Title II			2,312	-	-	2,308	2,308	-
Total passed through Michigan Department of Education			17,950,350	463,246	6,101,805	6,559,292	6,227,181	131,135

The accompanying notes are an integral part of this schedule.

LIVINGSTON EDUCATIONAL SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Approved amount	Accrued 7/1/2014	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued 6/30/2015
U.S. Department of Health and Human Services:								
Head Start Cluster:								
Direct Head Start	93.600	05CH4184/48	$ 1,221,140	$ 59,972	$ 1,170,293	$ 59,972	$ -	$ -
		05ch8415/01	1,229,546	-	-	1,229,546	1,229,546	-
Total Head Start Cluster			2,450,686	59,972	1,170,293	1,289,518	1,229,546	-
Passed through Michigan Department of Community Health:								
Medicaid - Administrative Outreach Claiming	93.778		41,262	-	49,765	41,261	41,261	-
Total U.S. Department of Health and Human Services			2,491,948	59,972	1,220,058	1,330,779	1,270,807	-
U.S. Department of Labor:								
Passed through Michigan Works - Livingston County:								
WIA Youth Activities	17.259		50,000	-	40,084	50,000	50,000	-
Total WIA Youth Activities			50,000	-	40,084	50,000	50,000	-
U.S. Department of Agriculture:								
Passed through Michigan Department of Education:								
Child Care Food Program	10.558	141920	151,845	1,784	148,735	19,077	17,293	-
		151920	162,335	-	-	162,335	162,335	-
		142010	8,513	-	7,430	1,083	1,083	-
		152010	8,894	-	-	8,894	8,894	-
Total Passed through Michigan Dept. of Education			331,587	1,784	156,165	191,389	189,605	-
Passed through Michigan Fitness Foundation:								
Supplemental Nutrition Assistance Program (SNAP)	10.561	61-5050Q-1213	231,314	-	11,320	-	-	-
		61-5050Q-1314	247,491	70,727	173,457	130,435	59,708	-
		61-5050Q-1415	236,797	-	-	131,690	229,927	98,237
		ADMIN-14-99011	73,051	-	-	-	11,907	11,907
Total passed through Michigan Fitness Foundation			788,653	70,727	184,777	262,125	301,542	110,144
Total U.S. Department of Agriculture			1,120,240	72,511	340,942	453,514	491,147	110,144
Total Federal Awards			$ 21,612,538	$ 595,729	$ 7,702,889	$ 8,393,585	$ 8,039,135	$ 241,279

The accompanying notes are an integral part of this schedule.

LIVINGSTON EDUCATIONAL SERVICE AGENCY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

NOTES:

1. Basis of presentation - The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Livingston Educational Service Agency under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Livingston Educational Service Agency, it is not intended to and does not present the financial position or changes in net position of Livingston Educational Service Agency.
2. Summary of significant accounting - Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.
3. Special Education Cluster (CFDA #84.027 and 84.173), Head Start Cluster (CFDA #93.600), and Supplemental Nutrition Assitance Program (CFDA #10.561) were audited as a major programs representing 91% of expenditures.
4. The threshold for distinguishing Type A and Type B programs was $300,000.
5. The expenditures on the schedule of expenditures of federal awards do not include local match.
6. Expenditures in this schedule have been reconciled with Michigan Department of Education financial reports (DS4044, DS4092A, and other applicable reports).
7. Management has utilized the Grant Auditors' Report in preparing the Schedule of Expenditures of Federal Awards.
8. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	$	2,063,973
Special Education Fund		5,975,162
Expenditures per Schedule of Expenditures of Federal Awards	$	8,039,135

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Livingston Educational Service Agency

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Livingston Educational Service Agency as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Livingston Educational Service Agency's basic financial statements and have issued our report thereon dated October 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Livingston Educational Service Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Livingston Educational Service Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Livingston Educational Service Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Livingston Educational Service Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Maner Costerisan PC

October 26, 2015

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Livingston Educational Service Agency

Report on Compliance for Each Major Federal Program

We have audited Livingston Educational Service Agency's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Livingston Educational Service Agency's major federal programs for the year ended June 30, 2015. Livingston Educational Service Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Livingston Educational Service Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Livingston Educational Service Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Livingston Educational Service Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Livingston Educational Service Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Livingston Educational Service Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Livingston Educational Service Agency's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Maner Costerisan PC

October 26, 2015

LIVINGSTON EDUCATIONAL SERVICE AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	*Unmodified*
Internal control over financial reporting:	
➢ Material weakness(es) identified:	____ Yes __X__ No
➢ Significant deficiency(ies) identified that are not considered to be material weaknesses?	____ Yes __X__ None reported
Noncompliance material to financial statements noted?	____ Yes __X__ No

Federal Awards

Internal control over major programs:	
➢ Material weakness(es) identified:	____ Yes __X__ No
➢ Significant deficiency(ies) identified that are not considered to be material weaknesses?	____ Yes __X__ None reported
Type of auditor's report issued on compliance for major programs:	*Unmodified*
Any audit findings disclosed that are required to be reported in accordance Sections 510(a) of Circular A-133?	____ Yes __X__ No

Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.173	Special Education Cluster
93.600	Head Start Cluster
10.561	Supplemental Nutrition Assitance Program

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	__X__ Yes ____ No

Section II - Financial Statement Findings

None

None

LIVINGSTON EDUCATIONAL SERVICE AGENCY
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

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

Maner Costerisan
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October 26, 2015

To the Board of Education
Livingston Educational Service Agency

We have audited the financial statements of Livingston Educational Service Agency for the year ended June 30, 2015, and have issued our report thereon dated October 26, 2015. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Livingston Educational Service Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Livingston Educational Service Agency's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Livingston Educational Service Agency's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Livingston Educational Service Agency's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Livingston Educational Service Agency's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

1. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Livingston Educational Service Agency are described in Note 1 to the financial statements. During 2015 the District implemented Governmental Accounting Standard No. 68, *Accounting and Financial Reporting for Pensions,* and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* The application of existing policies was not changed during 2015. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Estimates have been used to calculate the net pension liability.

Management's estimate of the payout of employee compensated absences upon their retirement is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of employee compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the Internal Service Fund's insurance payable for incurred but not reported (IBNR) claims is based on actual payouts through the report date, as well as historical payment experience. We evaluation the key factors and assumptions used to develop the balance of IBNR in determining that it is reasonable to the financial statements taken as a whole.

We also evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

We did not identify any sensitive disclosures.

2. Difficulties Encountered in Performing the Audit

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

3. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

4. Disagreements with Management

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

5. Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 26, 2015.

6. Management Consultations with Other Independent Accountants

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

7. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Other Matters

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

A separate management letter was not issued.

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

Very truly yours,

Maner Costerisan PC