LIVINGSTON EDUCATIONAL SERVICE AGENCY

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

YEAR ENDED JUNE 30, 2016

Maner Costerisan
Certified Public Accountants
Business & Technology Advisors

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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, 2016, 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, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and 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, including the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 September 20, 2016 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

September 20, 2016

Management's Discussion and Analysis

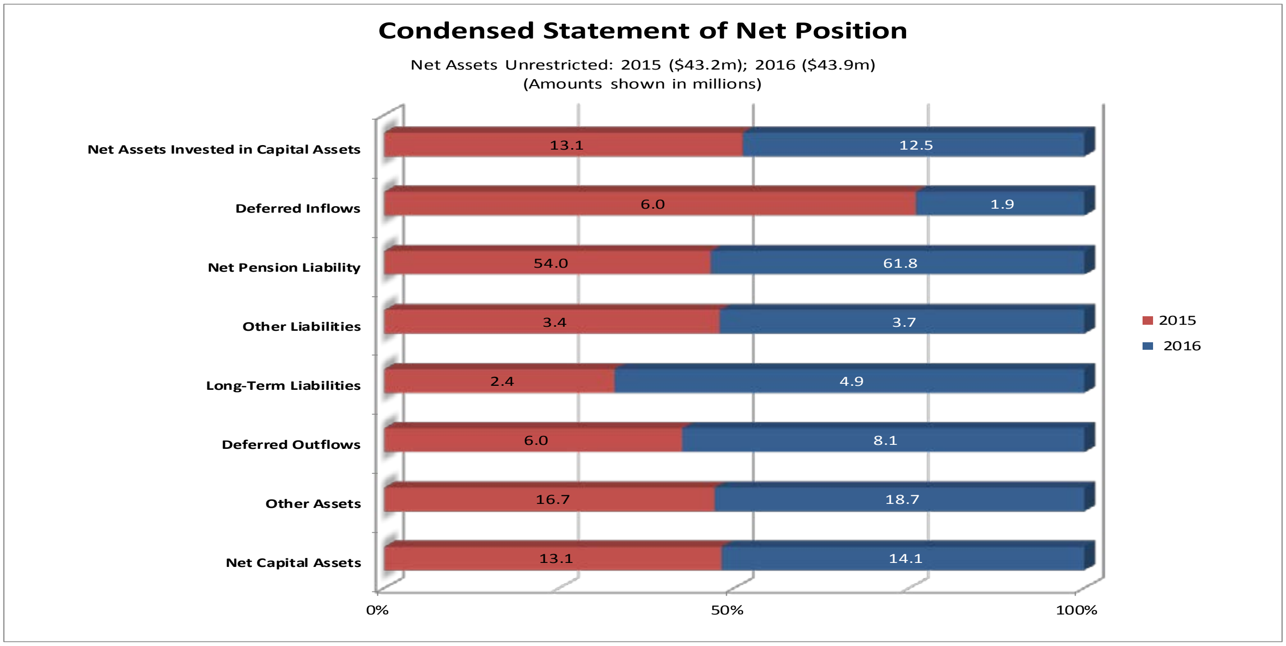
This section of the annual financial report presents our discussion and analysis of the Agency's financial performance during the year ended June 30, 2016. Please read it in conjunction with the Agency's basic financial statements, which immediately follow this section. Should you ever have a question 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.

The table below shows the change in fund balance for General Fund and Special Education fund as reported at the fund level. 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. At the Government-Wide level, the Agency's Net Position for 2016 decreased by approximately $1,392,000. The decrease was primarily attributable to changes in the net pension liability and related items, as required by GASB Statement 68. These items are only recorded at the Government-Wide level and do not affect the day to day operations or fund balance noted below.

2016	Budget	Actual
General Fund Change in Fund Balance	$ 126,670	$ 187,381
Special Education Fund Change in Fund Balance	$ 346,822	$ 372,244

The budget variance in the General Education fund as a percentage of total expenditures and transfers out was .38%. That same variance in the Special Education fund was .08%. Both of these variances were positive - in that each fund has slightly more than was projected in the budget.



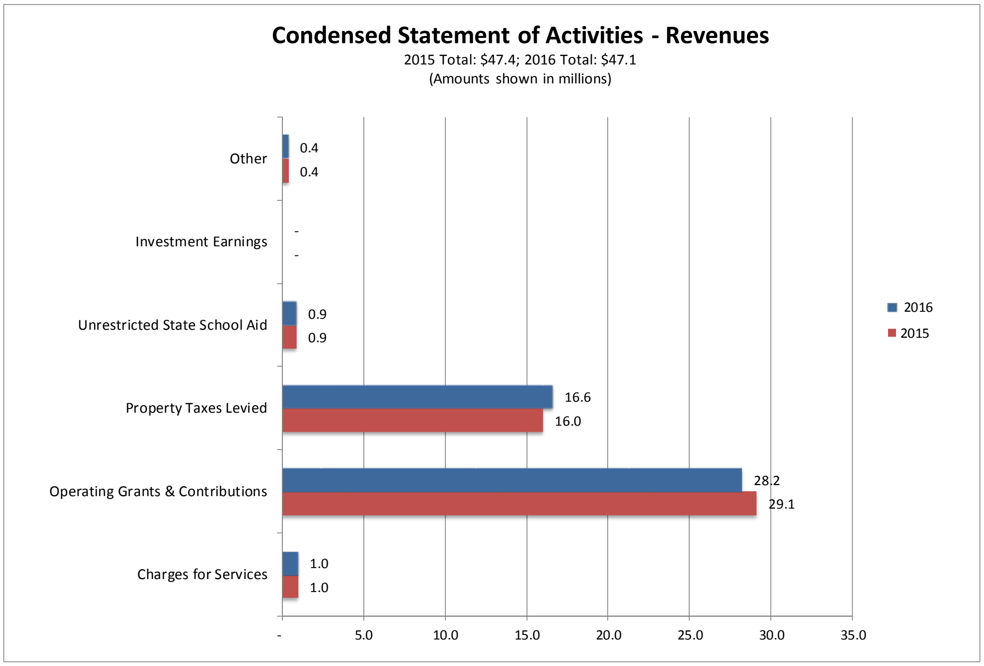
Net Capital Assets increased by approximately $933,000 in 2016, due primarily to the construction in progress for an addition to the Pathway School. The increase caused by the construction in progress was partially offset by the depreciation of capital assets as well as the disposal of Agency buses that were recorded during the current year.

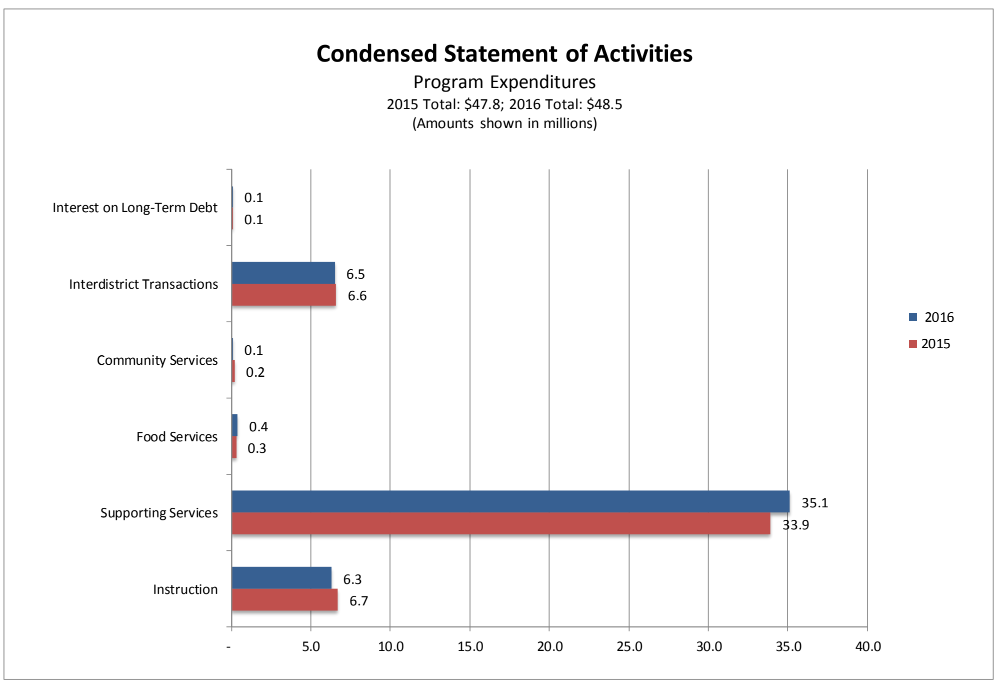
The increase in the Other Assets of approximately $1,923,000 is attributable to a net increase in cash and receivables that resulted from a current year bond issuance and an increase in deferred state aid revenues in 2016 as compared to 2015.

Long-Term Liabilities increased by approximately $2,472,000 in 2016 due to the bond issuance netted by the required annual payments for installment purchase agreements.

The Agency's Statement of Net Position now includes an additional deferred inflow related to state aid funding for the pension, as explained in Note 1.

The Condensed Statement of Activities presented below compares 2016 to 2015 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 2017 fiscal year will continue to show a balanced budget for the Agency. FY 2017 will be the first year for tax collections from the Headlee Restoration millage approved by voters in the fall of 2015. Although total revenues will increase by approximately $7.4 million, all additional revenue generated by these mills will be paid to local districts; therefore there is no net effect to the Agency's fund balance.

BASIC FINANCIAL STATEMENTS

LIVINGSTON EDUCATIONAL SERVICE AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
ASSETS:	
Cash and cash equivalents	$ 11,286,979
Accounts receivable	27,811
Intergovernmental receivables	5,143,403
Prepaids	8,289
Due from agency fund	420
Due within one year - receivable	427,525
Due in more than one year - receivable	1,770,145
Capital assets not being depreciated	1,793,470
Capital assets being depreciated, net of accumulated depreciation	12,283,921
TOTAL ASSETS	32,741,963
DEFERRED OUTFLOWS OF RESOURCES:	
Related to pensions	8,086,500
LIABILITIES:	
Accounts payable	1,159,437
Accrued payroll related liabilities	687,324
Accrued retirement	579,430
Accrued interest	21,383
Due to other governmental units	13,360
Unearned revenue	1,111,022
Claims payable	100,000
Noncurrent liabilities:	
Due within one year	817,865
Due in more than one year	4,100,515
Net pension liability	61,764,503
TOTAL LIABILITIES	70,354,839
DEFERRED INFLOWS OF RESOURCES:	
Related to pensions	204,582
Related to state aid funding for pensions	1,693,506
TOTAL DEFERRED INFLOWS OF RESOURCES	1,898,088
NET POSITION:	
Net investment in capital assets	12,463,375
Debt service	13,501
Unrestricted	(43,901,340)
TOTAL NET POSITION	$ (31,424,464)

See notes to financial statements.

LIVINGSTON EDUCATIONAL SERVICE AGENCY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

		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	$ 6,326,939	$ 3,670	$ 14,464,928	$ 8,141,659
Supporting services	35,117,396	973,827	13,338,011	(20,805,558)
Food services	395,309	971	214,542	(179,796)
Community services	139,326	19,939	163,845	44,458
Interdistrict transactions	6,482,913	-	32,600	(6,450,313)
Interest on long-term debt	72,046	-	-	(72,046)
Total governmental activities	$ 48,533,929	$ 998,407	$ 28,213,926	(19,321,596)
General revenues:				
Property taxes levied for general education				475,220
Property taxes levied for special education				16,132,313
State sources - unrestricted				894,880
Revenue not restricted to specific programs				401,301
Investment earnings				25,944
Total general revenues				17,929,658
CHANGE IN NET POSITION				(1,391,938)
NET POSITION, beginning of year				(30,032,526)
NET POSITION, end of year				$ (31,424,464)

LIVINGSTON EDUCATIONAL SERVICE AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Special Education Fund	Capital Projects Fund	Nonmajor Debt Service Fund	Total Govermental Funds
ASSETS					
ASSETS:					
Cash and cash equivalents	$ 1,131,490	$ 2,402,609	$ 7,460,230	$ -	$ 10,994,329
Accounts receivable	27,811	-	-	-	27,811
Intergovernmental receivable	2,699,703	2,356,428	87,272	-	5,143,403
Due from other funds	-	-	239,672	34,884	274,556
Due from agency fund	-	-	420	-	420
Due from internal service fund	245	-	-	-	245
Prepaids	5,676	2,613	-	-	8,289
TOTAL ASSETS	$ 3,864,925	$ 4,761,650	$ 7,787,594	$ 34,884	$ 16,449,053
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	$ 378,971	$ 63,269	$ 692,999	$ -	$ 1,135,239
Accrued payroll and related liabilities	329,505	357,819	-	-	687,324
Accrued retirement	508,526	70,904	-	-	579,430
Due to other governmental units	6,578	6,782	-	-	13,360
Due to internal service fund	-	4,523	-	-	4,523
Due to other funds	109,089	130,583	34,884	-	274,556
Unearned revenue	1,007,582	2,474	-	-	1,010,056
TOTAL LIABILITIES	2,340,251	636,354	727,883	-	3,704,488

See notes to financial statements.

	General Fund	Special Education Fund	Capital Projects Fund	Nonmajor Debt Service Fund	Total Govermental Funds
FUND BALANCES:					
Nonspendable:					
Prepaids	$ 5,676	$ 2,613	$ -	$ -	$ 8,289
Restricted for:					
Special education	-	4,122,683	-	-	4,122,683
Debt service	-	-	-	34,884	34,884
Capital projects	-	-	1,532,927	-	1,532,927
Assigned for:					
Capital projects	-	-	4,521,784	-	4,521,784
Photocopier equipment	-	-	1,005,000	-	1,005,000
Unassigned	1,518,998	-	-	-	1,518,998
TOTAL FUND BALANCES	1,524,674	4,125,296	7,059,711	34,884	12,744,565
TOTAL LIABILITIES AND FUND BALANCES	$ 3,864,925	$ 4,761,650	$ 7,787,594	$ 34,884	$ 16,449,053

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, 2016

Fund balances - total governmental funds	$ 12,744,565
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	2,197,670
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	172,730
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Add - capital assets not being depreciated	1,793,470
Add - capital assets being depreciated, net	12,283,921
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:	
Add - revenue received beyond 60 days of year end	42,207
Deduct - bonds and notes payable	(4,668,685)
Deduct - accrued interest on bonds and notes payable	(21,383)
Deduct - unearned revenue	(143,173)
Deduct - compensated absences	(249,695)
Deduct - net pension liability	(61,764,503)
Amounts that consumed or acquired net position but apply to future period(s) and so will not be recognized as an outflow (expense) or inflow (revenue) of resources until that time:	
Add - deferred outflows of resources - related to pensions	8,086,500
Deduct - deferred inflows of resources - related to pensions	(204,582)
Deduct - deferred inflows of resources - related to state aid funding for pensions	(1,693,506)
Net position of governmental activities	$ (31,424,464)

See notes to financial statements.

LIVINGSTON EDUCATIONAL SERVICE AGENCY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General Fund	Special Education Fund	Capital Projects Fund	Nonmajor Debt Service Fund	Total Governmental Funds
REVENUES:					
Local sources:					
Property taxes	$ 475,220	$ 16,149,255	$ -	$ -	$ 16,624,475
Tuition	3,670	-	-	-	3,670
Investments	199	15,414	10,211	-	25,824
Other	221,522	1,093,838	-	-	1,315,360
Total local	700,611	17,258,507	10,211	-	17,969,329
State sources	4,784,893	9,334,042	-	-	14,118,935
Federal sources	1,967,780	5,990,482	-	-	7,958,262
Interdistrict	8,637,427	58,457	554,202	-	9,250,086
Total revenues	16,090,711	32,641,488	564,413	-	49,296,612
EXPENDITURES:					
Current:					
Instruction	1,703,017	4,662,364	-	-	6,365,381
Supporting services	12,377,550	22,561,199	-	-	34,938,749
Community service	89,992	49,334	-	-	139,326
Other services	396,931	-	-	-	396,931
Interdistrict transactions	1,335,840	4,738,326	-	-	6,074,166

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	$ -	$ -	$ 639,629	$ -	$ 639,629
Interest	-	-	41,389	24,205	65,594
Issuance costs	-	-	52,471	-	52,471
Capital outlay	-	-	1,617,391	-	1,617,391
Total expenditures	15,903,330	32,011,223	2,350,880	24,205	50,289,638
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	187,381	630,265	(1,786,467)	(24,205)	(993,026)
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of capital assets	-	11,979	-	-	11,979
Proceeds from debt	-	-	3,080,000	-	3,080,000
Bond premium	-	-	70,318	-	70,318
Transfers in	-	-	270,000	59,089	329,089
Transfers out	-	(270,000)	(59,089)	-	(329,089)
Total other financing sources (uses)	-	(258,021)	3,361,229	59,089	3,162,297
NET CHANGE IN FUND BALANCES	187,381	372,244	1,574,762	34,884	2,169,271
FUND BALANCES, beginning of year	1,337,293	3,753,052	5,484,949	-	10,575,294
FUND BALANCES, end of year	$ 1,524,674	$ 4,125,296	$ 7,059,711	$ 34,884	$ 12,744,565

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, 2016

Net change in fund balances - total governmental funds	$ 2,169,271
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	2,230,645
Deduct - depreciation expense	(1,294,499)
Deduct - net disposal and adjustments of capital assets	(3,571)
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:	
Subtract - net loss for the internal service fund	(15,736)
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 $143,173	(495,368)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term debt and related items are as follows:	
Deduct - bonds issued and related premium	(3,150,318)
Add - amortization of bond premium	3,375
Add - principal payments on long-term debt	639,629
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and considered not available:	
Add - revenue received beyond 60 days of year end	42,207
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:	
Add - decrease in accrued compensated absences	35,402
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	(6,452)
Add - pension related items	146,983
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period:	
Deduct - State aid funding for pension	(1,693,506)
Change in net position of governmental activities	$ (1,391,938)

LIVINGSTON EDUCATIONAL SERVICE AGENCY
INTERNAL SERVICE FUND
STATEMENT OF NET POSITION
JUNE 30, 2016

		Internal Service Fund
ASSETS:		
Current assets:		
Cash and cash equivalents	$	292,650
Due from other funds		4,523
Total current assets		297,173
LIABILITIES:		
Current liabilities:		
Claims payable		124,198
Due to other funds		245
Total current liabilities		124,443
NET POSITION:		
Unrestricted	$	172,730

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, 2016

	Internal Service Fund
OPERATING REVENUE:	
Charges for services	$ 298,114
Total operating revenues	298,114
OPERATING EXPENSES:	
Cost of insurance claims	286,512
Administrative costs	27,458
Total operating expenses	313,970
Operating income (loss)	(15,856)
NON OPERATING EXPENSES:	
Interest income	120
Change in net assets	(15,736)
NET POSITION, beginning of year	188,466
NET POSITION, end of year	$ 172,730

See notes to financial statements.

LIVINGSTON EDUCATIONAL SERVICE AGENCY
INTERNAL SERVICE FUND
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

		Internal Service Fund
CASH FLOWS FROM OPERATING EXPENSES:		
Charges for services	$	297,537
Claims paid		(259,814)
Administrative fees paid		(27,458)
Net cash provided by operating activities		10,265
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned on investments		120
Net increase in cash and cash equivalents		10,385
CASH AND CASH EQUIVALENTS, beginning of year		282,265
CASH AND CASH EQUIVALENTS, end of year	$	292,650
CASH FROM OPERATING ACTIVITIES:		
Operating loss	$	(15,856)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Changes in operating assets and liabilities which provided (used) cash:		
Due from other governmental units		(332)
Prepaid items		24,000
Accounts payable		2,453
Net cash provided by operating activities	$	10,265

See notes to financial statements.

LIVINGSTON EDUCATIONAL SERVICE AGENCY
FIDUCIARY FUND
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2016

	Agency Fund
ASSETS:	
Cash and cash equivalents	$ 37,137
LIABILITIES:	
Due to general fund	$ 420
Due to student activities	36,717
Total liabilities	$ 37,137

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 Fund

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.

Internal Service Fund

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 and proprietary 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, 2016. 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 Agency 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 Agency has two items that qualifies for reporting in this category. The first 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. The second is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period.

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.

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. The Agency has assigned $1,005,000 of capital project funds for the purchase of photocopier equipment during the 2016-2017 year.

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, 2016, the Agency levied the following amounts per $1,000 of assessed valuation:

Fund	Mills levied	T.E.V (billions)
General fund - General education	0.0669	7.1
Special revenue fund - Special education	2.2665	7.1

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, 2016, 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 (Continued)

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, 2016, $10,805,697 of the Agency's bank balance of $11,555,697 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is $11,324,116.

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.

Fair value measurement. The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

The District does not have any investments subject to the fair value measurement.

Cash and cash equivalents - agency fund	$	37,137
Cash and cash equivalents - internal service fund		292,650
Cash and cash equivalents - governmental funds		10,994,329
	$	11,324,116

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, 2016. 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, 2016, unearned revenue on these agreements totals $143,173.

As reported in the Statement of Net Position:

Current portion	$	427,525
Long-term receivables		1,770,145
	$	2,197,670

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Due from other governmental units at June 30, 2016 consist of the following:

State aid	$	2,704,718
Federal revenue		866,254
Local/intermediate sources		1,572,431
	$	5,143,403

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2015	Additions	Deletions and Adjustments	Balance June 30, 2016
Capital assets not being depreciated:				
Land	$ 224,007	$ -	$ -	$ 224,007
Construction in progress	67,816	1,501,647	-	1,569,463
Total capital assets not being depreciated	291,823	1,501,647	-	1,793,470
Capital assets being depreciated:				
Buildings and structures	13,753,977	-	-	13,753,977
Furniture and equipment	1,191,479	34,252	26,861	1,198,870
Site improvements	1,074,615	24,500	-	1,099,115
Vehicles and buses	6,373,814	670,246	482,269	6,561,791
Total capital assets being depreciated	22,393,885	728,998	509,130	22,613,753
Accumulated depreciation:				
Buildings and structures	4,078,033	493,709	-	4,571,742
Furniture and equipment	974,702	72,252	26,861	1,020,093
Site improvements	290,669	107,091	-	397,760
Vehicles	4,197,488	621,447	478,698	4,340,237
Total accumulated depreciation	9,540,892	1,294,499	505,559	10,329,832
Total capital assets being depreciated, net	12,852,993	(565,501)	3,571	12,283,921
Total capital assets, net	$ 13,144,816	$ 936,146	$ 3,571	$ 14,077,391

Depreciation for the fiscal year ended June 30, 2016 amounted to $1,294,499. The Agency allocated depreciation to the various activities as follows:

Governmental activities:	
Instruction	$ 4,877
Supporting services	880,875
Facilities acquisition	408,747
Total governmental activities	$ 1,294,499

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.

NOTE 6 - LONG-TERM DEBT (Continued)

Long-term obligations currently outstanding are as follows:

2011 installment purchase agreement due in annual installments of $55,000 to $56,150 through May 1, 2017, with interest at 3.05%.	$	55,000
2012 installment purchase agreement due in annual installments of $60,000 to $63,200 through May 1, 2018, with interest at 1.98%.		120,000
2013 installment purchase agreement due in semi-annual installments of $103,000 through November 1, 2019, with interest at 1.60%.		718,345
2013 installment purchase agreement due in annual installments of $124,927 to $132,769 through July 10, 2017, with interest at 2.05%.		262,870
2013 installment purchase agreement due in annual installments of $25,000 to $30,000 through September 1, 2018, with interest at 1.90%.		90,000
2015 installment purchase agreement due in annual installments of $65,397 to $71,037 through May 22, 2020, with interest at 2.09%.		275,527
2015 building and site obligation bonds due in annual installments of $270,000 to $345,000 through May 1, 2026, with interest from 2.00% and 3.00%.		3,080,000
Plus: premium on bond issuance		66,943
Total bonds and notes payable		4,668,685
Self-insurance liability		100,000
Compensated absences		249,695
	$	5,018,380

The annual requirements to amortize long-term obligations outstanding exclusive of compensated absences as of June 30, 2016, including interest of $462,632 are as follows:

Year ending June 30,	Principal	Interest	Total
2017	$ 817,865	$ 95,131	$ 912,996
2018	776,928	78,937	855,865
2019	595,583	64,136	659,719
2020	466,366	53,053	519,419
2021	305,000	44,850	349,850
2022 - 2026	1,640,000	126,525	1,766,525
	4,601,742	462,632	5,064,374
Bond issuance premium	66,943	-	66,943
Self-insurance liability	100,000	-	100,000
Compensated absences	249,695	-	249,695
	$ 5,018,380	$ 462,632	$ 5,481,012

NOTE 6 - LONG-TERM DEBT (Concluded)

The following is a summary of governmental long-term obligations for the Agency for the year ended June 30, 2016:

	General obligation bond	Installment purchase agreements	Total bonds and notes payable	Self-insurance liability	Compensated absences	Total
Balance, July 1, 2015	$ -	$ 2,161,371	$ 2,161,371	$ 100,000	$ 285,097	$ 2,546,468
Additions	3,150,318	-	3,150,318	-	-	3,150,318
Deletions	(3,375)	(639,629)	(643,004)	-	(35,402)	(678,406)
Balance, June 30, 2016	3,146,943	1,521,742	4,668,685	100,000	249,695	5,018,380
Due within one year	(270,000)	(547,865)	(817,865)	(100,000)	-	(917,865)
Due in more than one year	$ 2,876,943	$ 973,877	$ 3,850,820	$ -	$ 249,695	$ 4,100,515

NOTE 7 - RETIREMENT 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/mpsers-cafr.

Benefits Provided

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

Plan name	Plan Type	Plan status
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

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.

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% -7.0%.

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. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

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 - RETIREMENT 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). As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

<u>Final Average Compensation (FAC)</u> - 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

Depending on the plan selected, member contributions range from 0% - 7%. Plan members electing the defined contribution plan are not required to make additional contributions.

Employer Contributions

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 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.

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

March 10, 2015 - September 30, 2015	18.76% - 23.07%
October 1, 2015 - September 30, 2016	14.56% - 18.95%

The District's pension contributions for the year ended June 30, 2016 were equal to the required contribution total. Pension contributions were approximately $5,872,880, with $5,546,493 specifically for the Defined Benefit Plan. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (69.45% for pension and 30.55% for OPEB).

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

Pension Liabilities

At June 30, 2016, the District reported a liability of $61,764,503 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2014 and rolled-forward using generally accepted actuarial procedures. 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, 2015 and 2014, the District's proportion was .25287 and .24534 percent.

MPSERS (Plan) Non-University Employers:	September 30, 2015	September 30, 2014
Total pension liability	$ 66,312,041,902	$ 65,160,887,182
Plan fiduciary net position	$ 41,887,015,147	$ 43,134,384,072
Net pension liability	$ 24,425,026,755	$ 22,026,503,110
Proportionate share	0.25287%	0.24534%
Net pension liability for the District	$ 61,764,503	$ 54,039,096

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

For the year ended June 30, 2016, the District recognized pension expense of $3,706,004**.** This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. These amounts have been recorded as a deferred outflow as of June 30, 2016.

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

At June 30, 2016, 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	$ 1,520,773	$ -
Net difference between projected and actual plan investments earnings	315,258	-
Differences between expected and actual experience		(204,582)
Changes in proportion and differences between employer contributions and proportionate share contributions	1,614,503	-
Reporting Unit's contributions subsequent to the measurement date	4,635,966	
	$ 8,086,500	$ (204,582)

$4,635,966, 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.

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 September 30,	Amount
2016	$ 607,861
2017	607,861
2018	525,371
2019	1,504,859

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%

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Mortality assumptions - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2020 using projection scale AA for men and women were used.

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2014. 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.

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.

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%	5.90%
Alternate Investment Pools	18.00%	9.20%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	0.90%
Real Estate and Infrastructure Pools	10.00%	4.30%
Absolute Return Pools	15.50%	6.00%
Short Term Investment Pools	2.00%	0.00%
	100.00%	

* Long term rate of return does not include 2.1% 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.

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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 (7.0% for Pension Plus Plan), 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 or 1 percentage point higher than the current rate:

	1% Lower (6.0 - 7.0%)	Discount rate (7.0 - 8.0%)	1% Higher (8.0 - 9.0%)
Reporting Unit's proportionate share of the net pension liability	$ 79,630,278	$ 61,764,503	$ 46,702,924

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 2015 Comprehensive Annual Financial Report.

Payable to the Pension Plan - At year end the School District is current on all required pension plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

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.

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Concluded)

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.

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 employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% to 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015, and from 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election.

The District postemployment healthcare contributions to MPSERS for the years ended June 30, 2016, 2015 and 2014 were approximately $2,217,633, $2,419,944 and $1,347,342.

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2016 are as follows:

Receivable fund	Payable fund		
Capital projects - general education	General fund	$	109,089
Capital projects - special education	Special education		130,583
Debt service fund	Capital projects - general education		34,884
		$	274,556

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES (Concluded)

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, 2016 is as follows:

Transfer in fund	Transfer out fund	Amount
Capital projects - special education	Special education	$ 270,000
Debt service	Capital projects - general education	59,089
		$ 329,089

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 - UPCOMING ACCOUNTING PRONOUNCEMENTS

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.

NOTE 10 - UPCOMING ACCOUNTING PRONOUNCEMENTS (Concluded)

Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, was issued by the GASB in August 2015 and will be effective for the District's 2017 year end. The Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements in the footnotes of the financial statements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatements recipients.
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

This Statement will improve the user's ability on how tax abatements affect the reporting unit's financial positions and results of operations, including their ability to raise resources in the future.

NOTE 11 - SUBSEQUENT EVENTS

Subsequent to year end, the Board of Education approved the purchase of photocopier equipment in the amount of $1,005,000. These copiers are to be used at both the Agency and the Agency's local districts.

REQUIRED SUPPLEMENTARY INFORMATION

LIVINGSTON EDUCATIONAL SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016

	Budget Amounts			Variance with
	Original	Final	Actual	final budget
REVENUES:				
Local sources:				
Property taxes	$ 469,050	$ 472,863	$ 475,220	$ 2,357
Tuition	-	3,000	3,670	670
Investments	400	200	199	(1)
Other	118,700	206,094	221,522	15,428
Total local	588,150	682,157	700,611	18,454
State sources	4,492,563	4,796,895	4,784,893	(12,002)
Federal sources	2,055,022	1,979,707	1,967,780	(11,927)
Interdistrict	8,888,208	8,565,861	8,637,427	71,566
Total revenues	16,023,943	16,024,620	16,090,711	66,091
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	1,913,491	1,608,694	1,633,187	(24,493)
Added needs	68,283	77,929	69,830	8,099
Supporting services:				
Pupil services	670,929	731,867	749,025	(17,158)
Instructional staff	1,535,996	1,520,989	1,528,753	(7,764)
General administration	392,628	401,091	398,864	2,227
School administration	396,317	493,132	503,220	(10,088)
Business services	244,898	218,440	226,075	(7,635)
Operation and maintenance	365,395	343,824	339,486	4,338
Transportation services	7,344,954	7,058,559	7,052,598	5,961
Central services	1,663,787	1,549,034	1,579,529	(30,495)
Food service	332,361	372,115	396,931	(24,816)
Community service	84,959	89,707	89,992	(285)
Interdistrict transactions	934,265	1,336,246	1,335,840	406
Total expenditures	15,948,263	15,801,627	15,903,330	(101,703)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	75,680	222,993	187,381	(35,612)
OTHER FINANCING SOURCES (USES):				
Transfers out	(81,638)	(96,323)	-	96,323
NET CHANGE IN FUND BALANCE	(5,958)	126,670	187,381	60,711
FUND BALANCE, beginning of year	1,337,293	1,337,293	1,337,293	-
FUND BALANCE, end of year	$ 1,331,335	$ 1,463,963	$ 1,524,674	$ 60,711

LIVINGSTON EDUCATIONAL SERVICE AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
YEAR ENDED JUNE 30, 2016

	Budget Amounts			Variance with
	Original	**Final**	**Actual**	**final budget**
REVENUES:				
Local sources:				
Property taxes	$ 16,014,076	$ 16,145,589	$ 16,149,255	$ 3,666
Investments	30,000	16,000	15,414	(586)
Other	985,834	1,054,284	1,093,838	39,554
Total local	17,029,910	17,215,873	17,258,507	42,634
State sources	9,392,149	9,334,154	9,334,042	(112)
Federal sources	6,008,328	5,990,941	5,990,482	(459)
Interdistrict	58,600	58,600	58,457	(143)
Total revenues	32,488,987	32,599,568	32,641,488	41,920
EXPENDITURES:				
Current:				
Instruction:				
Added needs	4,769,513	4,639,528	4,662,364	(22,836)
Supporting services:				
Pupil services	15,151,690	15,044,000	15,075,901	(31,901)
Instructional staff	2,026,668	2,034,110	2,041,968	(7,858)
General administration	127,055	231,656	246,337	(14,681)
Business services	788,098	711,792	728,103	(16,311)
Operation and maintenance	581,488	535,076	532,170	2,906
Transportation services	3,728,598	3,482,253	3,462,518	19,735
Central services	487,183	466,494	474,202	(7,708)
Community service	82,000	46,562	49,334	(2,772)
Interdistrict transactions	4,787,803	4,738,595	4,738,326	269
Capital outlay	-	13,000	-	13,000
Total expenditures	32,530,096	31,943,066	32,011,223	(68,157)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(41,109)	656,502	630,265	(26,237)
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital asset	-	11,979	11,979	-
Transfers in	27,000	29,000	-	(29,000)
Transfers out	(350,500)	(350,659)	(270,000)	80,659
Total other financing sources (uses)	(323,500)	(309,680)	(258,021)	51,659
NET CHANGE IN FUND BALANCE	(364,609)	346,822	372,244	25,422
FUND BALANCE, beginning of year	3,753,052	3,753,052	3,753,052	-
FUND BALANCE, end of year	$ 3,388,443	$ 4,099,874	$ 4,125,296	$ 25,422

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)

	2015	2014
Reporting unit's proportion of net pension liability (%)	0.25287%	0.24534%
Reporting unit's proportionate share of net pension liability	$ 61,764,503	$ 54,039,096
Reporting unit's covered-employee payroll	$ 21,199,098	$ 20,915,186
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	291.35%	258.37%
Plan fiduciary net position as a percentage of total pension liability	63.17%	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)

	2016	2015
Statutorily required contributions	$ 5,546,493	$ 4,752,199
Contributions in relation to statutorily required contributions	5,546,493	4,752,199
Contribution deficiency (excess)	$ -	$ -
Reporting unit's covered-employee payroll	$ 21,616,074	$ 21,407,201
Contributions as a percentage of covered-employee payroll	25.66%	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, 2016

Changes of benefit terms: There were no changes of benefit terms in 2015.

Changes of assumptions: There were no changes of benefit assumptions in 2015.

ADDITIONAL SUPPLEMENTARY INFORMATION

LIVINGSTON EDUCATIONAL SERVICE AGENCY
BONDED DEBT
JUNE 30, 2016

$3,080,000 bond issued December 22, 2015.

Interest due		Principal due	Debt service requirement for fiscal year	
November 1,	May 1,	May 1,	June 30,	Amount
$ 33,775	$ 33,775	$ 270,000	2017	$ 337,550
31,075	31,075	280,000	2018	342,150
28,275	28,275	290,000	2019	346,550
25,375	25,375	295,000	2020	345,750
22,425	22,425	305,000	2021	349,850
19,375	19,375	310,000	2022	348,750
16,275	16,275	320,000	2023	352,550
13,075	13,075	330,000	2024	356,150
9,363	9,363	335,000	2025	353,726
5,175	5,175	345,000	2026	355,350
$ 204,188	$ 204,188	$ 3,080,000		$ 3,488,376

The bonds were approved by the board of education at the November 11, 2015 meeting to demolish outdated buildings and reconstruct equivalent spaces. The bonds will carry interest rates ranging from 2.00% to 3.00%.

LIVINGSTON EDUCATIONAL SERVICE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal grantor/pass-through grantor/program title	Federal CFDA number	Pass-through grantor's number	Approved grant award amount	Accrued (unearned) revenue 7/1/2015	Prior year expenditures (memorandum only)	Current year cash receipts	Current year expenditures	Accrued (unearned) revenue 6/30/2016
U.S Department of Education:								
Passed through Michigan Department of Education:								
Special Education Cluster:								
IDEA	84.027	150450-1415	$ 5,534,215	$ 46,645	$ 5,534,215	$ 46,645	$ -	$ -
		160450-1516	5,558,642	-	-	5,114,726	5,558,642	443,916
		150480	50,000	-	50,000	-	-	-
		160480	50,000	-	-	50,000	50,000	-
		150490-TC	65,000	24,399	65,000	24,399	-	-
		160490-TC	65,000	-	-	58,908	65,000	6,092
Total IDEA			11,322,857	71,044	5,649,215	5,294,678	5,673,642	450,008
Preschool Incentive	84.173A	150460-1415	137,400	-	137,400	-	-	-
		160460-1516	137,564	-	-	129,241	137,564	8,323
Total Preschool Incentive			274,964	-	137,400	129,241	137,564	8,323
Total Special Education Cluster			11,597,821	71,044	5,786,615	5,423,919	5,811,206	458,331
Vocational Education - Basic Grants to States (Perkins II):	84.048A	153520-151217	179,539	50,010	179,539	50,010	-	-
		163520-161217	200,930	-	-	142,630	200,930	58,300
Total Vocational Education			380,469	50,010	179,539	192,640	200,930	58,300
Infant Toddler Formula	84.181A	151340-1415	147,286	1,015	147,286	1,015	-	-
		161340-1516	149,735	-	-	139,532	149,735	10,203
Total Infant Toddler Formula			297,021	1,015	147,286	140,547	149,735	10,203
Homeless Children & Youths	84.196	152320-1415	25,929	35	17,202	5,717	5,682	-
		162320-1516	29,478	-	-	19,702	21,060	1,358
Total Homeless Children & Youths			55,407	35	17,202	25,419	26,742	1,358
Child Care and Development Block Grant	93.575	143QUA - 1314	50,000	-	5,760	-	-	-
		153QUA - 1415	100,000	9,031	81,133	27,898	18,867	-
		163QUA - 1516	100,000	-	-	75,818	80,620	4,802
Total Child Care and Development Block Grant			250,000	9,031	86,893	103,716	99,487	4,802
Title II	84.367	140520-1314	1,512	-	1,512	-	-	-
		150520-1415	800	-	796	-	-	-
		160520-1516	751	-	-	751	751	-
Total Title II			3,063	-	2,308	751	751	-
Total passed through Michigan Department of Education			12,583,781	131,135	6,219,843	5,886,992	6,288,851	532,994
Total U.S. Department of Education			12,583,781	131,135	6,219,843	5,886,992	6,288,851	532,994

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, 2016

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Approved amount	Accrued (unearned) revenue 7/1/2015	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (unearned) revenue 6/30/2016
U.S. Department of Health and Human Services:								
Direct Head Start	93.600	05CH8415/01	$ 1,229,546	$ -	$ 1,229,546	$ -	$ -	$ -
		05CH8415/02	1,229,546	-	-	1,000,000	1,229,546	229,546
Total Head Start			2,459,092	-	1,229,546	1,000,000	1,229,546	229,546
Passed through Michigan Department of Community Health:								
Medicaid - Administrative Outreach Claiming	93.778		29,541	-	41,261	29,541	29,541	-
Total U.S. Department of Health and Human Services			2,488,633	-	1,270,807	1,029,541	1,259,087	229,546
U.S. Department of Labor:								
Passed through Michigan Works - Livingston County:								
AY13 Wagner PEYSER 7(A)	17.207		5,368	-	-	11,341	11,341	-
AY14 WIA Adult	17.258		5,145	-	-	5,670	5,670	-
AY14 WIA Youth	17.259		2,252	-	50,000	5,155	5,155	-
AY13 WIA Dislocated Worker	17.278		4,196	-	-	10,665	23,198	12,533
Total WIA /WIOA cluster			11,593	-	50,000	21,490	34,023	12,533
FY14 Temp Asst for Needy Families	93.558		3,965	-	-	6,186	6,186	-
Total U.S. Department of Labor			20,926	-	50,000	39,017	51,550	12,533
U.S. Department of Agriculture:								
Passed through Michigan Department of Education:								
Child Care Food Program	10.558	151920	162,335	-	162,335	15,059	15,059	-
		161920	161,274	-	-	161,274	161,274	-
		152010	8,894	-	8,894	951	951	-
		162010	9,155	-	-	9,155	9,155	-
Total Passed through Michigan Dept. of Education			341,658	-	171,229	186,439	186,439	-
Passed through Michigan Fitness Foundation:								
Supplemental Nutrition Assistance Program (SNAP)	10.561	61-5050Q-1415	236,797	98,237	229,927	101,025	2,788	-
		61-5050Q-1516	236,797	-	-	120,573	211,754	91,181
		ADMIN-14-99011	73,051	11,907	11,907	-	-	-
Total passed through Michigan Fitness Foundation			546,645	110,144	241,834	221,598	214,542	91,181
Total U.S. Department of Agriculture			888,303	110,144	413,063	408,037	400,981	91,181
Total Federal Awards			$ 15,981,643	$ 241,279	$ 7,953,713	$ 7,363,587	$ 8,000,469	$ 866,254

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, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Livingston Educational Service Agency under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). 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.

The Agency qualifies for low-risk auditee status. Management has utilized the Cash Management System and the Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and 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. Livingston Educational Service Agency has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. The Agency does not pass through federal funds.

NOTE 3 - RECONCILING WITH AUDITED FINANCIAL STATEMENTS

Federal expenditures are reported as revenue in the following funds in the financial statements as of June 30, 2016:

General fund	$ 1,967,780
Special Education Fund	5,990,482
Total federal revenue in the fund financial statements	7,958,262
Revenue not received within sixty days of year end	42,207
Expenditures per Schedule of Expenditures of Federal Awards	$ 8,000,469

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INDEPENDENT AUDITOR'S 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*

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, 2016, 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 September 20, 2016.

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

September 20, 2016

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2016.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Maner Costerisan PC

September 20, 2016

LIVINGSTON EDUCATIONAL SERVICE AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
➢ Material weakness(es) identified:	___ Yes _X_ No
➢ Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ Yes _X_ None reported
Type of auditor's report issued on compliance for major programs:	*Unmodified*
Any audit findings disclosed that are required to be reported in accordance with Title 2 CFR Section 200.516(a)?	___ Yes _X_ No

Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.173A	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	_X_ Yes ___ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Question Costs

None

LIVINGSTON EDUCATIONAL SERVICE AGENCY
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

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

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September 20, 2016

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, 2016, and have issued our report thereon dated September 20, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

<u>Our Responsibility under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards* and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)</u>

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 U.S. generally accepted accounting principles. 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 requirements 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 the Uniform Guidance.

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 the Uniform Guidance, we examined, on a test basis, evidence about Livingston Educational Service Agency's compliance with the types of compliance requirements described in the *OMB 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 in our meeting about planning matters.

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. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the Organization 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 the incurred but not reported (IBNR) claims is based on actual payouts through the report date, as well as historical payment experience. We evaluated 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.

Management's determination of the estimated life span of the capital assets:

We 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 misstatements identified during the audit, other than those that are clearly 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, a disagreement with management is 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 September 20, 2016.

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 Organization'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.

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

A separate management letter was not issued.

This information is intended solely for the use of the Board of Education 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