# LIVINGSTON EDUCATIONAL SERVICE AGENCY

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

## YEAR ENDED JUNE 30, 2021

Maner Costerisan
Certified Public Accountants
Business & Technology Advisors

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Maner Costerisan
Certified Public Accountants
Business & Technology Advisors

Maner Costerisan PC
2425 E. Grand River Ave.
Suite 1
Lansing, MI 48912-3291
T: 517 323 7500
F: 517 323 6346
www.manercpa.com

# 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, 2021, and the related notes to the financial statements, which collectively comprise the Livingston Educational Service Agency's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Livingston Educational Service Agency as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter - Change in Accounting Principle***

As discussed in Note 16 to the financial statements, Livingston Educational Service Agency implemented Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other 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 October 7, 2021 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Livingston Educational Service Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Livingston Educational Service Agency's internal control over financial reporting and compliance.

Maner Costerisan PC

October 7, 2021

## Management's Discussion and Analysis

This section of the annual financial report presents our discussion and analysis of Livingston Educational Service Agency's (the Agency) financial performance during the year ended June 30, 2021. 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, C.F.O., C.P.A., 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 the business world 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 2021 decreased by $5,825,052, the prior year was a decrease of $5,518,917. The ending net position is as follows:

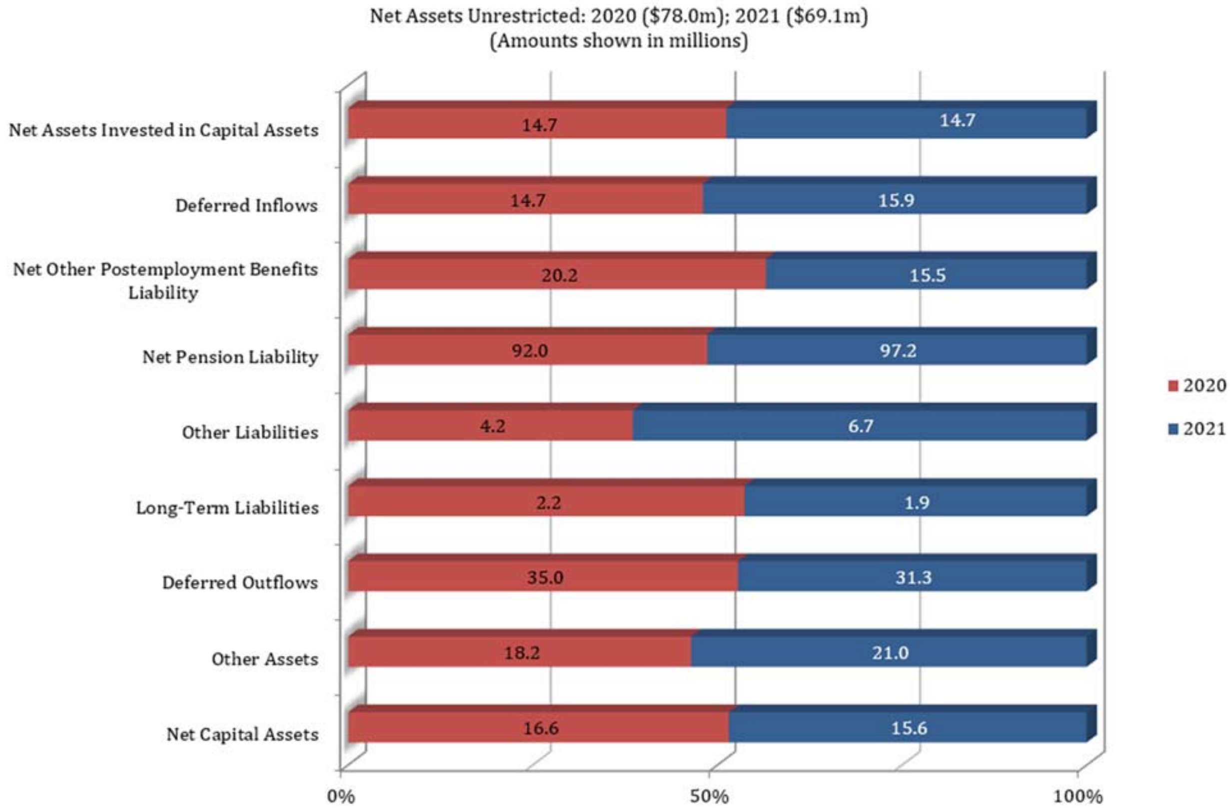
| | 2021 | 2020 |
|---|---|---|
| Change in Net Position | $ (5,825,052) | $ (5,518,917) |
| Ending Net Position | $ (69,147,474) | $ (63,354,954) |

Fund balance changes are noted below:

| 2021 | Budget | Actual |
|---|---|---|
| General Fund Change in Fund Balance | $ 39,438 | $ 40,908 |
| Special Education Fund Change in Fund Balance | $ (931,561) | $ (903,814) |

The budget variance in the general fund as a percentage of total expenditures was 0.01%. That same variance in the special education fund was 0.06%. Both of these variances were positive - in that each fund has slightly more fund balance than was projected in the final approved budget.

## Condensed Statement of Net Position




Net Capital Assets decreased by approximately $1,003,000 during 2021, due primarily to depreciation of capital assets as well as the disposal of Agency buses and equipment that were recorded during the current year. This decrease was partially offset by the purchase of new Agency buses and equipment.

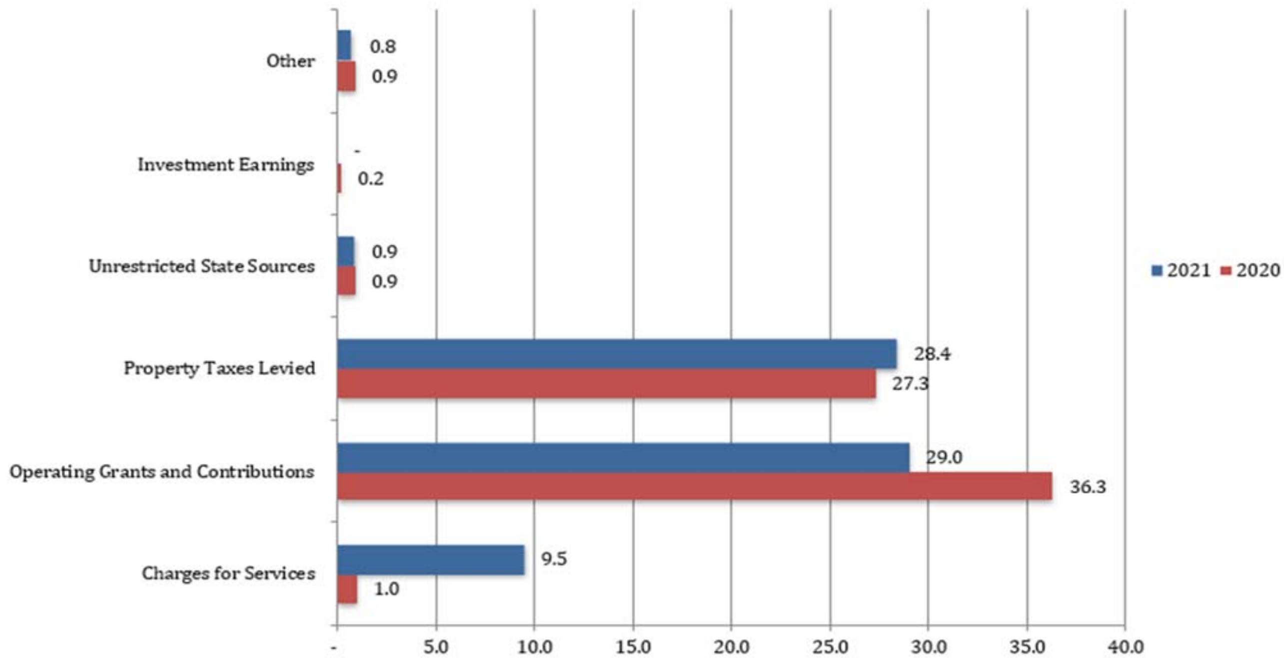
The increase in Other Assets of approximately $2,790,000 is attributable to a net increase in cash and investments that resulted from current year operations.

Long-Term Liabilities decreased by approximately $308,000 during 2021 due to current year payments on a prior period bond issuance and required annual payments for installment purchase agreements.

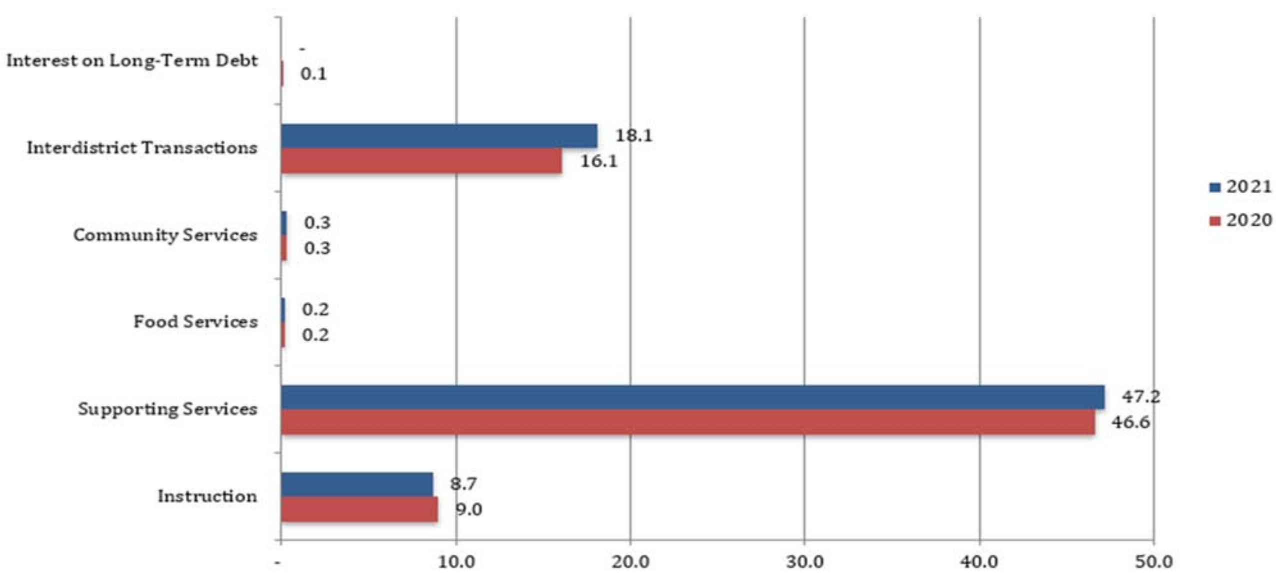
Other Liabilities increased by approximately $2,451,000 due to an increase in unearned revenue as of June 30, 2021 with grant funds received during the current year that are to be spent in the subsequent period.

The Condensed Statement of Activities presented below compares 2021 to 2020 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.

**Condensed Statement of Activities - Revenues**
2020 Total: $66.6; 2021 Total: $68.6
(Amounts shown in millions)




**Condensed Statement of Activities**
Program Expenses
2020 Total: $72.1; 2021 Total: $74.5
(Amounts shown in millions)




The 2022 fiscal year will continue to show a structurally balanced budget for the Agency. The Agency will continue to evaluate the impacts of all state and federal legislative changes related to the COVID 19 pandemic and adjust budgets accordingly.

# BASIC FINANCIAL STATEMENTS

# LIVINGSTON EDUCATIONAL SERVICE AGENCY
# STATEMENT OF NET POSITION
# JUNE 30, 2021

| | Governmental Activities |
|---|---|
| ASSETS | |
| Cash and cash equivalents | $ 10,911,567 |
| Investments | 2,151,034 |
| Accounts receivable | 113,612 |
| Intergovernmental receivables | 7,181,782 |
| Inventories | 1,380 |
| Prepaids | 51,344 |
| Noncurrent assets | |
| Receivables, due within one year | 189,244 |
| Receivables, due in more than one year | 378,490 |
| Capital assets not being depreciated | 224,007 |
| Capital assets being depreciated, net of accumulated depreciation | 15,416,221 |
| TOTAL ASSETS | 36,618,681 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Related to pension | 23,023,229 |
| Related to other postemployment benefit | 8,316,099 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 31,339,328 |
| LIABILITIES | |
| Accounts payable | 559,674 |
| Accrued payroll related liabilities | 683,761 |
| Accrued retirement | 1,659,287 |
| Accrued interest | 6,458 |
| Unearned revenue | 3,682,136 |
| Claims payable | 37,260 |
| Incurred by not yet reported liability | 50,000 |
| Noncurrent liabilities | |
| Due within one year | 310,000 |
| Due in more than one year | 1,565,827 |
| Net pension liability | 97,249,008 |
| Net other postemployment benefit liability | 15,450,918 |
| TOTAL LIABILITIES | 121,254,329 |
| DEFERRED INFLOWS OF RESOURCES | |
| Related to pension | 449,983 |
| Related to other postemployment benefit | 11,626,697 |
| Related to state aid funding for pension | 3,774,474 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 15,851,154 |
| NET POSITION | |
| Net investment in capital assets | 13,967,038 |
| Unrestricted | (83,114,512) |
| TOTAL NET POSITION | $ (69,147,474) |

See notes to financial statements.

**LIVINGSTON EDUCATIONAL SERVICE AGENCY**
**STATEMENT OF ACTIVITIES**
**YEAR ENDED JUNE 30, 2021**

| | | 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 | $ 8,679,391 | $ 390,394 | $ 11,072,482 | $ 2,783,485 |
| Supporting services | 47,230,869 | 9,065,228 | 17,571,590 | (20,594,051) |
| Food services | 157,025 | - | 277,823 | 120,798 |
| Community services | 300,593 | 14,372 | 93,477 | (192,744) |
| Interdistrict transactions and facilities acquisition | 18,068,122 | - | 28,920 | (18,039,202) |
| Interest on long-term obligations | 43,833 | - | - | (43,833) |
| Total governmental activities | $ 74,479,833 | $ 9,469,994 | $ 29,044,292 | (35,965,547) |
| General revenues | | | | |
| Property taxes levied for general purposes | | | | 556,604 |
| Property taxes levied for special education | | | | 27,813,881 |
| State sources - unrestricted | | | | 926,647 |
| Revenue not restricted to specific programs | | | | 833,244 |
| Investment earnings | | | | 10,119 |
| Total general revenues | | | | 30,140,495 |
| CHANGE IN NET POSITION | | | | (5,825,052) |
| Net position, beginning of year, as restated | | | | (63,322,422) |
| Net position, end of year | | | | $ (69,147,474) |

See notes to financial statements.

# LIVINGSTON EDUCATIONAL SERVICE AGENCY
# BALANCE SHEET
# GOVERNMENTAL FUNDS
# JUNE 30, 2021

| | General Fund | Special Education Fund | Capital Projects Fund | Total Governmental Funds |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and cash equivalents | $ 6,692,038 | $ 262,738 | $ 3,746,634 | $ 10,701,410 |
| Investments | - | 874,648 | 1,276,386 | 2,151,034 |
| Accounts receivable | 7,849 | 105,763 | - | 113,612 |
| Intergovernmental receivables | 3,505,631 | 3,613,927 | 62,224 | 7,181,782 |
| Due from other funds | - | 1,146,858 | 925,989 | 2,072,847 |
| Inventories | 1,380 | - | - | 1,380 |
| Prepaids | 50,957 | 387 | - | 51,344 |
| TOTAL ASSETS | $ 10,257,855 | $ 6,004,321 | $ 6,011,233 | $ 22,273,409 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts payable | $ 391,209 | $ 96,984 | $ 71,481 | $ 559,674 |
| Accrued payroll and related liabilities | 345,017 | 338,744 | - | 683,761 |
| Accrued retirement | 1,584,059 | 75,228 | - | 1,659,287 |
| Due to internal service fund | 13,597 | 68,925 | - | 82,522 |
| Due to other funds | 2,072,847 | - | - | 2,072,847 |
| Unearned revenue | 3,572,122 | 110,014 | - | 3,682,136 |
| TOTAL LIABILITIES | 7,978,851 | 689,895 | 71,481 | 8,740,227 |
| FUND BALANCES | | | | |
| Nonspendable | | | | |
| Inventories | 1,380 | - | - | 1,380 |
| Prepaids | 50,957 | 387 | - | 51,344 |
| Restricted for: | | | | |
| Special education - operations | - | 5,314,039 | - | 5,314,039 |
| Assigned for: | | | | |
| Capital projects | - | - | 5,939,752 | 5,939,752 |
| Curriculum and instruction | 329,739 | - | - | 329,739 |
| Student/school activities | 36,797 | - | - | 36,797 |
| Unassigned | 1,860,131 | - | - | 1,860,131 |
| TOTAL FUND BALANCES | 2,279,004 | 5,314,426 | 5,939,752 | 13,533,182 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 10,257,855 | $ 6,004,321 | $ 6,011,233 | $ 22,273,409 |

See notes to financial statements.

**LIVINGSTON EDUCATIONAL SERVICE AGENCY**
**RECONCILIATION OF THE BALANCE SHEET**
**OF GOVERNMENTAL FUNDS TO THE**
**STATEMENT OF NET POSITION**
**JUNE 30, 2021**

| | |
|---|---|
| **Fund balances - total governmental funds** | $ 13,533,182 |
| 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, including current portion | 567,734 |
| An internal service fund is used by management to charge the costs of certain activities, such as 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 | 205,419 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | |
| Add - capital assets not being depreciated | 224,007 |
| Add - capital assets being depreciated, net of accumulated depreciation | 15,416,221 |
| Certain liabilities, such as bonds and installment notes payable, are not due and payable in the current period and therefore are not reported in the funds. In addition, revenue is reported in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end. | |
| Deduct - general obligation bond | (1,673,190) |
| Deduct - accrued interest on long-term obligations | (6,458) |
| Deduct - compensated absences | (202,637) |
| Deduct - net pension liability | (97,249,008) |
| Deduct - net other postemployment benefit liability | (15,450,918) |
| 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 pension | 23,023,229 |
| Deduct - deferred inflows of resources - related to pension | (449,983) |
| Add - deferred outflows of resources - related to other postemployment benefit | 8,316,099 |
| Deduct - deferred inflows of resources - related to other postemployment benefit | (11,626,697) |
| Deduct - deferred inflows of resources - related to state aid funding for pension | (3,774,474) |
| **Net position of governmental activities** | $ (69,147,474) |

See notes to financial statements.

## LIVINGSTON EDUCATIONAL SERVICE AGENCY
## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
## GOVERNMENTAL FUNDS
## YEAR ENDED JUNE 30, 2021

| | General Fund | Special Education Fund | Capital Projects Fund | Nonmajor Debt Service Fund | Total Governmental Funds |
|---|---|---|---|---|---|
| REVENUES | | | | | |
| Local sources | | | | | |
| Property taxes | $ 556,604 | $ 27,813,881 | $ - | $ - | $ 28,370,485 |
| Tuition | 460 | - | - | - | 460 |
| Investments | 153 | 6,925 | 3,037 | - | 10,115 |
| Other | 94,858 | 2,127,586 | - | - | 2,222,444 |
| Total local sources | 652,075 | 29,948,392 | 3,037 | - | 30,603,504 |
| State sources | 6,317,310 | 13,531,937 | - | - | 19,849,247 |
| Federal sources | 2,655,099 | 6,372,750 | - | - | 9,027,849 |
| Interdistrict | 9,303,993 | 350,632 | 369,683 | - | 10,024,308 |
| TOTAL REVENUES | 18,928,477 | 50,203,711 | 372,720 | - | 69,504,908 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Instruction | 3,116,275 | 4,902,351 | - | - | 8,018,626 |
| Supporting services | 14,212,449 | 28,634,312 | - | - | 42,846,761 |
| Community service | 212,223 | 69,295 | - | - | 281,518 |
| Other services | 170,123 | - | - | - | 170,123 |
| Interdistrict transactions | 1,115,094 | 16,250,247 | - | - | 17,365,341 |
| Debt service | | | | | |
| Principal | - | - | - | 305,000 | 305,000 |
| Interest | - | - | - | 44,850 | 44,850 |
| Capital outlay | - | - | 7,708 | - | 7,708 |
| TOTAL EXPENDITURES | 18,826,164 | 49,856,205 | 7,708 | 349,850 | 69,039,927 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 102,313 | 347,506 | 365,012 | (349,850) | 464,981 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Proceeds from sale of capital assets | - | 33,680 | - | - | 33,680 |
| Transfer from internal service fund | 3,595 | - | - | - | 3,595 |
| Transfers in | - | 40,000 | 1,350,000 | 349,850 | 1,739,850 |
| Transfers out | (65,000) | (1,325,000) | (349,850) | - | (1,739,850) |
| TOTAL OTHER FINANCING SOURCES (USES) | (61,405) | (1,251,320) | 1,000,150 | 349,850 | 37,275 |
| NET CHANGE IN FUND BALANCES | 40,908 | (903,814) | 1,365,162 | - | 502,256 |
| Fund balances, beginning of year, as restated | 2,238,096 | 6,218,240 | 4,574,590 | - | 13,030,926 |
| Fund balances, end of year | $ 2,279,004 | $ 5,314,426 | $ 5,939,752 | $ - | $ 13,533,182 |

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, 2021**

| | |
|---|---|
| **Net change in fund balances - total governmental funds** | $ 502,256 |
| 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 | 711,698 |
| Deduct - depreciation expense | (1,714,429) |
| Internal service funds are used by management to charge the costs of certain personnel costs to individual funds. The net decrease in the net position of the internal service funds are reported with governmental activities. | |
| Add - net income for the internal service fund | 18,461 |
| 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 | (189,244) |
| The issuance of long-term obligations (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term obligations 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 obligations and related items are as follows: | |
| Add - amortization of general obligation bond premium | 6,750 |
| Add - principal payments on general obligation bond | 305,000 |
| 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. | |
| Deduct - previous year revenue received beyond 60 days of previous year end | (25,899) |
| Compensated absences are reported on the accrual method in the statement of activities and recorded as an expenditure when financial resources are used in the governmental funds | |
| Deduct - increase in accrued compensated absences | (3,471) |
| 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 | 1,017 |
| Deduct - pension related items | (7,025,400) |
| Add - other postemployment benefit related items | 2,256,877 |
| 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 - increase in state aid funding for pension | (668,668) |
| **Change in net position of governmental activities** | $ (5,825,052) |

See notes to financial statements.

**LIVINGSTON EDUCATIONAL SERVICE AGENCY**
**INTERNAL SERVICE FUND**
**STATEMENT OF NET POSITION**
**JUNE 30, 2021**

| | Internal Service Fund |
|---|---|
| ASSETS | |
| Current assets | |
| Cash and cash equivalents | $ 210,157 |
| Due from other funds | 82,522 |
| Total current assets | 292,679 |
| LIABILITIES | |
| Current liabilities | |
| Claims payable | 37,260 |
| Incurred but not yet reported liability | 50,000 |
| Total current liabilities | 87,260 |
| NET POSITION | |
| Unrestricted | $ 205,419 |

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, 2021**

| | Internal Service Fund |
|---|---|
| OPERATING REVENUE | |
| Charges for services | $ 408,606 |
| OPERATING EXPENSES | |
| Cost of insurance claims | 359,525 |
| Administrative costs | 27,029 |
| TOTAL OPERATING EXPENSES | 386,554 |
| Operating income | 22,052 |
| NON OPERATING INCOME | |
| Interest income | 4 |
| Net income before transfers | 22,056 |
| Transfers out | (3,595) |
| Change in net position | 18,461 |
| Net position, beginning of year | 186,958 |
| Net position, end of year | $ 205,419 |

See notes to financial statements.

**LIVINGSTON EDUCATIONAL SERVICE AGENCY**
**INTERNAL SERVICE FUND**
**STATEMENT OF CASH FLOWS**
**YEAR ENDED JUNE 30, 2021**

| | Internal Service Fund |
|---|---|
| CASH FLOWS FROM OPERATING EXPENSES | |
| Charges for services | $ 325,704 |
| Claims paid | (370,541) |
| Administrative fees paid | (27,029) |
| Net cash used by operating activities | (71,866) |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | |
| Transfers out | (3,595) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest earned on investments | 4 |
| Net decrease in cash and cash equivalents | (75,457) |
| Cash and cash equivalents, beginning of year | 285,614 |
| Cash and cash equivalents, end of year | $ 210,157 |
| CASH FROM OPERATING ACTIVITIES | |
| Operating income | $ 22,052 |
| Adjustments to reconcile operating income to net cash provided by operating activities | |
| Changes in operating assets and liabilities which provided (used) cash | |
| Due from other funds | (82,902) |
| Claims payable | 13,984 |
| Incurred but not yet reported liability | (25,000) |
| Net cash used by operating activities | $ (71,866) |

See notes to financial statements.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. The Agency does not currently have any fiduciary activities. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

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.

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 and the internal service fund.

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

Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the Agency's funds. Separate statements for each fund category – governmental and proprietary - 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.

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 Fund* (special revenue fund type) accounts for special education programs.

The *Capital Projects Fund* which accounts for revenue and the disbursements of invoices specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Basis of Presentation - Fund Financial Statements (continued)

*Nonmajor 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 vision and dental care.

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.

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.

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.* 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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

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 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.

The internal service fund is reported using the *economic resources measurement focus* and the accrual *basis of accounting*.

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 days.

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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

<u>Budgetary Information</u>

*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:

a. 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.

b. Public hearings are conducted to obtain taxpayer comments.

c. 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.

d. 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.

e. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2021. The Agency does not consider these amendments to be significant.

<u>Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance</u>

*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 3 months or less from the date of acquisition.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

*Investments*

In accordance with Michigan Compiled Laws, the Agency is authorized to invest in the following investment vehicles:

a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration (NCUA), but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

c. 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.

d. The United States government or federal agency obligations repurchase agreements.

e. Bankers' acceptances of United States banks.

f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

*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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

*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 acquisition value at the date of donation.

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 capital assets of the Agency are depreciated using the straight-line method over the following estimated useful lives:

| Capital Asset Classes | Lives/Years |
|---|---|
| Buildings and structures | 25 - 50 |
| Furniture and equipment | 5 - 20 |
| Site improvements | 10 |
| Vehicles and buses | 7 |

*Defined Benefit Plans*

For purposes of measuring the net pension and other postemployment benefit liability, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefits 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.

*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 has two items that qualify for reporting in this category. They are pension and other postemployment benefits related items reported in the government-wide statement of net position. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

*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 three items that qualify for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period. The second and third items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

*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.

*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.

*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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

*Fund Balance Policies (continued)*

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.

Revenues and Expenditures/Expenses

*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.

*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, 2021, the Agency levied the following amounts per $1,000 of assessed valuation:

| Fund | Mills Levied | Taxable Value (Billions) |
|---|---|---|
| General fund - general education | 0.0645 | 8.6 |
| Special revenue fund - special education | 3.2042 | 8.6 |

*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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Revenues and Expenditures/Expenses (continued)

*Long-term Obligations*

In the government-wide financial statements, 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.

*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**

As of June 30, 2021 the Agency had deposits and investments subject to the following risk.

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, 2021, $10,592,268 of the Agency's bank balance of $11,092,268 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying value on the books for deposits at the end of the year was $10,911,567.

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.

**NOTE 2 - DEPOSITS AND INVESTMENTS (continued)**

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.

| Investment Type | Fair Value | Weighted Average Maturity (Years) |
|---|---|---|
| Michigan Class Investment Pool | $ 2,151,034 | 0.1507 |
| Portfolio weighted average maturity | | 0.1507 |

One day maturity equals 0.0027, one year equals 1.00

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. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

| Investment Type | Fair Value | Rating | Rating Agency |
|---|---|---|---|
| Michigan Class Investment Pool | $ 2,151,034 | AAAm | Standard & Poor's |

Foreign Currency Risk

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

Fair Value Measurement

The Agency 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).

## NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Fair Value Measurement (continued)

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 Agency'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.

The Agency does not have any investments that are subject to the fair value hierarchy.

Investments in Entities that Calculate Net Asset Value per Share

The Agency holds shares or interests in the Michigan CLASS investment pool where the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

The Michigan CLASS investment pool invest in U.S. Treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated "A1" or better), collateralized bank deposits, repurchase agreements (collateralized at 102% by treasuries and agencies), and approved money market funds. The program is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statues and are available for investment by Michigan counties, cities, townships, school districts, authorities, and other public agencies.

At the year ended June 30, 2021, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

| Investment Type | Fair Value | Unfunded Commitments | Redemption Frequency, if Eligible | Redemption Notice Period |
|---|---|---|---|---|
| Michigan Class Investment Pool | $ 2,151,034 | $ - | No restrictions | None |

## NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Investments in Entities that Calculate Net Asset Value per Share (continued)

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the financial statements, based upon criteria disclosed in Note 1.

The following summarizes the categorization of these amounts as of June 30, 2021:

| | Primary Government |
|---|---|
| Cash and cash equivalents | $ 10,911,567 |
| Investments | 2,151,034 |
| | $ 13,062,601 |

## 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, 2021. 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. Receivable payments are as follows:

| Year Ending June 30, | |
|---|---|
| 2022 | $ 189,244 |
| 2023 | 189,244 |
| 2024 | 189,246 |
| | $ 567,734 |

## NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Due from other governmental units at June 30, 2021 consist of the following:

| | |
|---|---|
| State sources | $ 3,602,459 |
| Federal sources | 1,526,669 |
| Interdistrict | 2,052,654 |
| | $ 7,181,782 |

Because of the Agency's favorable collection experience, no allowance for doubtful accounts has been recorded.

## NOTE 5 - CAPITAL ASSETS

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

| | Balance July 1, 2020 | Additions | Deletions | Balance June 30, 2021 |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Land | $ 224,007 | $ - | $ - | $ 224,007 |
| Capital assets being depreciated | | | | |
| Buildings and structures | 18,217,561 | - | - | 18,217,561 |
| Furniture and equipment | 2,269,660 | 130,683 | 20,418 | 2,379,925 |
| Site improvements | 1,634,902 | - | - | 1,634,902 |
| Vehicles and buses | 6,991,922 | 581,015 | 731,918 | 6,841,019 |
| Total capital assets being depreciated | 29,114,045 | 711,698 | 752,336 | 29,073,407 |
| Accumulated depreciation | | | | |
| Buildings and structures | 5,621,430 | 536,878 | - | 6,158,308 |
| Furniture and equipment | 1,676,276 | 332,943 | 20,418 | 1,988,801 |
| Site improvements | 876,166 | 159,618 | - | 1,035,784 |
| Vehicles and buses | 4,521,221 | 684,990 | 731,918 | 4,474,293 |
| Total accumulated depreciation | 12,695,093 | 1,714,429 | 752,336 | 13,657,186 |
| Total capital assets being depreciated, net | 16,418,952 | (1,002,731) | - | 15,416,221 |
| Total capital assets, net | $ 16,642,959 | $ (1,002,731) | $ - | $ 15,640,228 |

Depreciation for the fiscal year ended June 30, 2021 amounted to $1,714,429. The Agency allocated depreciation to the various activities as follows:

| | |
|---|---|
| Governmental activities | |
| Instruction | $ 19,973 |
| Supporting services | 991,675 |
| Facilities acquisition | 702,781 |
| Total governmental activities | $ 1,714,429 |

## NOTE 6 - LONG-TERM OBLIGATIONS

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. Other long-term obligations include employee compensated absences and the self-insurance liability.

Long-term obligations currently outstanding are listed below.

| | |
|---|---|
| General Obligation Bond | |
| 2015 Building and site obligation bonds due in annual installments of $310,000 to $345,000 through May 1, 2026, plus interest at rates from 2.00% and 3.00%. | $ 1,640,000 |
| Plus premium on bond issuance | 33,190 |
| Total general obligation bond | 1,673,190 |
| Self-insurance liability | 50,000 |
| Compensated absences | 202,637 |
| Total general long-term obligations | $ 1,925,827 |

The annual requirements to amortize long-term obligations outstanding as of June 30, 2021, are as follows:

| | General Obligation Bond | | | | |
|---|---|---|---|---|---|
| Year Ending June 30, | Principal | Interest | Self-insurance Liability | Compensated Absences | Total |
| 2022 | $ 310,000 | $ 38,750 | $ - | $ - | $ 348,750 |
| 2023 | 320,000 | 32,550 | - | - | 352,550 |
| 2024 | 330,000 | 26,150 | - | - | 356,150 |
| 2025 | 335,000 | 18,726 | - | - | 353,726 |
| 2026 | 345,000 | 10,350 | - | - | 355,350 |
| | 1,640,000 | 126,526 | - | - | 1,766,526 |
| Issuance premium | 33,190 | - | - | - | 33,190 |
| Self-insurance liability | - | - | 50,000 | - | 50,000 |
| Compensated absences | - | - | - | 202,637 | 202,637 |
| | $ 1,673,190 | $ 126,526 | $ 50,000 | $ 202,637 | $ 2,052,353 |

**NOTE 6 - LONG-TERM OBLIGATIONS (continued)**

The following is a summary of governmental long-term obligations for the Agency for the year ended June 30, 2021:

| | General Obligation Bond | Self-insurance Liability | Compensated Absences | Total |
|---|---|---|---|---|
| Balance, July 1, 2020 | $ 1,984,940 | $ 75,000 | $ 199,166 | $ 2,259,106 |
| Additions | - | - | 3,471 | 3,471 |
| Deletions | (311,750) | (25,000) | - | (336,750) |
| Balance, June 30, 2021 | 1,673,190 | 50,000 | 202,637 | 1,925,827 |
| Due within one year | (310,000) | (50,000) | - | (360,000) |
| Due in more than one year | $ 1,363,190 | $ - | $ 202,637 | $ 1,565,827 |

**NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS**

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (System) 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 www.michigan.gov/orsschools.

The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees. In addition, the System's health plan provides all retirees with option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State of Michigan Investment Board serves as the investment fiduciary and custodian for the System.

**NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

Benefits Provided - Overall

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the 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 | Closed |
| Pension Plus 2 | Hybrid | Open |
| Defined Contribution | Defined Contribution | Open |

Benefits Provided - Penson

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.

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.

**NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

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.

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

Option 1 - Members voluntarily elected to increase their contributions to the pension fund as noted below and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic plan members: 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 - Members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transient date (0% for Basic plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 - Members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 - Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k)-account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they will also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

**NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

Pension Reform 2012 (continued)

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.

Final Average Compensation (FAC) - Average of highest 60 consecutive months for Basic Plan members and Pension Plus members (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.

Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closed the Pension Plus plan to newly hired employees as of February 1, 2018 and created a new, optional Pension Plus 2 plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the Pension Plus 2 plan is 6%. Further, under certain adverse actuarial conditions, the Pension Plus 2 plan will close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law included other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Benefits Provided - Other Postemployment Benefit (OPEB)

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, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, 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 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

<u>Retiree Healthcare Reform of 2012</u>

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 February 1, 2013.

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.

<u>Regular Retirement (no reduction factor for age)</u>

<u>Eligibility</u> - A Basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 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 Plan (PPP) members, age 60 with 10 years of credited service.

<u>Annual Amount</u> - The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

<u>Member Contributions</u>

Depending on the plan selected, member contributions range from 0% - 7% for pension and 0% - 3% for other postemployment benefits. Plan members electing the Defined Contribution plan are not required to make additional contributions.

**NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

Employer Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of pension benefits and 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 normal cost is the annual cost assigned under the actuarial funding method, to the current and subsequent plan years. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

Pension and OPEB contributions made in the fiscal year ending September 30, 2020 were determined as of the September 30, 2017 actuarial valuations. The pension and OPEB benefits, the unfunded (overfunded) actuarial accrued liabilities as of September 30, 2017 are amortized over a 19-year period beginning October 1, 2019 and ending September 30, 2038.

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:

| | Pension | Other Postemployment Benefit |
|---|---|---|
| October 1, 2019 - September 30, 2020 | 13.39% - 19.59% | 7.57% - 8.09% |
| October 1, 2020 - September 30, 2021 | 13.39% - 19.78% | 7.57% - 8.43% |

The District's pension contributions for the year ended June 30, 2021 were equal to the required contribution total. Total pension contributions were approximately $8,863,000. Of the total pension contributions approximately $8,567,000 was contributed to fund the Defined Benefit Plan and approximately $296,000 was contributed to fund the Defined Contribution Plan.

The District's OPEB contributions for the year ended June 30, 2021 were equal to the required contribution total. Total OPEB contributions were approximately $2,458,000. Of the total OPEB contributions approximately $2,276,000 was contributed to fund the Defined Benefit Plan and approximately $182,000 was contributed to fund the Defined Contribution Plan.

These amounts, for both pension and OPEB benefit, include contributions funded from State Revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (100% for pension and 0% for OPEB).

**NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

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

*Pension Liabilities*

The net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2019 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.

| MPSERS (Plan) Non-university Employers | September 30, 2020 | September 30, 2019 |
|---|---|---|
| Total pension liability | $ 85,290,583,799 | $ 83,442,507,212 |
| Plan fiduciary net position | $ 50,939,496,006 | $ 50,325,869,388 |
| Net pension liability | $ 34,351,087,793 | $ 33,116,637,824 |
| Proportionate share | 0.28310% | 0.27777% |
| Net pension liability for the Agency | $ 97,249,008 | $ 91,988,946 |

**NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

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

For the year ended June 30, 2021, the District recognized pension expense of $15,592,858.

At June 30, 2021, 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 | $ 10,776,128 | $ - |
| Net difference between projected and actual plan investments earnings | 408,597 | - |
| Differences between expected and actual experience | 1,485,885 | (207,564) |
| Changes in proportion and differences between employer contributions and proportionate share contributions | 2,814,342 | (242,419) |
| Reporting Unit's contributions subsequent to the measurement date | 7,538,277 | - |
| | $ 23,023,229 | $ (449,983) |

$7,538,277, reported as deferred outflows of resources related to pensions resulting from District employer contributions after the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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 Ending September 30, | Amount |
|---|---|
| 2021 | $ 6,870,940 |
| 2022 | 4,777,722 |
| 2023 | 2,571,127 |
| 2024 | 815,180 |

**NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

*OPEB Liabilities*

The net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2019 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined.

| MPSERS (Plan) Non-university Employers | September 30, 2020 | September 30, 2019 |
|---|---|---|
| Total other postemployment benefits liability | $ 13,206,903,534 | $ 13,925,860,688 |
| Plan fiduciary net position | $ 7,849,636,555 | $ 6,748,112,668 |
| Net other postemployment benefits liability | $ 5,357,266,979 | $ 7,177,748,020 |
| Proportionate share | 0.28841% | 0.28088% |
| Net other postemployment benefits liability for the Agency | $ 15,450,918 | $ 20,160,596 |

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

For the year ended June 30, 2021, the District recognized OPEB expense of $19,213.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Changes of assumptions | $ 5,094,474 | $ - |
| Net difference between projected and actual plan investments earnings | 128,955 | - |
| Differences between expected and actual experience | - | (11,512,378) |
| Changes in proportion and differences between employer contributions and proportionate share contributions | 1,271,160 | (114,319) |
| Reporting Unit's contributions subsequent to the measurement date | 1,821,510 | - |
| | $ 8,316,099 | $ (11,626,697) |

**NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

$1,821,510, reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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

| Year Ending September 30, | Amount |
|---|---|
| 2021 | $ (1,373,894) |
| 2022 | (1,193,257) |
| 2023 | (994,562) |
| 2024 | (872,389) |
| 2025 | (698,006) |

Actuarial Assumptions

**Investment Rate of Return for Pension -** 6.80% a year, compounded annually net of investment and administrative expenses for the MIP, Basic and Pension Plus groups and 6.00% a year, compounded annually net of investment and administrative expenses for Pension Plus 2 Plan.

**Investment Rate of Return for OPEB -** 6.95% a year, compounded annually net of investment and administrative expenses.

**Salary Increases -** The rate of pay increase used for individual members is 2.75% - 11.55%, including wage inflation at 2.75%.

**Inflation -** 3.0%.

**Mortality Assumptions:**

*Retirees*: RP-2014 Male and Female Healthy Annuitant Mortality Tables scaled by 82% for males and 78% for females and adjusted for morality improvements using projection scale MP-2017 from 2006.

*Active*: RP-2014 Male and Female Employee Annuitant Mortality Tables scaled 100% and adjusted for morality improvements using projection scale MP-2017 from 2006.

*Disabled Retirees*: RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

**NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

Actuarial Assumptions (continued)

**Experience Study -** The annual actuarial valuation report of the System used for these statements is dated September 30, 2019. Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the determination of the total pension and OPEB liability beginning with the September 30, 2018 Comprehensive Annual Financial Report.

**The Long-Term Expected Rate of Return on Pension and Other Postemployment Benefit Plan Investments -** The pension rate was 6.80% (MIP, Basic, and Pension Plus Plan) and 6.00% for Pension Plus 2 Plan, and the other postemployment benefit rate was 6.95%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension and OPEB 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.

**Cost of Living Pension Adjustments -** 3.0% annual non-compounded for MIP members.

**Healthcare Cost Trend Rate for Other Postemployment Benefit -** 7.0% for year one and graded to 3.5% in year fifteen.

**Additional Assumptions for Other Postemployment Benefit Only - Applies to Individuals Hired Before September 4, 2012:**

Opt Out Assumption - 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.

Survivor Coverage - 80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree's death.

Coverage Election at Retirement - 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

**NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

Actuarial Assumptions (continued)

The target asset allocation at September 30, 2020 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 | 25.0% | 5.6% |
| International Equity Pools | 15.0% | 7.4% |
| Private Equity Pools | 16.0% | 9.3% |
| Real Estate and Infrastructure Pools | 10.0% | 4.9% |
| Fixed Income Pools | 10.5% | 0.5% |
| Absolute Return Pools | 9.0% | 3.2% |
| Real Return/Opportunistic Pools | 12.5% | 6.6% |
| Short Term Investment Pools | 2.0% | -0.1% |
| | 100.0% | |

* Long term rates of return are net of administrative expenses and 2.1% inflation

**Rate of Return -** For fiscal year ended September 30, 2020, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 5.37% and 5.24% respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Pension Discount Rate -** A single discount rate of 6.80% was used to measure the total pension liability (6.00% for the Pension Plus 2 Plan). This discount rate was based on the expected rate of return on pension plan investments of 6.80% (6.00% for the Pension Plus 2 Plan). The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. 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 plan members. 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.

**OPEB Discount Rate -** A single discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school districts contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

Actuarial Assumptions (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 a single discount rate of 6.80% (6.00% for the Pension Plus 2 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:

| | Pension | | |
|---|---|---|---|
| | 1% Decrease | Discount Rate | 1% Increase |
| Reporting Unit's proportionate share of the net pension liability | $ 125,872,344 | $ 97,249,008 | $ 73,526,643 |

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate -** The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using a single discount rate of 6.95%, as well as what the Reporting Unit's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | Other Postemployment Benefit | | |
|---|---|---|---|
| | 1% Decrease | Discount Rate | 1% Increase |
| Reporting Unit's proportionate share of the net other post employment benefit liability | $ 19,848,460 | $ 15,450,918 | $ 11,748,556 |

**Sensitivity to the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates -** The following presents the Reporting Unit's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.0% (decreasing to 3.5%), as well as what the Reporting Unit's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | Other Postemployment Benefit | | |
|---|---|---|---|
| | 1% Decrease | Current Healthcare Cost Trend Rates | 1% Increase |
| Reporting Unit's proportionate share of the net other post employment benefit liability | $ 11,606,799 | $ 15,450,918 | $ 19,823,128 |

## NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2020 Comprehensive Annual Financial Report.

**Payable to the Pension and OPEB Plan -** At year end the School District is current on all required pension and other postemployment benefit 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 from State Revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

## NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2021 are as follows:

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| Special education | General fund | $ 1,146,858 |
| Capital projects | General fund | 925,989 |
| | | $ 2,072,847 |

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, 2021 is as follows:

| Transfer In Fund | Transfer Out Fund | Amount |
|---|---|---|
| Capital projects | Special education | $ 1,325,000 |
| Special education | General fund | 40,000 |
| Capital projects | General fund | 25,000 |
| Debt service | Capital projects | 349,850 |
| | | $ 1,739,850 |

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 - OPERATING LEASE RECEIVABLES

The Agency entered into an operating lease agreement with three of the County's local districts. The Agency purchased copiers to be leased by the locals for a period of three years with a two-year renewal period. The cost of the copiers was $792,811. The carrying amount of the copiers was $79,281, which is net of accumulated depreciation of $713,530, as of June 30, 2021.

The future minimum rental obligations of the local districts as of June 30, 2021 are as follows:

| Year Ending June 30, | |
|---|---|
| 2022 | $ 52,012 |

## NOTE 11 - OPERATING LEASE OBLIGATIONS

The Agency leases land from one of the local districts in the county. The Agency's rental expenditures related to the leased land totaled $20,000 for the year ending June 30, 2021.

The future minimum rental obligations to the local district as of June 30, 2021 are as follows:

| Year Ending June 30, | |
|---|---|
| 2022 | $ 15,000 |
| 2023 | 15,000 |
| 2024 | 15,000 |
| 2025 | 15,000 |
| 2026 | 10,000 |
| 2027 - 2029 | 30,000 |
| | $ 100,000 |

## NOTE 12 - CAPITAL PROJECTS ASSIGNED FUND BALANCE

The assigned fund balance for the capital projects fund at June 30, 2021 consists of the following:

| | |
|---|---|
| General education fund facilities and technology | $ 1,755,298 |
| Special education fund facilities and technology | 4,886,273 |
| Collaboratives | (701,819) |
| | $ 5,939,752 |

## NOTE 13 - TAX ABATEMENTS

The Agency is required to disclose significant tax abatements as required by GASB Statement No. 77, *Tax Abatements*. The Agency receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions granted by cities and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities. The property taxes abated for the general and special education funds by municipality under these programs are as follows:

| Municipality | Taxes Abated |
|---|---|
| Handy Township | $ 35,643 |
| Howell Township | 9,264 |
| Brighton Township | 1,007 |
| Green Oak Township | 4,614 |
| Howell City | 9,444 |
| Brighton City | 10,550 |
| | $ 70,522 |

There are no significant abatements made by the Agency.

## NOTE 14 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Agency expects such amounts, if any, to be immaterial.

The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the impact on the state economy, taxpayers, employees, and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition and results of operations is uncertain.

## NOTE 15 - UPCOMING ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2021-2022 fiscal year.

## NOTE 15 - UPCOMING ACCOUNTING PRONOUNCEMENTS (continued)

In May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases,* as amended. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2022-2023 fiscal year. The Agency is currently in the process of determining if this standard will have a material impact on the financial statements.

## NOTE 16 - NEW ACCOUNTING STANDARD

For the year ended June 30, 2021, the District implemented the following new pronouncement, GASB Statement No. 84, *Fiduciary Activities.*

### Summary

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and is effective for the District's 2021-year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

**NOTE 16 - NEW ACCOUNTING STANDARD (continued)**

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

| | Fund Balances | |
|---|---|---|
| | General Fund | Total Governmental Funds |
| Fund balances as of July 1, 2020, as previously stated | $ 2,205,564 | $ 12,998,394 |
| Adoption of GASB Statement 84 | 32,532 | 32,532 |
| Fund balance as of July 1, 2020, as restated | $ 2,238,096 | $ 13,030,926 |

| | Net position |
|---|---|
| | Governmental Activities |
| Net position as of July 1, 2020, as previously stated | $ (63,354,954) |
| Adoption of GASB Statement 84 | 32,532 |
| Net position as of July 1, 2020, as restated | $ (63,322,422) |

# REQUIRED SUPPLEMENTARY INFORMATION

**LIVINGSTON EDUCATIONAL SERVICE AGENCY**
**BUDGETARY COMPARISON SCHEDULE**
**GENERAL FUND**
**YEAR ENDED JUNE 30, 2021**

| | Budget Amounts | | | Variance with |
|---|---|---|---|---|
| | Original | Final | Actual | Final Budget |
| REVENUES | | | | |
| Local sources | | | | |
| Property taxes | $ 555,035 | $ 557,837 | $ 556,604 | $ (1,233) |
| Tuition | 10,000 | 500 | 460 | (40) |
| Investments | 5,000 | (7,000) | 153 | 7,153 |
| Other | 312,557 | 91,029 | 94,858 | 3,829 |
| Total local sources | 882,592 | 642,366 | 652,075 | 9,709 |
| State sources | 5,973,166 | 6,221,509 | 6,317,310 | 95,801 |
| Federal sources | 2,566,764 | 2,785,495 | 2,655,099 | (130,396) |
| Interdistrict | 10,204,735 | 9,590,432 | 9,303,993 | (286,439) |
| TOTAL REVENUES | 19,627,257 | 19,239,802 | 18,928,477 | (311,325) |
| EXPENDITURES | | | | |
| Current | | | | |
| Instruction | | | | |
| Basic programs | 2,465,377 | 2,714,684 | 2,604,935 | 109,749 |
| Added needs | 254,600 | 583,632 | 463,280 | 120,352 |
| Adult and continuing | 51,711 | 55,868 | 48,060 | 7,808 |
| Supporting services | | | | |
| Pupil services | 1,057,727 | 999,101 | 1,047,132 | (48,031) |
| Instructional staff | 1,970,159 | 1,749,788 | 1,871,001 | (121,213) |
| General administration | 462,181 | 408,379 | 404,702 | 3,677 |
| School administration | 853,732 | 935,803 | 917,029 | 18,774 |
| Business services | 253,776 | 233,468 | 234,091 | (623) |
| Operation and maintenance | 266,238 | 290,790 | 794,191 | (503,401) |
| Transportation services | 8,409,072 | 7,972,155 | 7,353,170 | 618,985 |
| Central services | 1,662,402 | 1,644,069 | 1,591,133 | 52,936 |
| Other (food service) | 215,000 | 160,000 | 170,123 | (10,123) |
| Community service | 190,177 | 238,801 | 212,223 | 26,578 |
| Interdistrict transactions | 1,340,690 | 1,141,751 | 1,115,094 | 26,657 |
| TOTAL EXPENDITURES | 19,452,842 | 19,128,289 | 18,826,164 | 302,125 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 174,415 | 111,513 | 102,313 | (9,200) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 5,000 | 3,500 | 3,595 | 95 |
| Transfers out | (70,781) | (75,575) | (65,000) | 10,575 |
| TOTAL OTHER FINANCING SOURCES (USES) | (65,781) | (72,075) | (61,405) | 10,670 |
| NET CHANGE IN FUND BALANCE | 108,634 | 39,438 | 40,908 | 1,470 |
| Fund balance, beginning of year, as restated | 2,238,096 | 2,238,096 | 2,238,096 | - |
| Fund balance, end of year | $ 2,346,730 | $ 2,277,534 | $ 2,279,004 | $ 1,470 |

# LIVINGSTON EDUCATIONAL SERVICE AGENCY
# BUDGETARY COMPARISON SCHEDULE
# SPECIAL EDUCATION FUND
# YEAR ENDED JUNE 30, 2021

| | Budget Amounts | | | Variance with |
|---|---|---|---|---|
| | Original | Final | Actual | Final Budget |
| REVENUES | | | | |
| Local sources | | | | |
| Property taxes | $ 27,729,843 | $ 27,827,247 | $ 27,813,881 | $ (13,366) |
| Investments | 150,000 | 7,000 | 6,925 | (75) |
| Other | 1,917,841 | 2,120,860 | 2,127,586 | 6,726 |
| Total local sources | 29,797,684 | 29,955,107 | 29,948,392 | (6,715) |
| State sources | 12,290,928 | 13,543,553 | 13,531,937 | (11,616) |
| Federal sources | 6,512,232 | 6,411,769 | 6,372,750 | (39,019) |
| Interdistrict | 471,656 | 343,334 | 350,632 | 7,298 |
| TOTAL REVENUES | 49,072,500 | 50,253,763 | 50,203,711 | (50,052) |
| EXPENDITURES | | | | |
| Current | | | | |
| Instruction | | | | |
| Added needs | 5,157,177 | 4,974,826 | 4,902,351 | 72,475 |
| Supporting services | | | | |
| Pupil services | 18,664,964 | 19,200,790 | 19,160,384 | 40,406 |
| Instructional staff | 2,850,752 | 2,936,174 | 2,917,995 | 18,179 |
| General administration | 167,551 | 164,573 | 161,320 | 3,253 |
| Business services | 781,409 | 665,192 | 685,623 | (20,431) |
| Operation and maintenance | 557,747 | 624,172 | 756,882 | (132,710) |
| Transportation services | 4,346,548 | 3,996,860 | 3,921,860 | 75,000 |
| Central services | 820,115 | 990,449 | 1,030,248 | (39,799) |
| Community service | 67,886 | 68,482 | 69,295 | (813) |
| Interdistrict transactions | 15,802,589 | 16,311,400 | 16,250,247 | 61,153 |
| TOTAL EXPENDITURES | 49,216,738 | 49,932,918 | 49,856,205 | 76,713 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (144,238) | 320,845 | 347,506 | 26,661 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of capital asset | - | 36,686 | 33,680 | (3,006) |
| Transfers in | 40,000 | 40,000 | 40,000 | - |
| Transfers out | (705,278) | (1,329,092) | (1,325,000) | 4,092 |
| TOTAL OTHER FINANCING SOURCES (USES) | (665,278) | (1,252,406) | (1,251,320) | 1,086 |
| NET CHANGE IN FUND BALANCE | (809,516) | (931,561) | (903,814) | 27,747 |
| Fund balance, beginning of year | 6,218,240 | 6,218,240 | 6,218,240 | - |
| Fund balance, end of year | $ 5,408,724 | $ 5,286,679 | $ 5,314,426 | $ 27,747 |

**LIVINGSTON EDUCATIONAL SERVICE AGENCY**
**SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE**
**SHARE OF THE NET PENSION LIABILITY**
**MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN**
**LAST 10 FISCAL YEARS (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)**

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|
| Reporting Unit's proportion of net pension liability (%) | 0.28310% | 0.27777% | 0.27190% | 0.26449% | 0.25581% | 0.25287% | 0.24534% |
| Reporting Unit's proportionate share of net pension liability | $ 97,249,008 | $ 91,988,946 | $ 81,738,100 | $ 68,539,875 | $ 63,822,085 | $ 61,764,503 | $ 54,039,096 |
| Reporting Unit's covered-employee payroll | $ 25,729,798 | $ 24,642,348 | $ 23,720,616 | $ 22,558,475 | $ 21,785,454 | $ 21,199,098 | $ 20,915,186 |
| Reporting Unit's proportionate share of net pension liability as a percentage of its covered-employee payroll | 377.96% | 373.30% | 344.59% | 303.83% | 292.96% | 291.35% | 258.37% |
| Plan fiduciary net position as a percentage of total pension liability (Non-university employers) | 59.72% | 60.31% | 62.36% | 64.21% | 63.27% | 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 Agency presents information for those years for which information is available.

# LIVINGSTON EDUCATIONAL SERVICE AGENCY
## SCHEDULE OF THE REPORTING UNIT'S PENSION CONTRIBUTIONS
## MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
## LAST 10 FISCAL YEARS (DETERMINED AS OF THE YEAR ENDED JUNE 30)

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|---|
| Statutorily required contributions | $ 8,567,458 | $ 7,644,050 | $ 7,191,277 | $ 7,019,074 | $ 6,125,844 | $ 5,546,493 | $ 4,752,199 |
| Contributions in relation to statutorily required contributions | 8,567,458 | 7,644,050 | 7,191,277 | 7,019,074 | 6,125,844 | 5,546,493 | 4,752,199 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Reporting Unit's covered-employee payroll | $ 26,643,369 | $ 25,927,641 | $ 24,225,051 | $ 23,293,158 | $ 22,354,285 | $ 21,616,074 | $ 21,407,201 |
| Contributions as a percentage of covered-employee payroll | 32.16% | 29.48% | 29.69% | 30.13% | 27.40% | 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 Agency presents information for those years for which information is available.

**LIVINGSTON EDUCATIONAL SERVICE AGENCY**
**SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE**
**SHARE OF THE NET OPEB LIABILITY**
**MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN**
**LAST 10 FISCAL YEARS (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)**

| | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Reporting Unit's proportion of net OPEB liability (%) | 0.28841% | 0.28088% | 0.27832% | 0.26491% |
| Reporting Unit's proportionate share of net OPEB liability | $ 15,450,918 | $ 20,160,596 | $ 22,123,689 | $ 23,458,834 |
| Reporting Unit's covered-employee payroll | $ 25,729,798 | $ 24,642,348 | $ 23,720,616 | $ 22,558,475 |
| Reporting Unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll | 60.05% | 81.81% | 93.27% | 103.99% |
| Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers) | 59.44% | 48.46% | 42.95% | 36.39% |

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

**LIVINGSTON EDUCATIONAL SERVICE AGENCY**
**SCHEDULE OF THE REPORTING UNIT'S OPEB CONTRIBUTIONS**
**MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN**
**LAST 10 FISCAL YEARS (DETERMINED AS OF THE YEAR ENDED JUNE 30)**

| | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Statutorily required contributions | $ 2,276,091 | $ 2,143,846 | $ 1,960,968 | $ 1,973,403 |
| Contributions in relation to statutorily required contributions | 2,276,091 | 2,143,846 | 1,960,968 | 1,973,403 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Reporting Unit's covered-employee payroll | $ 26,643,369 | $ 25,927,641 | $ 24,225,051 | $ 23,293,158 |
| Contributions as a percentage of covered-employee payroll | 8.54% | 8.27% | 8.09% | 8.47% |

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

## NOTE 1 - PENSION INFORMATION

Benefit changes - there were no changes of benefit terms in 2020.

Changes of assumptions – there were no changes of assumptions in 2020.

## NOTE 2 - OPEB INFORMATION

Benefit changes - there were no changes of benefit terms in 2020.

Changes of assumptions - the assumption changes for 2020 were:

> Healthcare cost trend rate decreased to 7.00% Year 1 graded to 3.50% Year 15 from 7.50% Year 1 graded to 3.50% Year 12.

# ADDITIONAL SUPPLEMENTARY INFORMATION

**LIVINGSTON EDUCATIONAL SERVICE AGENCY**
**BONDED DEBT**
**JUNE 30, 2021**

$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 |
| $ 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 |
| $ 63,263 | $ 63,263 | $ 1,640,000 | | $ 1,766,526 |

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, 2021

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA Number | Pass-through Grantor's Number | Approved Grant Award Amount | Accrued (Unearned) Revenue 7/1/2020 | Prior Year Expenditures (Memorandum Only) | Adjustments | Current Year Cash Receipts | Current Year Expenditures | Accrued (Unearned) Revenue 6/30/2021 |
|---|---|---|---|---|---|---|---|---|---|
| U.S. Department of Education | | | | | | | | | |
| Passed through Michigan Department of Education | | | | | | | | | |
| Special Education Cluster (IDEA) | | | | | | | | | |
| Special Education Grants to States | 84.027 | 210450-2021 | $ 5,844,910 | $ - | $ - | $ - | $ 4,807,683 | $ 5,785,846 | $ 978,163 |
| Special Education Grants to States | 84.027 | 200450-1920 | 5,956,613 | 682,733 | 5,926,614 | - | 712,732 | 29,999 | - |
| Special Education Grants to States | 84.027 | 210493-GSSG | 151,800 | - | - | - | 121,603 | 151,800 | 30,197 |
| Special Education Grants to States | 84.027 | 200493-GSG | 126,500 | 380 | 126,500 | - | 380 | - | - |
| Total CFDA# 84.027 | | | 12,079,823 | 683,113 | 6,053,114 | - | 5,642,398 | 5,967,645 | 1,008,360 |
| Special Education Preschool Grants | 84.173 | 210460-2021 | 154,035 | - | - | - | 147,679 | 153,691 | 6,012 |
| Special Education Preschool Grants | 84.173 | 200460-1920 | 155,880 | 5,909 | 155,538 | - | 5,909 | 342 | 342 |
| Total CFDA# 84.173 | | | 309,915 | 5,909 | 155,538 | - | 153,588 | 154,033 | 6,354 |
| Total Special Education Cluster (IDEA) | | | 12,389,738 | 689,022 | 6,208,652 | - | 5,795,986 | 6,121,678 | 1,014,714 |
| Career and Technical Education - Basic Grants to States | 84.048 | 213520-211217 | 167,772 | - | - | - | 142,664 | 167,772 | 25,108 |
| Career and Technical Education - Basic Grants to States | 84.048 | 203520-201217 | 183,811 | 31,223 | 183,811 | - | 31,223 | - | - |
| Total CFDA# 84.048 | | | 351,583 | 31,223 | 183,811 | - | 173,887 | 167,772 | 25,108 |
| Special Education - Grants for Infants and Families | 84.181 | 211340-2021 | 171,024 | - | - | - | 146,490 | 171,024 | 24,534 |
| Special Education - Grants for Infants and Families | 84.181 | 201340-1920 | 168,022 | 168,022 | 168,022 | - | 168,022 | - | - |
| Total CFDA# 84.181 | | | 339,046 | 168,022 | 168,022 | - | 314,512 | 171,024 | 24,534 |
| Education for Homeless Children and Youth | 84.196 | 212320-2021 | 27,655 | - | - | - | - | 16,526 | 16,526 |
| Education for Homeless Children and Youth | 84.196 | 202320-1920 | 27,994 | 1,383 | 23,572 | - | 5,804 | 4,421 | - |
| Total CFDA# 84.196 | | | 55,649 | 1,383 | 23,572 | - | 5,804 | 20,947 | 16,526 |
| Adult Education - Basic Grants to States | 84.002 | 211130-211715 | 44,100 | - | - | - | 38,038 | 43,748 | 5,710 |
| Adult Education - Basic Grants to States | 84.002 | 201130-201715 | 67,000 | 1,790 | 64,931 | - | 1,790 | - | - |
| Total CFDA# 84.002 | | | 111,100 | 1,790 | 64,931 | - | 39,828 | 43,748 | 5,710 |
| Title I Grants to Local Educational Agencies - Regional Assistance Grant | 84.010 | 211570-2021 | 218,125 | - | - | - | - | 134,814 | 134,814 |
| Title I Grants to Local Educational Agencies - Regional Assistance Grant | 84.010 | 201570-1920 | 169,268 | 19,136 | 45,948 | - | 65,271 | 46,135 | - |
| Total CFDA# 84.010 | | | 387,393 | 19,136 | 45,948 | - | 65,271 | 180,949 | 134,814 |
| Education Stabilization Fund | | | | | | | | | |
| COVID-19 Early On - Governor's Emergency Education Relief Funds (GEER) | 84.425C | 201230-2021 | 16,529 | - | - | - | - | 14,399 | 14,399 |
| COVID-19 Governor's Emergency Education Relief Funds (GEER) | 84.425C | 201200-2021 | 17,817 | - | - | - | 17,817 | 17,817 | - |
| Total Education Stabilization Fund / CFDA #84.425 | | | 34,346 | - | - | - | 17,817 | 32,216 | 14,399 |
| Total U.S. Department of Education | | | 13,668,855 | 910,576 | 6,694,936 | - | 6,413,105 | 6,738,334 | 1,235,805 |

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, 2021

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA Number | Pass-through Grantor's Number | Approved Grant Award Amount | Accrued (Unearned) Revenue 7/1/2020 | Prior Year Expenditures (Memorandum Only) | Adjustments | Current Year Cash Receipts | Current Year Expenditures | Accrued (Unearned) Revenue 6/30/2021 |
|---|---|---|---|---|---|---|---|---|---|
| U.S. Department of Health and Human Services | | | | | | | | | |
| Direct Program | | | | | | | | | |
| Head Start Cluster | | | | | | | | | |
| Head Start | 93.600 | 05CH011145-02-04 | $ 2,000,783 | $ - | $ - | $ - | $ 1,657,257 | $ 1,888,720 | $ 231,463 |
| Head Start | 93.600 | 05CH011145-01-01 | 1,714,163 | 486,020 | 1,630,003 | - | 486,020 | - | - |
| Total Head Start Cluster / CFDA# 93.600 | | | 3,714,946 | 486,020 | 1,630,003 | - | 2,143,277 | 1,888,720 | 231,463 |
| Passed through Michigan Department of Education | | | | | | | | | |
| PDG B-5-Trusted Advisors Grant (Activity #3) | 93.434 | 213910-2021 | 25,000 | - | - | - | - | 10,340 | 10,340 |
| PDG B-5-Trusted Advisors Grant (Activity #3) | 93.434 | 203910-1920 | 14,486 | - | - | - | 14,486 | 14,486 | - |
| Total CFDA# 93.434 | | | 39,486 | - | - | - | 14,486 | 24,826 | 10,340 |
| Passed through Michigan Department of Community Health | | | | | | | | | |
| Medicaid Cluster | | | | | | | | | |
| Medical Assistance Program | 93.778 | | 47,832 | - | - | - | 47,832 | 47,832 | - |
| Total Medicaid Cluster / CFDA# 93.778 | | | 47,832 | - | - | - | 47,832 | 47,832 | - |
| Total U.S. Department of Health and Human Services | | | 3,802,264 | 486,020 | 1,630,003 | - | 2,205,595 | 1,961,378 | 241,803 |
| U.S. Department of Labor | | | | | | | | | |
| Passed through Michigan Works - Livingston County | | | | | | | | | |
| WIOA Cluster | | | | | | | | | |
| WIA/WIOA Youth Activities | 17.259 | | 58,731 | - | - | - | 29,977 | 50,314 | 20,337 |
| WIA/WIOA Youth Activities | 17.259 | | 38,000 | 7,190 | 38,000 | - | 7,190 | - | - |
| Total WIOA cluster / CFDA# 17.259 | | | 96,731 | 7,190 | 38,000 | - | 37,167 | 50,314 | 20,337 |
| Total U.S. Department of Labor | | | 96,731 | 7,190 | 38,000 | - | 37,167 | 50,314 | 20,337 |

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, 2021

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA Number | Pass-through Grantor's Number | Approved Grant Award Amount | Accrued (Unearned) Revenue 7/1/2020 | Prior Year Expenditures (Memorandum Only) | Adjustments | Current Year Cash Receipts | Current Year Expenditures | Accrued (Unearned) Revenue 6/30/2021 |
|---|---|---|---|---|---|---|---|---|---|
| U.S. Department of Agriculture | | | | | | | | | |
| Passed through Michigan Department of Education | | | | | | | | | |
| Child and Adult Care Food Program | 10.558 | 211920 | $ 135,251 | $ - | $ - | $ - | $ 135,251 | $ 135,251 | $ - |
| Child and Adult Care Food Program | 10.558 | 201920 | 133,931 | 33,875 | 120,647 | - | 47,159 | 13,284 | - |
| Child and Adult Care Food Program | 10.558 | 212010 | 6,815 | - | - | - | 6,815 | 6,815 | - |
| Child and Adult Care Food Program | 10.558 | 202010 | 6,836 | - | 4,452 | - | 2,384 | 2,384 | - |
| Total CFDA# 10.558 | | | 282,833 | 33,875 | 125,099 | - | 191,609 | 157,734 | - |
| Passed through Michigan Fitness Foundation | | | | | | | | | |
| SNAP Cluster | | | | | | | | | |
| State Administrative Matching Grants for the | | | | | | | | | |
| Supplemental Nutrition Assistance Program | 10.561 | E20212299-00 | 120,000 | - | - | - | 66,740 | 95,464 | 28,724 |
| Supplemental Nutrition Assistance Program | 10.561 | E20200639-00 | 120,000 | 26,292 | 95,274 | - | 41,185 | 14,893 | - |
| Total SNAP Cluster / CFDA# 10.561 | | | 240,000 | 26,292 | 95,274 | - | 107,925 | 110,357 | 28,724 |
| Total U.S. Department of Agriculture | | | 522,833 | 60,167 | 220,373 | - | 299,534 | 268,091 | 28,724 |
| Total Federal Awards | | | $ 18,090,683 | $ 1,463,953 | $ 8,583,312 | $ - | $ 8,955,401 | $ 9,018,117 | $ 1,526,669 |

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, 2021**

## 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, 2021. 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 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, 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, 2021:

| | |
|---|---|
| General fund | $ 2,655,099 |
| Special education fund | 6,372,750 |
| Total federal revenue in the fund financial statements | 9,027,849 |
| Previous year revenue not received within sixty days of year end | (9,732) |
| Expenditures per schedule of expenditures of federal awards | $ 9,018,117 |

Maner Costerisan
Certified Public Accountants
Business & Technology Advisors

Maner Costerisan PC
2425 E. Grand River Ave.
Suite 1
Lansing, MI 48912-3291
T: 517 323 7500
F: 517 323 6346
www.manercpa.com

**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, 2021, and the related notes to the financial statements, which collectively comprise the Livingston Educational Service Agency's basic financial statements and have issued our report thereon dated October 7, 2021.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

Maner Costerisan PC

October 7, 2021

Maner Costerisan
Certified Public Accountants
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Lansing, MI 48912-3291
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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, 2021. 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 unmodified opinion on compliance for the 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, 2021.

**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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Maner Costerisan PC

October 7, 2021

**LIVINGSTON EDUCATIONAL SERVICE AGENCY**
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**FOR THE YEAR ENDED JUNE 30, 2021**

## Section I - Summary of Auditor's Results

***Financial Statements***

| | |
|---|---|
| Type of auditor's report issued based on financial statements prepared in accordance with generally accepted accounting principals: | *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 and 84.173 | Special Education Cluster (IDEA) |
| 93.600 | Head Start 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 Questioned Costs

None

**LIVINGSTON EDUCATIONAL SERVICE AGENCY**
**SCHEDULE OF PRIOR AUDIT FINDINGS**
**FOR THE YEAR ENDED JUNE 30, 2021**

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

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October 7, 2021

To the Board of Education
Livingston Educational Service Agency

We have audited the 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, 2021. 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.

Significant Audit Matters

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Livingston Educational Service Agency are described in Note 1 to the financial statements. During fiscal year 2021, the Agency implemented Governmental Accounting Standard No. 84, *Fiduciary Activities*. The application of existing policies was not changed during fiscal year 2021. We noted no transactions entered into by the Agency during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability.

We evaluated the key factors and assumptions used to develop the balance of the net pension liability and net other postemployment benefit liability in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate in calculating the liability for employee compensated absences.

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 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. In addition, certain amounts included in capital assets have been estimated based on an outside appraisal company.

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.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

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

*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.

*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.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 7, 2021.

*Management Consultations with Other Independent Accountants*

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

*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 Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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.

Restriction on Use

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,