Cheboygan-Otsego-Presque Isle Educational Service District

Audited Financial Statements and
Other Supplementary Financial Information

Year Ended June 30, 2022

Straley Lamp & Kraenzlein P.C.

Cheboygan-Otsego-Presque Isle
Educational Service District
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June 2025

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Independent Auditors......………………………………………………Straley Lamp & Kraenzlein P.C.

Legal Counsel – General Issues.…...…………………………………………….....Thrun Law Firm, P.C.

Legal Counsel – Special Education Issues.…...……………………………...………..Clark Hill, P.L.C

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Straley Lamp & Kraenzlein P.C.

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Independent Auditor's Report

To the Board of Education
Cheboygan-Otsego-Presque Isle Educational Service District
Indian River, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cheboygan-Otsego-Presque Isle Educational Service District as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Cheboygan-Otsego-Presque Isle Educational Service District's basic financial statements as listed in the table of contents.

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 the Cheboygan-Otsego-Presque Isle Educational Service District, as of June 30, 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Cheboygan-Otsego-Presque Isle Educational Service District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cheboygan-Otsego-Presque Isle Educational Service District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Cheboygan-Otsego-Presque Isle Educational Service District's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Cheboygan-Otsego-Presque Isle Educational Service District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cheboygan-Otsego-Presque Isle Educational Service District's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2022 on our consideration of the Cheboygan-Otsego-Presque Isle Educational Service District'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 the Cheboygan-Otsego-Presque Isle Educational Service District'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 the Cheboygan-Otsego-Presque Isle Educational Service District's internal control over financial reporting and compliance.

Straley Lamp & Kraenzlein P.C.

Alpena, Michigan
October 11, 2022

The following is management's discussion and analysis of the financial position and results of operations for the fiscal year ended June 30, 2022. Please read it in conjunction with the financial statements and related footnotes, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Cheboygan-Otsego-Presque Isle Educational Service District (the Educational Service District) financially as a whole. The government-wide financial statements provide information about the activities of the whole Educational Service District, presenting both an aggregate view of the Educational Service District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Educational Service District's operations in more detail than the government-wide financial statements by providing information about the Educational Service District's most significant funds – the General Fund, Special Education Fund, the Capital Project Fund, and the Internal Service Fund. The annual report is arranged as follows:

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

Basic Financial Statements

Government-Wide Financial Statements   Fund Financial Statements

Notes to the Basic Financial Statements

Required Supplemental Information

Budgetary Information for General Fund and
Special Education Fund
Pension Plan Schedules
Other Postemployment Benefit ("OPEB") Schedules

Other Supplemental Information

Federal Financial Assistance

Reporting the Educational Service District as a Whole – Government-Wide Financial Statements

The statement of net position and the statement of activities, which appear first in the Educational Service District's financial statements, report information about the Educational Service District as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The statement of net position includes all of the Educational Service District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

These two statements report the Educational Service District's net position and how it has changed. Net position – the difference between assets, deferred outflow of resources, liabilities, and deferred inflows of resources, as reported in the statement of net position – is one way to measure the Educational Service

District's financial health, or position. Over time, increases or decreases in the Educational Service District's net position – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating.

The relationship between revenues and expenses is the Educational Service District's operating results. However, the Educational Service District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided, condition of school facilities and the safety of the schools, to assess the overall health of the Educational Service District.

The statement of net position and statement of activities report the governmental activities for the Educational Service District, which encompass all of the Educational Service District's services, including instruction, supporting services, community services, and inter-district transfers. Property taxes, state aid, and state and federal grants finance most of these activities.

Reporting the Educational Service District's Most Significant Funds – Fund Financial Statements

The Educational Service District's fund financial statements provide detailed information about the most significant funds – not the Educational Service District as a whole. Some funds are required to be established by state law and by bond covenants. However, the Educational Service District may establish other funds to help it control and manage money for a particular purpose (the Special Education and Capital Project Funds are examples) or to show that it is meeting its legal responsibilities for using certain taxes, grants, or other money. The governmental funds of the Educational Service District use the following accounting approach:

Governmental Funds – All of the Educational Service District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash.

The governmental fund statements provide a detailed short-term view of the operations of the Educational Service District and the services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Educational Service District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in the reconciliations.

The Educational Service District operates proprietary funds – internal service funds. These funds account for services provided to the District's other funds. The Motor Vehicle and Michigan Unemployment Funds are accounted for as internal service funds.

The Educational Service District as a Whole

Recall that the statement of net position provides the perspective of the Educational Service District as a whole. Table 1 provides a summary of the Educational Service District's net position as of June 30, 2022 and 2021:

Table 1

	2022	2021
Assets		
Current and other assets	$ 13,473,133	$ 12,715,042
Capital and leased assets - net	4,648,558	4,724,395
Total assets	18,121,691	17,439,437
Deferred Outflows of Resources	5,090,060	6,307,340
Liabilities		
Current liabilities	5,515,735	5,306,876
Long-term liabilities	40,821	13,425
Net OPEB liability	988,943	3,272,330
Net pension liability	14,903,379	20,776,586
Total liabilities	21,448,878	29,369,217
Deferred Outflows of Resources	9,673,965	3,372,567
Net Position		
Invested in capital assets - net of related debt	4,587,248	4,724,395
Unrestricted (deficit)	(12,498,340)	(13,719,402)
Total net position	$ (7,911,092)	$ (8,995,007)

The above analysis focuses on the net position. The change in net position (see Table 2) of the Educational Service District's governmental activities is discussed below. The Educational Service District's net position was a deficit of $7,911,092 at June 30, 2022, as compared to a deficit of $8,995,007 at June 30, 2021. Capital assets, net of related debt totaling $4,587,248 compares the original cost less deprecation of the Educational Service District's capital assets to long-term debt used to finance the acquisition of those assets. The remaining $12,498,340 net position deficit was unrestricted.

The $(7,911,092) in total available net position of governmental activities represents the *accumulated* results of all past years' operations. The primary reason there is a deficit is due to the implementation of GASB 68 and 75 in prior years, which both led to significant increases in the Educational Service Districts' liabilities. Further information related to these statements are explored in more depth in Notes 12 and 13. The net deficiency position of the Educational Service District has decreased compared to a year ago. The main reason for the decrease in the deficit between 2022 and 2021 is due to the decrease in the OPEB liability.

The results of this year's operations for the governmental activities of the Educational Service District are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal year 2022 as compared to 2021.

Table 2

	2022	2021
Revenue		
Program revenue:		
Charges for services	$ 1,985,473	$ 1,722,671
Operating grants	3,050,583	2,620,421
General revenue:		
Property taxes	6,515,699	6,316,032
State aid	5,566,480	4,999,091
Earnings on investments and deposits	21,216	40,138
Miscellaneous	199,819	135,711
Total revenue	17,339,270	15,834,064
Functions/Program Expenses		
Instruction	2,751,924	2,891,067
Supporting services	9,250,395	9,829,411
Community services	250,314	185,655
Inter-district transfers	3,789,037	3,579,919
Depreciation/amortization (unallocated)	212,968	110,391
Total expenses	16,254,638	16,596,443
Increase (Decrease) in Net Position	$ 1,084,632	$ (762,379)

As reported in the statement of activities, the cost of all of our governmental activities this year was $16,254,638. Certain activities were partially funded from those who benefited from the programs as charges for services of $1,985,473 and by other governments and organizations that subsidized certain programs with grants and contributions of $3,050,583. The Educational Service District paid for the remaining "public benefit" portion of our governmental activities with $6,515,699 in property taxes, $5,566,480 in state aid and with our other revenues (i.e., earnings on investments and deposits and other general revenue) of $221,035.

The Educational Service District experienced an increase in net position of $1,084,632 compared to a decrease of $762,379 in the prior year. Key reasons for the change in net position included an increase in revenue of $1,505,206. The largest increases in revenue were from state aid, operating grants, charges for services, and property taxes of $567,389, $430,162, 262,802, and $199,667, respectively. Expenses decreased by $341,805 overall, primarily due to a decrease in supporting services of $579,016 and an increase in inter-district transfers of $209,118.

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

The Educational Service District's Funds

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

As the Educational Service District completed this year, the governmental funds reported a combined fund balance of $7,777,804, which is an increase of $521,352 from last year. The primary reason for the increase is an increase in revenue, primarily in restricted state aid.

The General Fund balance available to operate administrative and supporting services remains stable at $1,584,573 which is a slight increase of $60,246 from the prior year.

The Special Education Fund, which is a restricted fund, exists to support local and state mandated Special Education Programs and shows a fund balance of $6,193,231, an increase of $461,106 from the prior year. The increase was primarily due to an increase in local sources of revenue, primarily property taxes, but also experienced increases in both state and federal sources.

The other governmental fund, the Capital Project Fund, was created during the year ended June 30, 2020 for the Educational Service District to account for transactions in relation to rebuilding and reacquiring assets lost during the fire that occurred during the fiscal year. The Capital Project Fund had minimal activity during the fiscal year, as the rebuilding and reacquiring of assets lost was primarily completed at the beginning of the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2022, the Educational Service District had $4,648,558 invested in a broad range of capital assets, including land, buildings, furniture and equipment, vehicles, and intangible right-to-use buildings. This amount represents a net decrease (including additions, deductions, and depreciation) of $165,781 from last year. See Note 5 for a detailed schedule of capital assets.

Table 3

	2022	2021
Assets not being depreciated		
Land	$ 41,700	$ 41,700
Construction in progress	-	3,914,183
Assets being depreciated		
Buildings and improvements	4,391,966	477,783
School furnishings and equipment	47,811	41,677
Outside equipment	70,972	70,972
Audio-visual equipment	2,444,640	2,444,640
Computers and related equipment	431,356	390,303
Copy machines	10,928	10,928
Telephone system	46,082	46,082
Vehicles and buses	543,590	543,590
Intangible right-to-use buildings	117,433	117,433
Total capital assets	8,146,478	8,099,291
Less accumulated depreciation	(3,497,920)	(3,284,952)
Net capital assets	$ 4,648,558	$ 4,814,339

This year's net additions totaled $47,187. No new debt was issued for these additions. Depreciation/amortization of $212,968 was charged against capital assets.

Debt

At the end of this year, the Educational Service District had no outstanding bonded debt. Other obligations include a lease payable and special termination benefit of $61,310 and $45,894, respectively. More detailed information about our long-term liabilities is contained in the notes to the financial statements.

Budgetary Highlights

Over the course of the year, the Educational Service District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted June 9, 2022. A schedule showing the Educational Service District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

Overall, the revenue budget was amended by a decrease of $39,325 and expenditures correlated with a decrease of $52,539 between the original and final budget. Other financing sources increased between the original and final budget by $41,775. The most significant budget amendments for the General Fund were for an increase of inter-district revenue sources of approximately $280,000, an increase of inter-district transfers of approximately $482,000, a decrease of revenue from the stated of approximately $456,000, and a decrease in instructional staff support (a supporting service) of approximately $210,000.

The Special Education Fund's budget for expenditures had minimal budget amendments, which in aggregate increased by about $7,500. However, revenues were increased by about $611,000 between the original and final budgets, with the most significant amendments being increases in federal and local sources of approximately $361,000 and $204,000, respectively.

A large portion of Educational Service District funding is in the form of state and federal grants. It is common to receive notification of grant awards subsequent to the adoption of the original budget. Grant awards can vary significantly from original estimates. All these items necessitated budget amendments periodically during the 2021-22 fiscal year.

Economic Factors and Next Year's Budgets and Rates

Our Board of Education and administration considered many factors when setting the Educational Service District's 2022-2023 fiscal year budget. The 2022-2023 fiscal year budget was adopted in June 2022 based on property tax, state and federal revenue estimates available at that time. The Educational Service District reform legislation requires our constituent Boards of Education to adopt a resolution offering support for or opposition to the Educational Service District's proposed General Fund budget. In addition, local boards could offer specific written suggestions or objections to the budget. These resolutions and suggestions were taken into consideration when adopting the 2022-2023 fiscal year budget.

Educational Service Districts rely on local, state, and federal funds for operations. Under state law, the Educational Service District cannot access additional property taxes for operations without a vote by the electorate. As a result, local funding increases are limited. While the Educational Service District does have a Special Education millage that was supported by the electors in May 2021 for 6 years, the revenue received is passed on to local districts and is not used to directly support the Educational Service District's operations.

The Educational Service District's state funding depends on the economic health of the State's School Aid Fund and the actual revenues received depends on the State's ability to collect revenues to fund its appropriations. The State periodically holds a revenue estimating conference to estimate revenues. Revenues in both the General Fund General Purpose and School Aid Fund had been adjusted positively due to Federal stimulus packages received in 2021-2022. The State Budget for School Aid appears stable in funding.

The Educational Service District receives federal grant funds to assist in providing services and programs. Based on preliminary reports, it appears as if the federal sources will be stagnant but stable.

The Educational Service District's fiscal management approach reflects both its mission and long-standing practice of implementing programs and services in collaboration with constituent local Districts and other local and regional partners. Some of these programs include:

Special Education:	General Education:
Low Incidence Classrooms	Professional Development Workshops
Ancillary Services	Health Related Training
Diagnostic Services	Early Childhood Programs
Preschool Services	Technology Support
Consultant Services for	Curriculum Consultants
Trauma and Severe Behavior	Regional Education Media Center (REMC)

Contacting the Educational Service District's Financial Management

This financial report is designed to provide the Educational Service District's citizens, taxpayers, customers, investors, and creditors with a general overview of the Educational Service District's finances and to demonstrate the Educational Service District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Superintendent or Finance Manager at:

COP-ESD
6065 Learning Lane
Indian River, MI 49749
(231) 238-9394

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Basic Financial Statements

Cheboygan-Otsego-Presque Isle Educational Service District

Statement of Net Position

June 30, 2022

Assets	
Cash and cash equivalents	$ 10,984,423
Investments	534,382
Accounts receivable	7,031
Due from other governmental units	1,947,297
Capital assets not being depreciated/amortized	41,700
Capital and leased assets being depreciated/amortized	8,104,778
Less: Accumulated depreciation/amortization	(3,497,920)
Total assets	18,121,691
Deferred Outflows of Resources	
Related to OPEB	1,293,988
Related to pensions	3,796,072
Total deferred outflows of resources	5,090,060
Liabilities	
Accounts payable	193,879
Salaries payable	643,613
Payroll liabilities and withholdings	495,735
Due to other governmental units	522,235
Unearned revenue	3,593,890
Special termination benefits - due within one year	36,182
Leases payable - due within one year	30,201
Long-term liabilities	
Special termination benefits - due in more than one year	9,712
Leases payable	31,109
Net OPEB liability	988,943
Net pension liability	14,903,379
Total liabilities	21,448,878
Deferred Inflows of Resources	
Related to OPEB	3,711,112
Related to pensions	4,932,680
State aid funding for pension	1,030,173
Total deferred inflows of resources	9,673,965
Net Position	
Investment in capital assets, net of related debt	4,587,248
Unrestricted (deficit)	(12,498,340)
Total net position	$ (7,911,092)

The accompanying notes to financial statements are an integral part of this statement.

Cheboygan-Otsego-Presque Isle Educational Service District

Statement of Activities

For the Year Ended June 30, 2022

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes in Net Position
Function / Programs				
Instruction	$ 2,751,924	$ -	$ 629,547	$ (2,122,377)
Supporting services	9,250,395	1,492,651	2,281,251	(5,476,493)
Community services	250,314	-	139,785	(110,529)
Inter-district transfers	3,789,037	492,822	-	(3,296,215)
Depreciation/amortization - unallocated	212,968	-	-	(212,968)
Total governmental activities	16,254,638	1,985,473	3,050,583	(11,218,582)
General revenues				
Property taxes, levied for general purposes and special education				6,515,699
State aid				5,566,480
Earnings on investments and deposits				21,216
Miscellaneous				199,819
Total general revenues				12,303,214
Change in net position				1,084,632
Net position, beginning of the year, restated				(8,995,724)
Net position, end of the year				$ (7,911,092)

The accompanying notes to financial statements are an integral part of this statement.

Cheboygan-Otsego-Presque Isle Educational Service District

Governmental Funds - Balance Sheet

June 30, 2022

	General	Special Education	Nonmajor Fund Capital Project Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 4,653,120	$ 6,077,137	$ 9,822	$ 10,740,079
Investments	-	534,382	-	534,382
Accounts receivable	6,806	225	-	7,031
Due from other governmental units	920,618	1,026,679	-	1,947,297
Total assets	$ 5,580,544	$ 7,638,423	$ 9,822	$ 13,228,789
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 144,566	$ 39,491	$ 9,822	$ 193,879
Salaries payable	80,330	563,283	-	643,613
Payroll liabilities and withholdings	96,060	399,675	-	495,735
Due to other funds	-	1,633	-	1,633
Due to other governmental units	258,116	264,119	-	522,235
Unearned revenue	3,416,899	176,991	-	3,593,890
Total liabilities	3,995,971	1,445,192	9,822	5,450,985
Fund balances				
Restricted	-	6,193,231	-	6,193,231
Assigned	138,703	-	-	138,703
Unassigned	1,445,870	-	-	1,445,870
Total fund balances	1,584,573	6,193,231	-	7,777,804
Total liabilities and fund balances	$ 5,580,544	$ 7,638,423	$ 9,822	$ 13,228,789

The accompanying notes to financial statements are an integral part of this statement.

Cheboygan-Otsego-Presque Isle Educational Service District

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

June 30, 2022

Total governmental fund balances		$ 7,777,804
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Capital assets not being depreciated	$ 41,700	
Capital assets being depreciated	8,104,778	
Less: accumulated depreciation	(3,497,920)	
		4,648,558
Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities.		
Special termination benefits	(45,894)	
Lease payable	(61,310)	
Net OPEB liability and related deferred inflows and outflows	(3,406,067)	
Net pension liability and related deferred inflows and outflows	(16,039,987)	
		(19,553,258)
Revenue in support of pension contributions made subsequent to the measurement date is reported as deferred inflow of resources in the statement of net position and is not reported in the funds.		(1,030,173)
The internal service funds are used by management to charge costs of activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		245,977
Total net position - governmental activities		$ (7,911,092)

Cheboygan-Otsego-Presque Isle Educational Service District

Governmental Funds -
Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2022

	General	Special Education	Nonmajor Fund Capital Project Fund	Total Governmental Funds
Revenues				
Local sources	$ 1,012,576	$ 6,352,229	$ -	$ 7,364,805
Non-educational sources	32,122	-	-	32,122
State sources	3,837,334	2,990,358	-	6,827,692
Federal sources	175,569	2,787,380	-	2,962,949
Inter-district sources	1,010,429	52,726	-	1,063,155
Total revenues	6,068,030	12,182,693	-	18,250,723
Expenditures				
Instruction	616,480	2,503,591	-	3,120,071
Supporting services	4,462,192	6,086,057	-	10,548,249
Community services	154,927	95,387	-	250,314
Inter-district transfers	1,318,925	2,470,112	-	3,789,037
Capital outlay	21,700	-	-	21,700
Total expenditures	6,574,224	11,155,147	-	17,729,371
Other Financing Sources (Uses)				
Transfers from other funds	566,440	-	-	566,440
Transfers to other funds	-	(566,440)	-	(566,440)
Total other financing sources (uses)	566,440	(566,440)	-	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	60,246	461,106	-	521,352
Fund Balances, beginning of the year	1,524,327	5,732,125	-	7,256,452
Fund Balances, end of the year	$ 1,584,573	$ 6,193,231	$ -	$ 7,777,804

The accompanying notes to financial statements are an integral part of this statement.

Cheboygan-Otsego-Presque Isle Educational Service District

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

For the Year Ended June 30, 2022

Total Net Change in Fund Balances - Governmental Funds		$ 521,352
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 as depreciation expense.		
Capital asset additions	$ 47,187	
Less current year depreciation/amortization	(212,968)	
		(165,781)
Some employee costs (pension, OBEP, compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmenal funds.		
Accrued special termination benefits and compensated absences at June 30, 2022	(45,894)	
Accrued special termination benefits and compensated absences at June 30, 2021	58,265	
		12,371
Principal payments on lease payable		29,351
Net change in pension expense		(52,394)
Net change in OPEB expense		690,310
The internal service funds are used by management to charge the costs of activities to individual funds. The activities of the internal service funds are reported with governmental activities.		49,423
Change in Net Position of Governmental Activities		$ 1,084,632

Cheboygan-Otsego-Presque Isle Educational Service District

Internal Service Funds -
Statement of Net Position

June 30, 2022

	Motor Vehicle	Michigan Unemployment	Total Internal Service Funds
Assets			
Cash and cash equivalents	$ 161,257	$ 83,087	$ 244,344
Due from other funds	-	1,633	1,633
Total assets	$ 161,257	$ 84,720	$ 245,977
Liabilities and Net Position			
Liabilities			
Total liabilities	$ -	$ -	$ -
Net Position			
Committed to motor vehicle operation	161,257	-	161,257
Committed to unemployment claims	-	84,720	84,720
Total net position	161,257	84,720	245,977
Total liabilities and net position	$ 161,257	$ 84,720	$ 245,977

The accompanying notes to financial statements are an integral part of this statement.

Cheboygan-Otsego-Presque Isle Educational Service District

Internal Service Funds -
Statement of Revenues, Expenses and Changes in Net Postion

For the Year Ended June 30, 2022

	Motor Vehicle	Michigan Unemployment	Total Internal Service Funds
Operating Revenues			
Local sources			
Charges to other funds	$ 106,911	$ -	$ 106,911
Miscellaneous	1,351	1,633	2,984
Total operating revenues	108,262	1,633	109,895
Operating Expenses			
Insurance	15,122	-	15,122
Licenses	467	-	467
Repairs and maintenance	18,051	-	18,051
Gasoline and oil	31,428	-	31,428
Service fee	-	8	8
Supplies and materials	932	-	932
Unemployment claims	-	3,289	3,289
Total operating expenses	66,000	3,297	69,297
Operating Income (Loss)	42,262	(1,664)	40,598
Non-Operating Revenues (Expenses)			
Auto insurance refund	8,800	-	8,800
Earnings on investments and other deposits	-	25	25
Total non-operating revenues (expenses)	8,800	25	8,825
Changes in Net Position	51,062	(1,639)	49,423
Net Position, beginning of the year	110,195	86,359	196,554
Net Position, end of the year	$ 161,257	$ 84,720	$ 245,977

The accompanying notes to financial statements are an integral part of this statement.

Cheboygan-Otsego-Presque Isle Educational Service District

Internal Service Funds -
Statement of Cash Flows

For the Year Ended June 30, 2022

	Motor Vehicle	Michigan Unemployment	Total Internal Service Funds
Cash Flows from Operating Activities			
Receipts from inter-fund services provided	$ 106,911	$ -	$ 106,911
Receipts from customers and users	1,351	-	1,351
Payments to suppliers	(66,000)	(8)	(66,008)
Payments for unemployment claims	-	(3,289)	(3,289)
Cash flows provided (used) by operating activities	42,262	(3,297)	38,965
Cash Flows from Noncapital Financing Activities			
Refund from auto insurance	8,800	-	8,800
Cash flows provided (used) by investing activities	8,800	-	8,800
Cash Flows from Investing Activities			
Interest received	-	25	25
Cash flows provided (used) by investing activities	-	25	25
Net increase (decrease) in cash and cash equivalents	51,062	(3,272)	47,790
Cash and Cash Equivalents, beginning of the year	110,195	86,359	196,554
Cash and Cash Equivalents, end of the year	$ 161,257	$ 83,087	$ 244,344
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	$ 42,262	$ (1,664)	$ 40,598
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
(Increase) decrease in due from other funds	-	(1,633)	(1,633)
Net cash provided (used) by operating activities	$ 42,262	$ (3,297)	$ 38,965

The accompanying notes to financial statements are an integral part of this statement.

Note 1 – Summary of Significant Accounting Policies.

The financial statements of the Cheboygan-Otsego-Presque Isle Educational Service District (the "Educational Service District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the Educational Service District's accounting policies are described below:

A. Description of Operations and Reporting Entity.

Description of Operations. The Educational Service District operates under an appointed Board of Education (seven members) and provides educational and supporting services as mandated by the State of Michigan and was organized in 1962. The Educational Service District serves as the regional school service agency for twenty-three public and non-public schools in Cheboygan, Otsego, and Presque Isle counties.

Reporting Entity. A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Educational Service District consists of all funds, departments, boards and agencies that are not legally separate from the Educational Service District. For the Educational Service District this includes general operations, special education services, and supporting service activities of the Educational Service District.

Component units are legally separate organizations for which the Educational Service District is financially accountable. Component units may also include organizations that are fiscally dependent on the Educational Service District in that the Educational Service District approves their budget, the issuance of their debt, or the levying of taxes. The Educational Service District has no component units.

B. Fund Accounting.

Fund Accounting. The Educational Service District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Educational Service District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Educational Service District are grouped into the categories governmental and proprietary.

Governmental Funds. Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Educational Service District's governmental funds:

General Fund. This fund is the primary operating fund and is considered a major fund. It accounts for all financial resources of the Educational Service District, except those required to be accounted for in another fund. Included are all transactions related to the approved current operating budget.

Special Education Fund. The Special Education Fund is used to account for financial resources to be used specifically for providing special education services to students within the Educational Service District. The Special Education Fund is considered a major fund.

Note 1 – Summary of Significant Accounting Policies. *(continued)*

Capital Project Fund. Capital project funds are used to account for the acquisition of capital assets. The fund maintained by the Educational Service District is being used to account for transactions in relation to rebuilding and reacquiring assets lost during a fire that occurred during fiscal year 2019-20. There was minimal activity in this fund during the year ending June 30, 2022, as the majority of the construction had already been completed.

Internal Service Funds. The Educational Service District maintains proprietary funds classified as internal service funds. Internal service funds are used to report activities that provide goods or services to other funds, on a cost-reimbursement basis. The Michigan Unemployment Fund and Motor Vehicle Fund are internal service funds.

C. Basis of Presentation.

Government-wide Financial Statements. The statement of net position and the statement of activities display information about the Educational Service District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds (currently, the Educational Service District does not have any fiduciary funds). The financial activities of the Educational Service District are all considered governmental and do not reflect any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Educational Service District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Educational Service District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service District.

Fund Financial Statements. Fund financial statements report detailed information about the Educational Service District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, unless otherwise noted.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Note 1 – Summary of Significant Accounting Policies. *(continued)*

D. Basis of Accounting.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues. Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the Educational Service District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service District on a reimbursement basis.

On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Expenses/Expenditures. On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Cash and Cash Equivalents. Cash equivalents include petty cash, demand deposits, time and savings accounts, certificates of deposits and other short-term, highly liquid investments that are readily convertible to known amounts of cash.

Inventories. Inventories are not considered significant and are recorded as expenditures when purchased.

Investments. During the fiscal year ended June 30, 2022, investments were limited to cash management funds. The cash management funds are local investment pools held at the Michigan Liquid Asset Fund (MILAF). Local government investment pools allow Educational Service Districts within the State of Michigan to consolidate their funds for investment purposes. Investments in cash management funds are valued at cost which equals market value. Investments are stated at fair value except for the investments in MILAF. MILAF Max Class funds are considered external investment pools as defined by the GASB and, as such, are recorded at amortized cost which approximates fair value.

Note 1 – Summary of Significant Accounting Policies. *(continued)*

Receivables. Amounts due from other governments include State Aid and amounts due from grantors for specific programs. State Aid payments to be received by the Educational Service District in July and August are recorded a receivable and revenue of the previous fiscal year. Program grants are recorded as receivables and revenues at the time reimbursable project costs are incurred.

Prepaid Assets. Payments made to vendors for services that will benefit periods beyond June 30, 2022, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Capital Assets. Capital assets, which include land, site improvements, buildings and improvements, equipment and vehicles, are reported in the applicable governmental activities column in the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a $5,000 capitalization threshold and updated for additions and retirements during the year. Donated capital assets are recorded at the estimated fair market value at the date of donation. The Educational Service District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All capital assets, except land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Site improvements	20 years
Buildings and improvements	50 years
Office equipment	5 – 10 years
Audio visual equipment	10 years
Computer equipment	5 years
Vehicles	8 years

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 Educational Service District has two items that qualify for reporting in this category. They are the deferred charge on funding for pension and OPEB related items reported in the government-wide statement of net position. Deferred outflows are recognized for pension and OPEB related items. These amounts are expensed in the plan year in which they apply.

Note 1 – Summary of Significant Accounting Policies. *(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 Educational Service District has three items that qualify for reporting in this category. The first arises only under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental fund balance sheet. The governmental funds report unavailable revenue from receipts that are received after 60 days of year end. These amounts are deferred and recognized as inflow of resources in the period that the amounts become available. The Educational Service District did not have any unavailable revenue at June 30, 2022. The second is future resources yet to be recognized in relation to the pension and OPEB actuarial calculation. These future resources arise from the differences in the estimates used by the actuary to calculate the pension and OPEB liability and the actual results. The amounts are amortized over a period determined by the actuary. The third is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period.

Interfund Balances. On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances, if any exist at the end of the fiscal year.

Compensated Absences. The Educational Service District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation pay has been accrued as a long-term liability. Vacation pay of up to 168 hours annually is earned by school employees (except administrators, teachers, aides and bus drivers).

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources.

Accrued Liabilities and Long-term Obligations. All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Pension. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (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.

Note 1 – Summary of Significant Accounting Policies. *(continued)*

Postemployment Benefits Other Than Pension (OPEB). For purposes of measuring the net OPEB liability, deferred outflow of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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.

State Categorical Revenue. The Educational Service District receives revenue from the state to administer certain categorical educational programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred inflows.

Interfund Activity. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements.

Economic Dependency. The Educational Service District received approximately 37% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source, the Educational Service District is considered to be economically dependent.

Fund Equity. The Educational Service District has implemented GASB Statement 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*." The statement provides clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe fund balance categories and the relative strength of the spending constraints placed on the purposes for which resources can be used:

- **Nonspendable fund balance** – amounts that are not in a spendable form (such as inventory or prepaid expenditures) or are required to be maintained intact;
- **Restricted fund balance** – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- **Committed fund balance** – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- **Assigned fund balance –** amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- **Unassigned fund balance** – amounts that are available for any purpose; positive amounts are reported only in the general fund.

Note 1 – Summary of Significant Accounting Policies. *(continued)*

The Educational Service District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the Educational Service District through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

The Educational Service District has not established a policy for its use of unrestricted fund balance amounts. Therefore, in accordance with GASB Statement 54, committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net Position. Net position represents the difference between assets, deferred outflow of resources, liabilities and deferred inflow of resources. Net position invested in capital assets net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on the use either through the enabling legislation adopted by the Educational Service District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Proprietary Funds Operating Classification. Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the internal service funds is to charge customers for sales and services. Operating expenses for the internal service funds include the cost of sales and services. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Encumbrances. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Educational Service District. Commitments outstanding at year end are charged against the subsequent year's appropriation once received and approved.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Reclassification. Certain items reported in the June 30, 2021, financial statements may have been reclassified to conform to the presentation for the current year.

Note 2 – Legal Compliance.

Budgets and Budgetary Accounting. Prior to adoption of the budgets, the school administration prepares and submits their proposed operating budgets commencing the following July 1. A public hearing is conducted to obtain interested party comments. Prior to July 1 the budget is adopted by the Board of Education. Budgeted amounts are as originally adopted, or as amended by the Board of Education. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30. The Educational Service District does not consider these amendments to be significant. Unused appropriations at June 30 are not carried forward to the following year.

The provisions of the Uniform Budgeting and Account Act, P.A. 621, became effective in 1980. The Act provides major revenue categories and expenditure functions that constitute minimal levels. The Educational Service Districts budget was legally enacted on a functional level.

P.A. 621 provides that an Educational Service District shall not incur expenditures in excess of the amounts appropriated. Violations, if any, are noted in the required supplementary information section (RSI).

Note 3 – Deposits and Investments.

The components of deposits and investments are reported in the financial statements as follows:

Cash and cash equivalents:	
Cash - Petty cash	$ 100
Cash - Checking/Savings	6,701,202
Municipal NOW accounts	1,117,974
Certificate of Deposits	3,165,147
	$ 10,984,423
Investments:	
MILAF Cash Mgmt Class	$ 533,307
MILAF Max Plus	1,075
	$ 534,382

Note 3 – Deposits and Investments. *(continued)*

As of June 30, 2022, the Educational Service District investments were measured as follows:

Investment Type	Not Measured at Fair Value	Fair Value	Weighted Average Maturity (Years)	Standard & Poor's Rating	Percentage
MILAF Cash Mgmt Class	$ 533,307	$ -	0.0027	AAAm	99.9%
MILAF Max Plus	1,075	-	0.0027	AAAm	0.1%
Total	$ 534,382	$ -			
Portfolio weighted average maturity			0.0027		100%

1 day maturity equals .0027, 1 year equals 1.0000

The Educational Service District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. The two of the pooled investment funds utilized by the Educational Service District are the Michigan Investment Liquid Asset Fund Cash Mgmt Class and Max Class (MILAF). These external pooled investment funds of “qualified” investments for Michigan school districts. MILAF is not regulated, nor is it registered, with the SEC. MILAF reports as of June 30, 2022, the fair value of the District’s investments is the same as the value of the pooled shares.

MILAF Cash Mgmt Class and Max Class funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

Fair Value Measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs.

There are three (3) levels of inputs that may be used to measure fair value:

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 quoted prices for similar securities, interest rates, prepayment speeds, credit risk, and others.

Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization’s own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

Note 3 – Deposits and Investments. *(continued)*

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.

Interest Rate Risk. In accordance with its investment policy, the Educational Service District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the 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 Educational Service District's cash requirements.

Credit Risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2022, the Educational Service District did not have any investments with ratings below prime.

Concentration of Credit Risk. The Educational Service District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Educational Service District'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.

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that, in the event of a bank failure, the Educational Service District's deposits may not be returned to it. As of June 30, 2022, $7,714,801 of the Educational Service District's bank balance of $11,047,888 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Educational Service District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2022, $534,382 of the Educational Service District's investment balances of $534,382 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the Educational Service District's name.

Foreign Currency Risk. The Educational Service District is not authorized to invest in investments which have this type of risk.

Note 4 – Interfund Receivables and Payables.

Interfund receivable and payable balances at June 30, 2022 are as follows:

Fund	Receivable	Payable
Governmental activities		
Special Education Fund	$ -	$ 1,633
Internal service fund		
Michigan Unemployment Fund	1,633	-
Totals	$ 1,633	$ 1,633

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

Note 5 – Unearned Revenue.

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

	Unearned
Grant and categorical aid payments received prior to meeting all eligibility requirements	$ 3,359,685
CFS Medicaid	162,732
Classroom accounts	71,473
Total	$ 3,593,890

Note 6 – Capital Assets.

	Restated Balances July 01, 2021	Additions	(Disposals)	Balances June 30, 2022
Capital assets not being depreciated/amortized:				
Land	$ 41,700	$ -	$ -	$ 41,700
Construction in progress	3,914,183	-	(3,914,183)	-
	3,955,883	-	(3,914,183)	41,700
Capital assets being depreciated/amortized:				
Buildings and improvements	477,783	3,914,183	-	4,391,966
School furnishings and equipment	41,677	6,134	-	47,811
Outside equipment	70,972	-	-	70,972
Audio visual equipment	2,444,640	-	-	2,444,640
Computers and related equipment	390,303	41,053	-	431,356
Copy machines	10,928	-	-	10,928
Telephone system	46,082	-	-	46,082
Vehicles and buses	543,590	-	-	543,590
Intangible right to use building	117,433	-	-	117,433
	4,143,408	3,961,370	-	8,104,778
Less - accumulated depreciation/amortization:				
Buildings and improvements	(198,544)	(90,427)	-	(288,971)
School furnishings and equipment	(11,248)	(1,643)	-	(12,891)
Outside equipment	(31,938)	(3,549)	-	(35,487)
Audio visual equipment	(2,411,400)	(3,694)	-	(2,415,094)
Computers and related equipment	(349,778)	(11,259)	-	(361,037)
Copy machines	(2,186)	(2,186)	-	(4,372)
Telephone system	(4,608)	(4,608)	-	(9,216)
Vehicles and buses	(247,761)	(65,614)	-	(313,375)
Intangible right to use building	(27,489)	(29,988)	-	(57,477)
	(3,284,952)	(212,968)	-	(3,497,920)
Net capital assets	$ 4,814,339	$ 3,748,402	$ (3,914,183)	$ 4,648,558

Depreciation/amortization expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”.

Note 7 – Long-Term Debt (including current portions).

The following is a summary of governmental long-term obligations for the Educational Service District for the year ended June 30, 2022:

	Restated Balances July 01, 2021	Additions	(Reduction)	Balances June 30, 2022	Due within one year
Lease payable	$ 90,661	$ -	$ (29,351)	$ 61,310	$ 30,201
Special termination benefits	58,265	45,894	(58,265)	45,894	36,182
Total	$ 148,926	$ 45,894	$ (87,616)	$ 107,204	$ 66,383

The annual requirements to pay principal and interest on the lease payable outstanding at June 30, 2022 are as follows:

	Leases	
For the year ending June 30,	Principal	Interest
2023	$ 30,201	$ 399
2024	31,109	142
Total	$ 61,310	$ 541

Special termination benefits attributable to the governmental activities will be liquidated from the funds from which the individual salaries are paid.

The Educational Service District entered into a lease commencing August 1, 2020 with a University to lease a portion of the University's building. The lease will end on June 30, 2023, however the Educational Service District has the option to extend the lease for one year through June 30, 2024, which the District plans to execute. The Educational Service District pays monthly installments of $2,500, adjusted by 2% upon the first day of July annually. No residual value guarantees or variable lease payments exist under the lease agreement. The annual interest rate pertaining to the lease is .84%.

Note 8 – Fund Balance Reservations and Designations.

Amounts of the various fund balances restricted or committed at June 30 are as follows:

	2022	2021
General Fund		
Assigned for REMC	$ 61,403	$ 62,281
Assigned for technology	77,300	77,300
Unassigned	1,445,870	1,384,746
Total General Fund	1,584,573	1,524,327
Special Education Fund		
Restricted for special education	6,193,231	5,732,125
Total Special Education Fund	6,193,231	5,732,125
Total governmental funds	7,777,804	7,256,452
Motor Vehicle Fund		
Committed for motor vehicle operation	161,257	110,195
Michigan Unemployment Fund		
Committed for unemployment claims	84,720	86,359
Grand total	$ 8,023,781	$ 7,453,006

Note 9 – Property Taxes.

The assessed values of real and personal property situated in the Educational Service District are established annually by local taxing authorities as of December 31 and are equalized by the State at an estimated 50 percent of current market value. The property tax is levied on December 1 and payable by February 14. Uncollected property taxes as of March 1 are added to the County delinquent tax rolls. By agreement with the various counties, the counties purchase at face value the real property taxes receivable returned delinquent each March 1. The property value used for determining the amount of property tax levied is known as the "taxable value" (TV). This differs from the State Equalized Value (SEV) by limiting annual increases to a cost-of-living adjustment or 5 percent, whichever is less. The taxable value for the 2021-22 school year in the Cheboygan-Otsego-Presque Isle Educational Service District was established at $3,672,757,274. General Education Millage of .2600 mills and Special Education Millage of 1.4876 mills have been approved by voters of the Educational Service District.

Note 10 – Tax Abatements.

The Educational Service District may receive reduced tax revenues as a result of Industrial Facilities Tax exemptions (P.A. 198 of 1974) or Brownfield Redevelopment Agreements granted by cities within the boundaries of the Educational Service District. Industrial facility exemptions are intended to promote construction of new industrial facilities or to rehabilitate historical facilities. Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties. Accordingly, such agreements meet the criteria of "tax abatements" under GASB Statement No. 77.

For the fiscal year ended June 30, 2022, the Educational Service District's tax revenues that were reduced under these programs were not material to the Educational Service District. The Educational Service District is not reimbursed for lost revenue caused by tax abatements. There were no abatements made by the Educational Service District.

Note 11 – Interfund Transfers.

The Special Education Fund transferred $566,440 to the General Fund to reimburse the General Fund for the Special Education Fund portion of fiscal, administration, central office and operations and maintenance. The transfer is determined by state approved calculations. The Educational Service District is not allowed to charge these expenditures directly to the Special Education Fund unless they are a direct expenditure of the fund.

Note 12 – Defined Benefit Pension Plan.

Plan Description. The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members – eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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 the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 P.A. 300 as amended).

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 Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Note 12 – Defined Benefit Pension Plan. *(continued)*

Benefits Provided. Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. 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.

A DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Contributions. Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

The Educational Service District's contributions are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2020 valuation will be amortized over a 18-year period beginning October 1, 2020 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2021:

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0% - 4.0%	19.78%
Member Investment Plan	3.0% - 7.0%	19.78%
Pension Plus	3.0% - 6.4%	16.82%
Pension Plus 2	6.2%	19.59%
Defined Contribution	0.0%	13.39%

Required contributions to the pension plan from the Educational Service District were $1,890,113 for the year ended September 30, 2021.

Note 12 – Defined Benefit Pension Plan. *(continued)*

Pension Liabilities. At June 30, 2022, the Educational Service District reported a liability of $14,903,379 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2020. The Educational Service District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2021, the Educational Service District's proportion was 0.06295%, which was an increase of .00247% from its proportion measured as of September 30, 2020.

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2022, the Educational Service District recognized pension expense of $1,993,960. At June 30, 2022, the Educational Service District 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
Differences between expected and actual experience	$ 230,860	$ 87,763
Changes of assumptions	939,456	-
Net difference between projected and actual earnings on pension plan investments	-	4,791,388
Changes in proportion and differences between Educational Service Districts and proportionate share of contributions	694,727	53,529
Educational Service District contributions subsequent to the measurement date	1,931,029	-
Total	$ 3,796,072	$ 4,932,680

Note 12 – Defined Benefit Pension Plan. *(continued)*

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Year
(To be Recognized in Future Pension Expenses)

Year Ending September 30	Amount
2022	$ 1,752,076
2023	(662,712)
2024	(1,003,276)
2025	(122,696)
Total	(1,136,608)

Actuarial Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2020
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	
- Basic and MIP Plans (Non-Hybrid):	6.80% net of investment expenses
- Pension Plus Plan (Hybrid):	6.80% net of investment expenses
- Pension Plus 2 Plan:	6.00% net of investment expenses
Projected Salary Increases:	2.75 – 11.55%, including wage inflation at 2.75%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members

Note 12 – Defined Benefit Pension Plan. *(continued)*

Mortality: For retirees: RP-2014 Male and Female Combined Healthy Life Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

For active members: RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Notes:

- *Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2018 valuation. The total pension liability as of September 30, 2021, is based on the results of an actuarial valuation date of September 30, 2020, and rolled forward using generally accepted actuarial procedures, including the experience study.*
- *Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.4367 for non-university employers.*
- *Recognition period for assets in years is 5.000.*
- *Full actuarial assumptions are available in the 2021 MPSERS Comprehensive Annual Financial Report on the ORS website at www.michigan.gov/orsschools.*

Long-Term Expected Return on Plan Assets. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2021, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic equity pools	25.0%	5.4%
Private equity pools	16.0%	9.1%
International equity pools	15.0%	7.5%
Fixed income pools	10.5%	(0.7)%
Real estate and infrastructure pools	10.0%	5.4%
Absolute return pools	9.0%	2.6%
Real return/opportunistic pools	12.5%	6.1%
Short term investment pools	2.0%	(1.3)%
TOTAL	100.0%	

**Long term rate of return are net of administration expenses and 2.0% inflation.*

Note 12 – Defined Benefit Pension Plan. *(continued)*

Rate of Return. For the fiscal year ended September 30, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 27.3%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate. A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus Hybrid plan, 6.0% for the Pension Plus 2 plan, hybrid plans provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus Hybrid plan, 6.0% for the Pension Plus 2 plan). 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 employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these 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.

Sensitivity of the Educational Service District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the Educational Service District's proportionate share of the net pension liability calculated using the discount rate of 6.80% (6.80% for the Pension Plus plan and 6.0% for the Pension Plus 2 plan), as well as what the Educational Service District'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 higher:

1% Decrease 5.80% / 5.80% / 5.0%	Current Single Discount Rate Assumption 6.80% / 6.80% / 6.00%	1% Increase 7.80% / 7.80% / 7.00%
$21,307,790	$14,903,379	$9,593,702

Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR, available at www.michigan.gov/orsschools.

Payable to the Pension Plan. At year end, the Educational Service District is current on all required pension plan payments. Amounts accrued at year end for accounting purposes are reported in the financial statements as accrued expenses. These amounts represent current payments for June paid in July, accruals for summer pay (primarily for teachers) and the contributions due funded from state aid revenue section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization rate contributions and amounted to $364,993.

Note 13 – Postemployment Benefits Other Than Pensions (OPEB).

Plan Description. The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members— eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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 Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided. 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 healthcare 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 and 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

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 began 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 IRC § 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 were deposited into their 401(k) account.

Note 13 – Postemployment Benefits Other Than Pensions (OPEB). *(continued)*

Contributions. Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2020 valuation will be amortized over a 18-year period beginning October 1, 2020 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for September 30, 2021.

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.00%	8.43%
Personal Healthcare Fund (PHF)	0.00%	7.57%

Required contributions to the OPEB plan from the Educational Service District were $480,966 for the year ended September 30, 2021.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At June 30, 2022, the Educational Service District reported a liability of $988,943 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2020. The Educational Service District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2021, the Educational Service District's proportion was .06479 percent which was a decrease of .00371 percent from its proportion measured as of October 1, 2020.

Note 13 – Postemployment Benefits Other Than Pensions (OPEB). *(continued)*

For the year ending June 30, 2022, the Educational Service District recognized OPEB expense of $(461,129). At June 30, 2022, the Educational Service District 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
Differences between actual and expected experience	$ -	$ 2,822,867
Changes of Assumptions	826,707	123,706
Net difference between projected and actual earnings on OPEB plan investments	-	745,384
Changes in proportion and differences between employer contributions and proportionate share of contributions	346,563	19,155
Employer contributions subsequent to the measurement date	120,718	-
Total	$ 1,293,988	$ 3,711,112

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Year
(To be Recognized in Future OPEB Expenses)

Year Ending September 30	Amount
2022	$ (533,128)
2023	(607,658)
2024	(574,004)
2025	(526,482)
2026	(155,457)
Thereafter	(20,395)
Total	$ (2,417,127)

Note 13 – Postemployment Benefits Other Than Pensions (OPEB). *(continued)*

Actuarial Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2020
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	6.95% net of investment expenses
Projected Salary Increases:	2.75 – 11.55%, including wage inflation at 2.75%
Healthcare Cost Trend Rate:	Pre-65: 7.75% Year 1 graded to 3.5% Year 15; 3.0% Year 120 Post-65: 5.25% Year 1 graded to 3.5% Year 15; 3.0% Year 120
Mortality:	For retirees: RP-2014 Male and Female Combined Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006. For active members: RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Other Assumptions:

Opt-Out Assumptions	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 13 – Postemployment Benefits Other Than Pensions (OPEB). *(continued)*

Notes:

- *Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual OPEB valuations beginning with the September 30, 2018 valuation. The total OPEB liability as of September 30, 2021, is based on the results of an actuarial valuation date of September 30, 2020, and rolled forward using generally accepted actuarial procedures, including the experience study.*
- *Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 6.1312 for non-university employers.*
- *Recognition period for assets in years is 5.0000.*
- *Full actuarial assumptions are available in the 2021 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.*

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2021, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic equity pools	25.0%	5.4%
Private equity pools	16.0%	9.1%
International equity	15.0%	7.5%
Fixed income pools	10.5%	(0.7)%
Real estate and infrastructure pools	10.0%	5.4%
Absolute return pools	9.0%	2.6%
Real return/opportunistic pools	12.5%	6.1%
Short term investment pools	2.0%	(1.3)%
TOTAL	100.0%	

**Long term rates of return are net of administration expenses and 2.0% inflation.*

Rate of Return. For the fiscal year ended September 30, 2021, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 27.14%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 13 – Postemployment Benefits Other Than Pensions (OPEB). *(continued)*

Discount Rate. A 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 employer 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.

Sensitivity of Educational Service District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate. The following presents the Educational Service District's proportionate share of the net OPEB liability calculated using the discount rate of 6.95%, as well as what the Educational Service District'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:

1 % Decrease 5.95%	Current Discount Rate 6.95%	1% Increase 7.95%
$ 1,837,634	$ 988,943	$ 268,707

Sensitivity of Educational Service District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate. The following presents the Educational Service District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the Educational Service District's proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

Net OPEB Liability at 1% Trend Decrease	Net OPEB Liability at Current Healthcare Trend Rate	Net OPEB Liability at 1% Trend Increase
$ 240,701	$ 988,943	$ 1,830,805

OPEB Plan Fiduciary Net Position. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2021 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payable to OPEB. At year end, the Educational Service District is current on all required OPEB payments. Amounts accrued at year end for accounting purposes are reported in the financial statements as accrued expenses. These amounts represent current payments for June paid in July, and accruals for summer pay (primarily for teachers).

Note 14 – Risk Management.

The Educational Service District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, and natural disasters. The Educational Service District manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and excess insurance coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

The Educational Service District has purchased commercial insurance for general liability, property and casualty and health claims. Settled claims have not exceeded the amount of insurance for the past four years. The Educational Service District also participates in the Michigan Association of School Boards School Employers Trust - School Employers Group (risk pool) for claims relating to the employee injuries/workers compensation. The shared-risk pool program operates as a common risk-sharing management program for Educational Service Districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member premiums in excess of deductible amounts.

Note 15 – Claims and Contingencies.

At various times there may be certain claims or lawsuits, either asserted or unasserted, pending against the Educational Service District. It is the policy of the Cheboygan-Otsego-Presque Isle Educational Service District to record a liability for any contingency, claim or lawsuit when the loss is probable and an amount can be reasonably estimated. The Educational Service District is not aware of any loss contingencies that have not been recorded.

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, the Educational Service District management does not believe such disallowances, if any, will be material to the financial position of the Educational Service District.

Note 16 – Change in Accounting Principle.

The Educational Service District adopted GASB Statement No. 87, *Leases*, in the current year. As a result of this change, the beginning net position of governmental activities decreased as of July 1, 2021 as shown in the following schedule:

Beginning, as previously stated	$ (8,995,007)
Restatement from implementation of GASB 87	(717)
Beginning, as restated	$ (8,995,724)

Note 17 – Subsequent Events.

Management has evaluated subsequent events through October 11, 2022 the date on which the financial statements were available to be issued.

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Required Supplementary Information

Cheboygan-Otsego-Presque Isle Educational Service District

Required Supplemental Information
Budgetary Comparison Schedule - General Fund

For the Year Ended June 30, 2022

	Budget Amounts			Variance from
	Original	Final	Actual	Final Budget
Revenues				
Local sources	$ 981,770	$ 1,009,948	$ 1,012,576	$ 2,628
Non-educational sources	5,000	31,871	32,122	251
State sources	4,834,013	4,378,047	3,837,334	(540,713)
Federal sources	119,944	201,325	175,569	(25,756)
Inter-district sources	739,250	1,019,461	1,010,429	(9,032)
Total revenues	6,679,977	6,640,652	6,068,030	(572,622)
Expenditures				
Instruction				
Basic programs	1,096,417	641,766	616,480	25,286
Supporting services				
Pupil support	733,219	815,911	777,298	38,613
Instructional staff support	1,774,855	1,565,328	1,553,981	11,347
General administration	396,720	376,921	368,563	8,358
Business services	352,799	451,937	448,949	2,988
Operations and maintenance	197,385	219,590	211,354	8,236
Transportation	7,000	14,326	9,818	4,508
Central services	1,183,654	1,110,878	1,092,229	18,649
Community services	150,354	150,543	154,927	(4,384)
Inter-district transfers	1,334,307	1,816,771	1,318,925	497,846
Facilities acquisition	11,500	21,700	21,700	-
Total expenditures	7,238,210	7,185,671	6,574,224	611,447
Excess of Revenues Over (Under) Expenditures	(558,233)	(545,019)	(506,194)	38,825
Other Financing Sources (Uses)				
Transfers from other funds	523,550	565,325	566,440	1,115
Total other financing sources (uses)	523,550	565,325	566,440	1,115
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(34,683)	20,306	60,246	39,940
Fund Balances, beginning of the year	1,524,327	1,524,327	1,524,327	-
Fund Balances, end of the year	$ 1,489,644	$ 1,544,633	$ 1,584,573	$ 39,940

Cheboygan-Otsego-Presque Isle Educational Service District

Required Supplemental Information
Budgetary Comparison Schedule - Special Education Fund

For the Year Ended June 30, 2022

	Budget Amounts Original	Budget Amounts Final	Actual	Variance from Final Budget
Revenues				
Local sources	$ 6,142,848	$ 6,346,618	$ 6,352,229	$ 5,611
Non-educational sources	12,678	14,868	-	(14,868)
State sources	2,961,113	3,000,645	2,990,358	(10,287)
Federal sources	2,438,348	2,799,040	2,787,380	(11,660)
Inter-district sources	46,750	51,390	52,726	1,336
Total revenues	11,601,737	12,212,561	12,182,693	(29,868)
Expenditures				
Instruction				
Added needs	2,615,188	2,542,920	2,503,591	39,329
Supporting services				
Pupil support	4,804,954	4,861,252	4,789,747	71,505
Instructional staff support	767,392	814,761	806,343	8,418
General administration	30,000	15,681	10,181	5,500
School administration	3,000	2,365	2,365	-
Business services	17,000	21,300	15,651	5,649
Operations and maintenance	101,000	91,002	87,975	3,027
Transportation	317,045	315,223	306,471	8,752
Central services	127,947	72,284	67,324	4,960
Community services	59,268	99,256	95,387	3,869
Inter-district transfers	2,455,933	2,470,120	2,470,112	8
Total expenditures	11,298,727	11,306,164	11,155,147	151,017
Excess of Revenues Over (Under) Expenditures	303,010	906,397	1,027,546	121,149
Other Financing Sources (Uses)				
Transfers to other funds	(523,550)	(565,325)	(566,440)	(1,115)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(220,540)	341,072	461,106	120,034
Fund Balances, beginning of the year	5,732,125	5,732,125	5,732,125	-
Fund Balances, end of the year	$ 5,511,585	$ 6,073,197	$ 6,193,231	$ 120,034

Cheboygan-Otsego-Presque Isle Educational Service District

Required Supplemental Information
Schedule of the Proportionate Share of the Net Pension Liability

Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	2021	2020	2019
A. Educational Service District's proportion of net pension liability (%)	0.06295%	0.06048%	0.06068%
B. Educational Service District's proportionate share of net pension liability	$ 14,903,379	$ 20,776,586	$ 20,094,318
C. Educational Service District's covered-employee payroll	$ 5,896,762	$ 5,442,370	$ 5,294,214
D. Educational Service District's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	252.74%	381.76%	379.55%
E. Plan fiduciary net position as a percentage of total pension liability	52.26%	59.72%	60.31%

Changes in benefit terms: There were no changes in benefit terms in 2021.

Changes in benefit assumptions: There were no changes in benefit assumptions in 2021.

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with the fiscal year ending September 30, 2014.

2018	2017	2016	2015	2014
0.05971%	0.05825%	0.05619%	0.05386%	0.05159%
$ 17,950,105	$ 15,094,378	$ 14,018,157	$ 13,156,460	$ 11,362,995
$ 5,183,890	$ 4,939,717	$ 4,846,941	$ 4,650,003	$ 4,670,858
346.27%	305.57%	289.22%	282.93%	243.27%
62.36%	64.21%	63.27%	63.17%	66.20%

Cheboygan-Otsego-Presque Isle Educational Service District

Required Supplemental Information
Schedule of the Pension Contributions

Michigan Public School Employees Retirement Plan
Last 10 Educational Service District Fiscal Years (Amounts determined as of 6/30 of each year)

	2022	2021	2020
A. Statutorily required contributions	$ 1,940,549	$ 1,745,838	$ 1,648,274
B. Contributions in relation to statutorily required contributions*	1,940,549	1,745,838	1,648,274
C. Contribution deficiency (excess)	$ -	$ -	$ -
D. Educational Service District's covered-employee payroll	$ 6,108,510	$ 5,825,733	$ 5,391,822
E. Contributions as a percentage of covered-employee payroll	31.77%	29.97%	30.57%

*Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to MPSERS, which may differ from the statutorily required contributions.

Changes in benefit terms: There were no changes in benefit terms in 2021.

Changes in benefit assumptions: There were no changes in benefit assumptions in 2021.

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with fiscal year ending June 30, 2015.

2019	2018	2017	2016	2015
$ 1,655,126	$ 1,369,993	$ 1,261,705	$ 1,039,119	$ 962,461
1,655,126	1,369,993	1,261,705	1,039,119	962,461
$ -	$ -	$ -	$ -	$ -
$ 5,257,016	$ 5,141,382	$ 5,067,346	$ 4,863,760	$ 4,802,306
31.48%	26.65%	24.90%	21.36%	20.04%

Cheboygan-Otsego-Presque Isle Educational Service District

Required Supplemental Information
Schedule of the Proportionate Share of the Net OPEB Liability

Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	2021	2020	2019
A. Educational Service District's proportion of net OPEB liability (%)	0.06479%	0.06108%	0.06039%
B. Educational Service District's proportionate share of net OPEB liability	$ 988,943	$ 3,272,330	$ 4,334,980
C. Educational Service District's covered-employee payroll (OPEB)	$ 5,896,762	$ 5,442,370	$ 5,294,214
D. Educational Service District's proportionate share of net OPEB liability as a percentage of its covered-employee payroll (%)	16.77%	60.13%	81.88%
E. Plan fiduciary net position as a percentage of total OPEB liability	87.33%	59.44%	48.46%

Changes in benefit terms: There were no changes in benefit terms in 2021.

Changes in benefit assumptions: There were no changes in benefit assumptions in 2021, other than the healthcare cost trend rate changed as follows:

2020: 7.0% Year 1 graded to 3.5% Year 15, 3.0% Year 120
2021: Pre-65: 7.75% Year 1 graded to 3.5% Year 15, 3.0% Year 120
Post-65: 5.25% Year 1 graded to 3.5% Year 15, 3.0% Year 120

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with fiscal year ending June 30, 2017.

2018	2017
0.06078%	0.05825%
$ 4,831,121	$ 5,158,419
$ 5,183,890	$ 4,939,717
93.19%	104.43%
42.95%	36.39%

Cheboygan-Otsego-Presque Isle Educational Service District

Required Supplemental Information
Schedule of OPEB Contributions

Michigan Public School Employees Retirement Plan
Last 10 Educational Service District Fiscal Years (Amounts determined as of 6/30 of each year)

	2022	2021	2020
A. Statutorily required OPEB contributions	$ 480,429	$ 470,569	$ 414,675
B. OPEB Contributions in relation to statutorily required contributions*	480,429	431,560	428,835
C. Contribution deficiency (excess)	$ -	$ 39,009	$ (14,160)
D. Educational Service District's convered-employee payroll (OBEP)	$ 6,108,510	$ 5,825,733	$ 5,391,822
E. OPEB contributions as a percentage of covered-employee payroll	7.86%	7.41%	7.95%

*Contributions in relation to statutorily required OPEB contributions are the contributions an employer actually made to the OPEB Plan, as distinct from the statutorily required contributions.

Changes in benefit terms: There were no changes of benefit terms in 2021.

Changes in benefit assumptions: There were no changes in benefit assumptions in 2021, other than the healthcare cost trend rate changed as follows:

2020: 7.0% Year 1 graded to 3.5% Year 15, 3.0% Year 120
2021: Pre-65: 7.75% Year 1 graded to 3.5% Year 15, 3.0% Year 120
Post-65: 5.25% Year 1 graded to 3.5% Year 15, 3.0% Year 120

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with fiscal year ending June 30, 2018.

2019		2018	
$	394,500	$	536,573
	409,069		536,573
$	(14,569)	$	-
$	5,257,016	$	5,141,382
	7.78%		10.44%

Other Supplementary Information

Federal Financial Assistance

Straley Lamp & Kraenzlein P.C.
Certified Public Accountants

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Bernard R. Lamp, CPA
James E. Kraenzlein, CPA/ABV/CFF
Gary C. VanMassenhove, CPA
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Chelsea A. McConnell, CPA
Leah M. LaFave, CPA
Nicholas L. Cordes, CPA
Mark L. Sandula, CPA
John D. Faulman

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
Cheboygan-Otsego-Presque Isle
Educational Service District
Alpena, Michigan

We have audited, in accordance with the 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 the Cheboygan-Otsego-Presque Isle Educational Service District, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Cheboygan-Otsego-Presque Isle Educational Service District's basic financial statements, and have issued our report thereon dated October 11, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cheboygan-Otsego-Presque Isle Educational Service District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cheboygan-Otsego-Presque Isle Educational Service District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cheboygan-Otsego-Presque Isle Educational Service District'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.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cheboygan-Otsego-Presque Isle Educational Service District'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.

Straley Lamp & Kraenzlein P.C.

October 11, 2022

Straley Lamp & Kraenzlein P.C.
Certified Public Accountants

Philip T. Straley, CPA/PFS
Bernard R. Lamp, CPA
James E. Kraenzlein, CPA/ABV/CFF
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Nicholas L. Cordes, CPA
Mark L. Sandula, CPA
John D. Faulman

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Education
Cheboygan-Otsego-Presque Isle
Educational Service District
Alpena, Michigan

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Cheboygan-Otsego-Presque Isle Educational Service District's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Cheboygan-Otsego-Presque Isle Educational Service District's major federal programs for the year ended June 30, 2022. Cheboygan-Otsego-Presque Isle Educational Service District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Cheboygan-Otsego-Presque Isle Educational Service District 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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Cheboygan-Otsego-Presque Isle Educational Service District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Cheboygan-Otsego-Presque Isle Educational Service District's compliance with the compliance requirements referred to above.

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Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Cheboygan-Otsego-Presque Isle Educational Service District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Cheboygan-Otsego-Presque Isle Educational Service District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Cheboygan-Otsego-Presque Isle Educational Service District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.

- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Cheboygan-Otsego-Presque Isle Educational Service District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- obtain an understanding of Cheboygan-Otsego-Presque Isle Educational Service District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Cheboygan-Otsego-Presque Isle Educational Service District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Straley Lamp & Kraenzlein P.C.

October 11, 2022

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Cheboygan-Otsego-Presque Isle Educational Service District

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2022

Program Title/Project Number/Subrecipient Name	Grant/Project Number	Federal Assistance Listing	Approved Awards Amount	(Memo Only) Prior Year Expenditure
U.S Department of Education				
Passed through State of Michigan Department of Education:				
Food and Nutrition Services - USDA	210980 2021	10.649	$ 614	$ -
Pandemic EBT Local Level Administrative Costs			614	-
Special Education Cluster:				
Special Education - Grants to States		* 84.027A		
Special Education Flow-Through 19/20	200450 1920		2,052,688	2,052,688
Special Education Flow-Through 20/21	210450 2021		2,122,476	2,122,476
Special Education Flow-Through 21/22	220450 2122		2,123,491	-
General Supervision Grant	210493 GSG		125,400	125,400
General Supervision Grant	220193 GSG		125,400	-
			6,549,455	4,300,564
Special Education - Grants to States - COVID		* 84.027X		
ARP Special Education - Flowthrough - COVID	2210 2122		443,225	-
			443,225	-
Special Education - Preschool		* 84.173A		
Preschool Incentive 20/21	210460 2021		64,291	64,291
Preschool Incentive 21/22	220460 2122		64,515	-
			128,806	64,291
Special Education - Preschoool- COVID		* 84.173X		
ARP Special Education - Preschool - COVID	221285 2122		34,554	-
			34,554	-
Total Special Education Cluster			7,156,040	4,364,855
Special Education - Grants for Infants and Families		84.181		
Infants & Toddlers Early Intervention Services 21/22	221340 2122		87,290	-
			87,290	-
Special Education - Grants for Infants and Families - COVID		84.181X		
ARP Early On COVID	221280 2122		37,785	-
			37,785	-
McKenney-Vento Homeless Education Assistance Act		84.196		
Homeless Children & Youths 20/21	212320 2021		94,676	35,856
Homeless Children & Youths 21/22	222320 2122		156,226	-
			250,902	35,856
Coronavirus Aid, Relief, and Economic Security Act (COVID-19)		84.425C		
Early on GEER - COVID	201230 2021		8,320	6,508
			8,320	6,508

* - Major Program

Revenue Accrued (Unearned) at July 01, 2021	Current Year Receipts	Current Year Adjustments and Transfers	Current Year Expenditures	Revenue Accrued (Unearned) at June 30, 2022	Current Year Cash Transferred To Subrecipients
$ -	$ 614	$ -	$ 614	$ -	$ -
-	614	-	614	-	-
6,845	6,845	-	-	-	-
134,640	134,640	-	-	-	-
-	1,861,727	-	2,123,490	261,763	-
12,288	12,288	-	-	-	-
-	82,110	-	125,400	43,290	
153,773	2,097,610	-	2,248,890	305,053	-
-	214,888	-	268,085	53,197	-
-	214,888	-	268,085	53,197	-
5,267	5,267	-	-	-	-
-	44,680	-	62,962	18,282	-
5,267	49,947	-	62,962	18,282	-
-	17,681	-	25,903	8,222	-
-	17,681	-	25,903	8,222	-
159,040	2,380,126	-	2,605,840	384,754	-
-	87,290	-	87,290	-	-
-	87,290	-	87,290	-	-
-	-	-	11,059	11,059	-
-	-	-	11,059	11,059	-
8,864	26,210	-	17,346	-	-
-	39,333	-	42,903	3,570	-
8,864	65,543	-	60,249	3,570	-
128	1,940	-	1,812	-	-
128	1,940	-	1,812	-	-

Cheboygan-Otsego-Presque Isle Educational Service District

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2022

Program Title/Project Number/ Subrecipient Name	Grant/Project Number	Federal Assistance Listing	Approved Awards Amount	(Memo Only) Prior Year Expenditure
U.S Department of Education (continued)				
Passed through State of Michigan Department of Education: (continued)				
McKenney-Vento Homeless Education Assistance Act - COVID		84.425W		
ARP Homeless - COVID	211010 2122		74,737	-
			74,737	-
Special Education - Grants for Infants and Families		93.434		
Trusted Advisors 20/21	213910 3.621		33,000	10,326
Trusted Advisors 21/22	223910 3.622		25,000	-
			58,000	10,326
Direct Program:				
Small Rural School Achievement Program		84.358A		
Small Rural School Achievement 20/21	S358A201901		26,853	18,419
Small Rural School Achievement 21/22	S358A152421		27,119	-
			53,972	18,419
Total U.S. Department of Education			7,614,524	4,435,964
U.S. Department of Health and Human Services				
Passed through Michigan Department of Social Services and Michigan Department of Public Health:				
Medical Assistance Program Title XIX		93.778		
Medicaid Administrative Outreach Claims	N/A		50,855	-
			50,855	-
Total COVID-19 Funds Received by the District			598,621	6,508
Total Federal Awards			$ 7,665,993	$ 4,435,964

Revenue Accrued (Unearned) at July 01, 2021	Current Year Receipts	Current Year Adjustments and Transfers	Current Year Expenditures	Revenue Accrued (Unearned) at June 30, 2022	Current Year Cash Transferred To Subrecipients
-	-	-	35,382	35,382	-
-	-	-	35,382	35,382	-
970	23,644	-	22,674	-	-
-	17,915	-	18,843	928	-
970	41,559	-	41,517	928	-
-	8,434	-	8,434	-	-
-	-	-	22,509	22,509	-
-	8,434	-	30,943	22,509	-
169,002	2,584,892	-	2,874,092	411,761	-
-	50,855	-	50,855	-	28,739
-	50,855	-	50,855	-	28,739
128	234,509	-	342,241	107,860	-
$ 169,002	$ 2,636,361	$ -	$ 2,925,561	$ 411,761	$ 28,739

See Notes to Schedule of Expenditures of Federal Awards.

Cheboygan-Otsego-Presque Isle Educational Service District

Schedule of Federal Financial Assistance Provided to Subrecipients

For the Year Ended June 30, 2022

Program Title / Subrecipient	Project Number	C.F.D.A. Number	Amount Awarded
Medical Assistance Programs	N/A	93.778	
Medicaid Administrative Outreach Claims			
Cheboygan Area Schools			$ 6,621
Gaylord Community Schools			15,297
Inland Lakes Schools			2,838
Johannesburg-Lewiston Area Schools			3,983
Totals			$ 28,739

Due to (from) Subrecipient at July 01, 2021	(Memo Only) Prior Year Expenditures	Current Year Cash Transferred (Cash Basis)	Current Year Federal Expenditures	Due to (from) Subrecipient at June 30, 2022
$ -	$ -	$ 6,621	$ 6,621	$ -
-	-	15,297	15,297	-
-	-	2,838	2,838	-
-	-	3,983	3,983	-
$ -	$ -	$ 28,739	$ 28,739	$ -

Note 1 – Basis of Presentation.

The accompanying Schedule of Expenditures of Federal Awards ("the Schedule") includes the federal award activity of the Cheboygan-Otsego-Presque Isle Educational Service District under programs of the federal government for the year ended June 30, 2022. 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 Principals, and Audit Requirements* for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Cheboygan-Otsego-Presque Isle Educational Service District it is not intended to and does not present the financial position, changes in net position, or cash flows of the Cheboygan-Otsego-Presque Isle Educational Service District.

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 principals contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts 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.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Cheboygan-Otsego-Presque Isle Educational Service District has formatted the Schedule to conform to the recommendations of the Michigan Department of Education. The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

Note 3 – Indirect Cost Rate.

The Cheboygan-Otsego-Presque Isle Educational Service District has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4 – Relationship to Governmental Fund Financial Statements.

Revenues from federal sources are reported in the Educational Service District's financial statements as follows:

Grant Auditor Report - (GAR) NexSys		Federal Revenues
General Fund	$	175,569
Special Revenue Funds:		
Special Education Fund		2,787,380
Total federal revenues per financial statements	$	2,962,949
Federal revenues from FICA refunds reported on the audited financial statements at June 30, 2022 and not reported as grants in the schedule of expenditures of federal awards (SEFA)		37,387
Rounding		1
Total expenditures per the Schedule of Expenditures of Federal Awards (SEFA)	$	2,925,561

Note 5 – Grant Auditor Report.

Management has utilized the Michigan Department of Education’s NexSys grant management system’s Grant Auditor Report (GAR) in preparing the schedule of expenditures of federal awards.

Note 6 – Reconciliation to Michigan Department of Education’s NexSys Grant Auditor’s Report.

The following shows a reconciliation of current year receipts per the Schedule of Expenditures of Federal Awards to current payments per the Michigan Department of Education NexSys Grant Auditor Report:

Agency total current payments per Michigan Department of Education Grant Auditor Report - (GAR) NexSys	$	2,577,072
Add items not on NexSys report:		
Amounts received through Michigan Department of Social Services and Michigan Department of Public Health:		
Medicaid Outreach		50,855
Amounts received as a Direct award from the U.S. Department of Education:		
Small Rural School Achievement		8,434
Total current year receipts (cash basis) per the Schedule of Expenditures of Federal Awards (SEFA)	$	2,636,361

Cheboygan-Otsego-Presque Isle Educational Service District

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

Section I – Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Cheboygan-Otsego-Presque Isle Educational Service District were prepared in accordance with GAAP.

2. No material weaknesses in internal control relating to the audit of the financial statements are reported in the 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*.

3. No instances of noncompliance material to the financial statements of Cheboygan-Otsego-Presque Isle Educational Service District, which are required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

4. No material weaknesses or significant deficiencies relating to the audit of internal control over major federal award programs are reported in the Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.

5. The auditor's report on compliance for the major federal award programs for Cheboygan-Otsego-Presque Isle Educational Service District expresses an unmodified opinion.

6. There are no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a).

7. The program tested as a major program was: Special Education Cluster, Federal Assistance Listing 84.027A, 84.027X, 84.173A and 84.173X.

8. The dollar threshold for distinguishing Types A and B programs was $750,000.

9. Cheboygan-Otsego-Presque Isle Educational Service District qualified as a low-risk auditee.

Section II – Financial Statement Findings

There were no findings related to the financial statements which were required to be reported in accordance with generally accepted auditing standards for the year ended June 30, 2022.

Section III – Federal Program Audit Findings

There were no findings or questioned costs related to the major federal award program audit for the year ended June 30, 2022.

CHEBOYGAN• OTSEGO •PRESQUE ISLE
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Report on Prior Audit Findings

Financial Statement Findings

There were no findings related to the financial statements which were required to be reported in accordance with generally accepted auditing standards for the year ended June 30, 2021.

Findings and Questioned Costs - Major Federal Award Program Audit

There were no findings related to major federal award programs, which were required to be reported in accordance with generally accepted government auditing standards for the year ended June 30, 2021.

Straley Lamp & Kraenzlein P.C.
Certified Public Accountants

Philip T. Straley, CPA/PFS
Bernard R. Lamp, CPA
James E. Kraenzlein, CPA/ABV/CFF
Gary C. VanMassenhove, CPA
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Leah M. LaFave, CPA
Nicholas L. Cordes, CPA
Mark L. Sandula, CPA
John D. Faulman

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Education
Cheboygan-Otsego-Presque Isle Educational Service District
Indian River, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cheboygan-Otsego-Presque Isle Educational Service District for the year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letters dated August 12, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practic*es

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Cheboygan-Otsego-Presque Isle Educational Service District are described in Note 1 to the financial statements. As described in Note 16 to the financial statements, the Cheboygan-Otsego-Presque Isle Educational Service District changed accounting policies related to Leases by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 87, *Leases*, in 2022. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the statement of net position. We noted no transactions entered into by the Cheboygan-Otsego-Presque Isle Educational Service District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

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 Cheboygan-Otsego-Presque Isle Educational Service District financial statements were:

> Management's estimate of the depreciation expense is based on management's assumptions about the useful lives of its fixed assets. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole;
>
> Management's estimate of its pension, OPEB liabilities, deferred inflows of resources, and deferred outflows of resources, which is based upon actuarial valuations which considers such assumptions as the long-term expected return on plan assets, discount rates, future employee wages, inflation, mortality rates, and cost of living adjustments.

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 known and likely 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 each opinion unit's 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 11, 2022.

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 Cheboygan-Otsego-Presque Isle Educational Service District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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 Cheboygan-Otsego-Presque Isle Educational Service District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

<u>Other Matters</u>

We applied certain limited procedures to Management's Discussion and Analysis, Budgetary Comparison Schedules, Pension Plan Schedules, and OPEB Schedules, which are required supplementary information (RSI) that supplements 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 Schedule of Expenditures of Federal Awards, which accompany the financial statements, but are not RSI. With respect to this 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 State 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 supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Recent Pronouncements.

The Governmental Accounting Standards Board and Michigan Department of Education, in its continuing process of updating the accounting principles that all governments must adhere to, has issued the following recent pronouncements that will have an impact on the way the Cheboygan-Otsego-Presque Isle Educational Service District maintains its financial records:

Upcoming GASB Statements that will impact the COP-ESD:

A. **GASB Statement No. 91 – Conduit Debt Obligations.** This Statement clarifies the existing definition of a conduit debt obligation and establishes that a conduit debt obligation is not a liability of the issuer. The Statement eliminates diversity in practice and provides a single method of reporting conduit debt obligations by issuers associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

   GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, postponed the implementation date for GASB Statement No. 91 to periods beginning after December 15, 2021 (the Cheboygan-Otsego-Presque Isle Educational Service District's June 30, 2023 fiscal year).

B. **GASB Statement No. 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements** – This statement addresses accounting and financial reporting for arrangements in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset (such as infrastructure or other capital asset) for a period of time in exchange or exchange-like transaction. This statement also provides guidance for accounting and financial reporting for availability payment arrangements in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The Educational Service District is currently evaluating the impact this standard will have on the financial statements when adopted.

   The requirements of this statement are effective for reporting periods beginning after June 15, 2022, (the Cheboygan-Otsego-Presque Isle Educational Service District's June 30, 2023 fiscal year).

C. **GASB Statement No. 96, Subscription-Based Information Technology Arrangements –** This statement expands on the new guidance for leases (GASB Statement No. 87) and applies it to subscription-based information technology arrangements ("SBITAs). Governments that have agreements that meet the definition of a SBITA will report a right-to-use subscription asset, with a corresponding subscription liability and be required to disclose additional information. The Educational Service District is currently evaluating the impact this standard will have on the financial statements when adopted.

   The requirements of this statement are effective for reporting periods beginning after June 15, 2022, (the Cheboygan-Otsego-Presque Isle Educational Service District's June 30, 2023 fiscal year).

D. **GASB Statement No. 100, Accounting Changes and Error Corrections—an Amendment of GASB Statement No. 62** – This statement stipulates the accounting and financial reporting for (1) each type of accounting change and (2) error corrections with the objective of enhancing the accounting and financial reporting requirements and to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The statement establishes requirements for note disclosures, required supplemental information, and supplemental information.

   The requirements of this statement are effective for reporting periods beginning after June 15, 2023, (the Cheboygan-Otsego-Presque Isle Educational Service District's June 30, 2024 fiscal year).

E. GASB Statement No. 101, Compensated Absences – This statement updates the recognition and measurement guidance of the existing standard under a unified model. Previously required financial statement note disclosure requirements have been amended within this statement.

The requirements of this statement are effective for reporting periods beginning after December 15, 2023, (the Cheboygan-Otsego-Presque Isle Educational Service District's June 30, 2025 fiscal year).

Restriction on Use

This report is intended solely for the information and use of the Cheboygan-Otsego-Presque Isle Educational Service District Board of Education, Michigan Department of Education, management, and others within the governmental unit and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to thank the staff of the Cheboygan-Otsego-Presque Isle Educational Service District for their assistance during the audit. We commend the Educational Service District for its excellent recordkeeping system and appreciate the opportunity to serve the Cheboygan-Otsego-Presque Isle Educational Service District. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

Very truly yours,

Straley Lamp & Kraenzlein P.C.

October 11, 2022