Kalamazoo Regional Educational Service Agency

Report to the Board of Education

June 30, 2026

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To the Board of Education
Kalamazoo Regional Educational Service Agency

We have recently completed our audit of the basic financial statements of Kalamazoo Regional Educational Service Agency (the "Agency") as of and for the year ended June 30, 2026. In addition to our audit report, we are providing the following results of the audit, summary of unrecorded possible adjustments, and informational items that impact the School District:

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We are grateful for the opportunity to be of service to Kalamazoo Regional Educational Service Agency. We would also like to extend our thanks to Scott Thomas, Brad Storms and the entire business office for their assistance and preparedness during the audit. We recognize that preparing for the audit is carried out in addition to your staff's normal daily activities. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

October 22, 2026

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Results of the Audit

plante moran

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October 22, 2026

To the Board of Education
Kalamazoo Regional Educational Service Agency

We have audited the financial statements of Kalamazoo Regional Educational Service Agency (the "Agency") as of and for the year ended June 30, 2026 and have issued our report thereon dated October 22, 2026. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 23, 2026, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Agency. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the Agency's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the Agency, including compliance with certain provisions of laws, regulations, contracts, and grant agreements; certain instances of error or fraud; illegal acts applicable to government agencies; and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated October 22, 2026 regarding our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 12, 2026.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Agency are described in Note 2 to the financial statements.

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As described in Note 2, the Agency adopted Governmental Accounting Standards Board Statement No. 103, *Financial Reporting Model Improvements*, which updated the organization and disclosure requirements of the management's discussion and analysis and budgetary comparison disclosures in the required supplementary information. The Agency also adopted Governmental Accounting Standards Board Statement No. 104, *Disclosure of Certain Capital Assets*, which requires expanded disclosures of certain types of capital assets by major category and assets held for sale by the Agency. The adoption of these standards did not have a material impact on the financial statements.

We noted no transactions entered into by the Agency during the year for which there is a lack of authoritative guidance or consensus.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

The most sensitive estimates affecting the financial statements were the Agency's share of the MPSERS net liability for the pension and net asset for the other postemployment benefit (OPEB) plans recorded on the government-wide statements related to GASB Statement Nos. 68 and 75, respectively. The Agency's estimates as of June 30, 2026 were a liability of $77,325,619 and an asset of $20,833,207 for the pension and OPEB plans, respectively, based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

The attached schedule summarizes uncorrected misstatements of the financial statements that were requested to be recorded. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. However, uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future period financial statements to be materially misstated.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Agency, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the Agency's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 22, 2026.

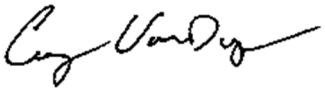
Management Consultations with Other Independent Accountants

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

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

Very truly yours,

Plante & Moran, PLLC



Corey VanDyke, CPA
Partner

Summary of Unrecorded Possible Adjustments

Client: Kalamazoo Regional Educational Service Agency
Opinion Unit: General Fund
Y/E: 6/30/2026

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Fund Balance	Revenue	Expenses	Change in Fund Balance Impact
FACTUAL MISSTATEMENTS:											
A1	Record unavailable revenue for receivables not collected within 60 days of June 30, 2026 in accordance with GASB 33						$ 172,549		$ (172,549)		$ (172,549)
JUDGMENTAL ADJUSTMENTS:											
B1	None										
PROJECTED ADJUSTMENTS:											
C1	None										
		$ -	$ -	$ -	$ -	$ -	-	$ -	-	$ -	-
	Total	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 172,549**	**$ -**	**$ (172,549)**	**$ -**	**$ (172,549)**
ASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUE											
D1	None										

Client: Kalamazoo Regional Educational Service Agency
Opinion Unit: Special Education Fund
Y/E: 6/30/2026

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Equity	Revenue	Expenses	Change in Fund Balance Impact
FACTUAL MISSTATEMENTS:											
A1	Record unavailable revenue for receivables not collected within 60 days of June 30, 2026 in accordance with GASB 33						93,575		$ (93,575)		$ (93,575)
JUDGMENTAL ADJUSTMENTS:											
B1	None										
PROJECTED ADJUSTMENTS:											
C1	None										
		$ -	$ -	$ -	-	$ -	$ -	$ -	-	$ -	-
	Total	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 93,575**	**$ -**	**$ (93,575)**	**$ -**	**$ (93,575)**
PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:											
D1	None										

Client: Kalamazoo Regional Educational Service Agency
Opinion Unit: Career Connect Fund
Y/E: 6/30/2026

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Fund Balance	Revenue	Expenses	Change in Fund Balance Impact
FACTUAL MISSTATEMENTS:											
A1	Record unavailable revenue for receivables not collected within 60 days of June 30, 2026 in accordance with GASB 33						271,473		$ (271,473)	$ -	$ (271,473)
JUDGMENTAL ADJUSTMENTS:											
B1	None										
PROJECTED ADJUSTMENTS:											
C1	None										
		$ -	$ -	$ -	-	$ -	$ -	$ -	$ -	-	-
	Total	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 271,473**	**$ -**	**$ (271,473)**	**$ -**	**$ (271,473)**
PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:											
D1	None										

Informational Items

Managing the Changing Fiscal Landscape

School districts were once again placed in the difficult position of needing to adopt an initial budget for fiscal year 2026-2027 prior to the adoption of the school aid budget. The budget was signed on July 21, 2026 compared to last year's much delayed October 7, 2025 signing. The State has a statutory deadline of July 1 for finalizing the annual school aid budget. School districts are required by law to adopt an initial budget by July 1, the start of their fiscal year.

The State of Michigan's fiscal year 2026-2027 school aid budget provides school districts with another year of historically strong state support while also introducing several policy changes that may influence future funding allocations and district operations. The budget totals approximately $19.8 billion and continues the State's commitment to K-12 education, including a record foundation allowance of $10,300 per pupil, a 2.5 percent increase over last year's $10,050. The budget also continues funding for universal school meals and maintains significant investments in student mental health, school safety, special education, and educator workforce initiatives.

One of the most significant changes in the new school aid budget is the introduction of a weighted funding model for economically disadvantaged students and English language learners. Historically, funding for these programs was largely distributed through categorical grants such as At-Risk (Section 31a) and bilingual education funding. Under the new framework, funding is increasingly linked directly to student characteristics through a weighted formula. Proponents believe this approach more directly aligns resources with student needs and may provide a foundation for future funding reforms. However, districts should recognize that receipt of these funds is tied to additional accountability, reporting, screening, instructional, and audit requirements established by the State.

The budget also continues substantial investments in student mental health and school safety initiatives. While these resources provide important support for students and communities, districts should carefully evaluate any related compliance obligations. Certain school safety funding continues to carry requirements associated with cooperation during investigations of school safety incidents, which has generated discussion among school districts regarding operational and legal considerations.

Although the state budget provides record per pupil funding levels, boards should continue to monitor several long-term fiscal challenges. Student enrollment remains the primary driver of school funding in Michigan. Many districts continue to experience enrollment declines resulting from demographic changes, lower birth rates, and increased educational choice options. Even modest enrollment declines can offset annual increases in the foundation allowance and place pressure on operating budgets. As a result, districts should continue to evaluate staffing levels, facility utilization, and long-term financial sustainability in light of projected enrollment trends. To help deal with the impact of enrollment declines on the amount of foundation allowance received by school districts, this state budget modifies the annual student count formula. Historically, the student count was based on a weighted split between the October and February student count days. For this year, school districts can use the greater of this year's count or the three-year average weighted count.

Labor costs also remain a significant challenge. School districts continue to face competitive labor markets, educator shortages, and ongoing pressure to increase wages and benefits to attract and retain qualified staff. While state funding has increased in recent years, recurring expenditures, such as payroll, retirement contributions, health care costs, and special education services, continue to consume a growing share of district resources. Boards should remain focused on maintaining structural budget balance and avoiding the use of one-time funding sources to support recurring expenditures.

From a state revenue perspective, boards should also recognize that the School Aid Fund faces increasing demands. The State continues to use School Aid Fund resources to support programs beyond traditional K-12 operations, including certain higher education expenditures. At the same time, Michigan faces ongoing infrastructure, transportation, health care, and economic development funding priorities. Future Consensus Revenue Estimating Conference projections will be important indicators of whether School Aid Fund revenue growth keeps pace with these competing demands. Previous state budget discussions have also highlighted concerns regarding the long-term impact of broader economic conditions on revenue collections.

While this commentary is primarily focused on Michigan funding, districts should continue to monitor federal developments as well. Much of the federal pandemic-related funding that helped support district operations over the past several years has now expired. Going forward, federal support will be concentrated primarily in recurring programs such as Title I, IDEA, Child Nutrition, and other formula and competitive grants. Any future federal funding changes could place additional pressure on state and local resources.

Overall, the fiscal outlook for Michigan school districts remains stable, supported by continued state investment and record per pupil funding. However, boards should remain attentive to evolving funding formulas, enrollment trends, labor cost pressures, and future School Aid Fund revenue performance as they make strategic decisions regarding staffing, programming, capital planning, and fund balance management.

Federal Funding and Policy Considerations

Although Michigan schools continue to benefit from stable formula-based federal funding streams, several developments at the federal level warrant ongoing monitoring. School districts have now largely moved beyond the period supported by pandemic-related relief funding, requiring districts to sustain programs and staffing levels using recurring local, state, and federal resources. As a result, districts may face difficult decisions regarding programs or positions that were initially expanded with temporary federal funding. In addition, federal policymakers continue to evaluate education spending priorities, including Title I, IDEA special education funding, school nutrition programs, and other formula grants that provide significant financial support to Michigan school districts. While these programs remain foundational funding sources for many districts, ongoing budget negotiations and policy discussions at the federal level create uncertainty regarding future funding levels and program requirements. Districts should also continue to monitor changes to federal grant compliance requirements, procurement standards, program eligibility rules, and reporting expectations, as these areas remain subject to periodic revisions. For districts that rely heavily on federal funding to support at-risk student populations, special education services, or nutrition programs, maintaining flexibility within long-term financial plans and monitoring federal developments will remain important components of fiscal stewardship. The significant reduction in federal funding reflected within the State's fiscal year 2026-2027 school aid budget, resulting primarily from the expiration of pandemic-related federal programs, serves as a reminder that future budgets will increasingly rely on recurring state and local revenue sources rather than temporary federal assistance.

Federal Grants Compliance and Single Audit Updates

In addition to monitoring funding levels, school districts should remain attentive to recent changes in federal grant administration and compliance requirements. Federal agencies continue to place heightened emphasis on grant oversight, documentation, internal controls, procurement practices, and subrecipient monitoring. Recent updates to the Uniform Guidance and the *Compliance Supplement* have increased the importance of maintaining well-documented policies and procedures surrounding grant administration. One notable change is the increase in the single audit threshold from $750,000 to $1 million in annual federal expenditures for certain audits, along with a corresponding increase in the Type A program threshold used in major program determination. At the grant level, revisions to the Uniform Guidance increased the federal equipment capitalization threshold from $5,000 to $10,000 and introduced additional compliance considerations for awards subject to the updated regulations. Districts should ensure that purchasing policies, capital asset policies, procurement procedures, and grant administration practices have been reviewed and updated accordingly.

School districts should also be aware that federal oversight agencies continue to scrutinize documentation supporting allowable costs, procurement compliance, period-of-performance requirements, and internal controls over federal programs. The most commonly audited federal programs, including the Child Nutrition Cluster, IDEA Special Education Cluster, and Title I programs, continue to be subject to extensive compliance requirements and remain a significant focus of single audits. Current audit guidance suggests no major compliance requirement changes for these core K-12 programs; however, federal agencies continue to revise grant requirements and reporting expectations, making ongoing monitoring essential. Additionally, delayed issuance of annual *Compliance Supplements* and evolving federal funding priorities have created a more uncertain compliance environment, increasing the importance of proactive grant management and timely consultation with federal awarding agencies and pass-through entities when questions arise.

Michigan Public School Employees' Retirement System (MPSERS) - Update on the Plans' Net Pension Liability and OPEB Asset

Similar to the State of Michigan, the MPSERS plan has a September 30 year end. With the adoption of GASB Statement Nos. 68 and 75 several years ago, school districts have been reporting their share of the MPSERS plan funded status in the government-wide financial statements.

At September 30, 2025, the pension portion of the MPSERS plan for the State of Michigan had a net pension liability of approximately $20 billion. This is a decrease of approximately 18 percent from the reported amount of $24.5 billion on September 30, 2024. One of the primary reasons for the decrease in the net liability was the net investment returns, which continue to exceed the expected rate of return. The pension plan's annual investment rate of return was 9.8 percent for the year ended September 30, 2025 compared to 15.5 percent for the year ended September 30, 2024.

At September 30, 2025, the retiree health care portion (OPEB) of the MPSERS plan had a net OPEB asset of approximately $6.1 billion compared to the net OPEB asset of $4.6 billion at September 30, 2024. This is an increase of approximately 33 percent. One of the reasons for the increase in the net asset was the net investment returns as well as favorable differences between expected and actual experience. The pension plan's annual investment rate of return was 9.3 percent for the year ended September 30, 2025 compared to 15.5 percent for the year ended September 30, 2024. Despite the decrease, the investment returns continue to exceed the expected rate of return.

Fund Balance

Fund balance, particularly in the General Fund, is critically important to ensuring the financial health and stability of the Agency. Having adequate fund balance allows the Agency to navigate through and respond to unexpected losses or revenue shortfalls, such as emergency repairs or decline in funding. It ensures the Agency can continue its operations smoothly without disruptions, even in times of financial uncertainty. A healthy fund balance can also improve the Agency's credit rating, making it easier and less expensive to borrow money when needed. Overall, having a healthy fund balance allows for better long-term financial planning and budget flexibility to ensure the Agency's resources are being utilized in the most effective manner possible. Given the changing landscape in state and federal funding over the past few years, fund balance will continue to garner more attention among board members and key stakeholders.

During the 2025-2026 school year, the Agency's General Fund revenue exceeded expenditures by approximately $190,000 This resulted in increasing the General Fund fund balance to approximately $13,841,000 at June 30, 2026. Fund balance goals are often stated in terms of a percentage of total expenditures. As a point of reference, the statewide average for school districts at June 30, 2025 was approximately 24.6 percent of operating expenditures. Fund balance at the statewide average would approximately equal the Agency's average operating costs for an 11-week period. The Agency's fund balance percentage is 20.3 percent and equals approximately 11 weeks of operation.

Sinking Fund Legislation

The most recent legislation, which is effective August 6, 2023, amends previous sinking fund legislation to allow a school district to use its Sinking Fund to support certain transportation costs. Specifically, a sinking fund millage approved by voters after May 7, 2023 is now allowed to be used by school districts for the acquisition of student transportation vehicles and parts, supplies, and equipment used for the maintenance of student transportation vehicles. Funds may also be used for the acquisition of trucks and vans registered under the Michigan vehicle code, 1949 PA 300, MCL 257.1 to 257.923, and used to carry parts, equipment, and personnel for or in the maintenance of school buildings or for the acquisition of parts, supplies, and equipment used to maintain those trucks and vans.

Sinking funds authorized (1) prior to March 29, 2017; (2) between March 29, 2017 and May 7, 2023; and (3) after May 7, 2023 should be accounted for separately in the audited financial statements. Each separate fund should have its own balance sheet and statement of revenue, expenditures, and changes in fund balance for the fiscal year. The previous sinking fund language regarding the use of funds for purchase of real estate, buildings, building improvements, and technology was not amended, as those are still allowable uses of sinking funds approved prior to this amendment. A school district that levies a Sinking Fund must have an independent audit of its Sinking Fund conducted annually, including a review of the uses of the Sinking Fund.

Technology, Data, and Risk Governance within K-12 Districts

School districts continue to face a rapidly changing operating environment, including cybersecurity threats, artificial intelligence, data privacy expectations, staffing constraints, and pressure to make better use of financial and operational data. These areas are not simply technology issues; they affect instruction, finance, operations, risk management, and board governance.

- **Cybersecurity and Incident Response** - Cybersecurity remains an important area of focus for school districts, particularly as ransomware and data security events can disrupt instruction, operations, and communication with families. Districts may benefit from periodically reviewing whether their response plans clearly define roles, communication protocols, recovery procedures, and responsibilities outside of the technology department.

- **Artificial Intelligence Governance** - As artificial intelligence tools become more widely available to staff and students, districts should consider whether expectations for use are clearly understood. Relevant considerations include student data privacy, academic integrity, appropriate staff oversight, and alignment with district policies and instructional goals.

- **Data-informed Decision-making** - Districts have access to a significant amount of student, financial, staffing, and operational data, but that information is most valuable when it is organized and used to support decisions. Reviewing trends in these areas can help leadership and the board identify opportunities, support budgeting, and plan more effectively for future needs.

Plante & Moran, PLLC can assist districts in these areas by helping assess cybersecurity readiness and incident response planning; supporting the development of practical AI governance policies and usage expectations; and helping organize financial, staffing, student, and operational data into more useful information for leadership and board decision-making. The goal is to provide a practical outside perspective that helps the School District prioritize risks, strengthen oversight, and identify actionable next steps without adding unnecessary complexity.

Long-term Facilities and Capital Planning

Enrollment trends, facility condition, building utilization, and available financial resources are closely connected. As the School District evaluates future capital needs, the board may benefit from periodically reviewing whether current facilities align with educational programming, projected enrollment, deferred maintenance needs, and potential funding options such as bonds or sinking funds.

Key areas for board and leadership consideration include the following:

- **Alignment of Facilities with Instructional Needs** - Districts should evaluate whether current buildings support the instructional model, student needs, and long-term programming goals. Facilities that no longer match how education is delivered can create operational inefficiencies, limit program offerings, increase maintenance costs, or require future investments that could have been anticipated through earlier planning.

- **Major Facility Needs and Timing** - Districts should identify major facility needs, estimated costs, and expected timing over a multiyear period. Understanding these needs in advance allows leadership and the board to prioritize projects, evaluate deferred maintenance, communicate clearly with the community, and avoid reactive decisions that can be more costly or disruptive.

- **Funding Strategy and Community Planning** - Districts should consider whether potential bond, sinking fund, or other funding strategies are being evaluated early enough to support informed board and community discussions. Early planning helps the district understand available options, align funding with facility priorities, and give stakeholders time to evaluate the need, cost, and long-term impact of potential capital investments.

To the extent useful, we can help facilitate a conversation with Plante Moran Realpoint, an affiliate of Plante & Moran, PLLC that works with K-12 districts on enrollment projections, facility assessments, building utilization, capital planning, bond planning, owner's representation, and real estate strategy. The intent would be to provide practical information for leadership and the board as they evaluate future facility and capital needs.