

Montcalm Area Intermediate School District

Financial Statements

June 30, 2017



Table of Contents

<u>Section</u>	<u>Page</u>	
1	Members of the Board of Education and Administration	1 - 1
2	Independent Auditors' Report	2 - 1
3	Management's Discussion and Analysis	3 - 1
4	Basic Financial Statements	
	District-wide Financial Statements	
	Statement of Net Position	4 - 1
	Statement of Activities	4 - 3
	Fund Financial Statements	
	Governmental Funds	
	Balance Sheet	4 - 4
	Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	4 - 6
	Statement of Revenues, Expenditures and Changes in Fund Balances	4 - 7
	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 - 9
	Fiduciary Funds	
	Statement of Fiduciary Net Position	4 - 10
	Notes to the Financial Statements	4 - 11
5	Required Supplementary Information	
	Budgetary Comparison Schedule – General Fund	5 - 1
	Budgetary Comparison Schedule – Special Education Fund	5 - 3
	Budgetary Comparison Schedule – Vocational Education Fund	5 - 5
	Schedule of the School District's Proportionate Share of the Net Pension Liability	5 - 7
	Schedule of the School District's Contributions	5 - 8
6	Other Supplementary Information	
	Schedule of Outstanding Bonded Indebtedness	6 - 1

Montcalm Area Intermediate School District
Members of the Board of Education and Administration
June 30, 2017

Members of the Board of Education

Stephen Foster – President

Mark Christensen – Vice President

Bud Longnecker – Secretary

Brian Corwin – Treasurer

Kurt Peasley – Trustee

Administration

Ron Simon – Superintendent

Stephanie Weese – Associate Superintendent of Finance

Jodi Willard – Associate Superintendent of Special Education

Celena Mills – Associate Superintendent of CTE / MACC Principal

Stephanie O'Dea – Associate Superintendent of Instructional Services



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Independent Auditors' Report

Management and the Board of Education
Montcalm Area Intermediate School District
Stanton, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Montcalm Area Intermediate School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Montcalm Area Intermediate School District, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters:

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Montcalm Area Intermediate School District's basic financial statements. The other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, 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. Such 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 other 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 3, 2017 on our consideration of the Montcalm Area Intermediate School 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 Montcalm Area Intermediate School 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 Montcalm Area Intermediate School District's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Alma, Michigan
October 3, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Montcalm Area Intermediate School District

Management's Discussion and Analysis

Year Ended June 30, 2017

This section of the 2017 annual report presents our discussion and analysis of Montcalm Area Intermediate School District's (the "School District") financial performance during the year ended June 30, 2017. The purpose of this section is intended to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, and identify changes in the District's financial position and its ability to address the subsequent years' challenges. Please read our District's discussion and analysis in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

The annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Montcalm Area Intermediate School District financially as a whole. The financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and long-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 School District's operations in more detail than the financial statements by providing information about the School District's most significant funds, the General Fund, Special Education Fund and Vocational Education Fund. All other funds with the exception of fiduciary funds are presented in one column as non-major funds. The Schools District's fiduciary funds are reported separately and present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The annual report is arranged as follows:

- Management's Discussion and Analysis (Required Supplementary Information)
- Basic Financial Statements
 1. District-wide Financial Statements
 2. Fund Financial Statements
 3. Fiduciary Fund
 4. Notes to the Financial Statements
- Required Supplementary Information
 1. Budgetary Information for General Fund and Major Special Revenue Funds
 2. Schedule of the Proportionate Share of the Net Pension Liability
 3. Schedule of the School District's Contributions
- Other Supplementary Information

Montcalm Area Intermediate School District
Management's Discussion and Analysis
Year Ended June 30, 2017

Reporting the School District as a Whole – District-wide Financial Statements

One of the most important questions asked about the School district is, “What is the School District’s financial condition as a result of the year’s activities?” The statement of net position and the statement of activities, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Montcalm Area Intermediate School District net position, which is the difference between the total of assets and deferred outflows of resources, and the total of liabilities and deferred inflows of resources, as reported in the statement of net position, as one way to measure the School District’s financial health or financial situation. Over time, increases or decreases in the School District’s net position, as reported in the statement of activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operation results. However, the School District’s goal is to provide services to local districts, teachers, and students, not to generate profits as commercial entities do. Many other nonfinancial factors, such as the scope and quality of the education provided, as well as the safety of the students and schools, must be considered to assess the overall health of the School District.

The statement of net position and the statement of activities report the governmental activities for the School District, which encompass all of the School District’s services. State aid, property taxes and operating grants and contributions finance most of these activities.

Reporting the School District’s Most Significant Funds - Fund Financial Statements

The School District’s fund financial statements provide detailed information about the most significant funds, not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as voter-approved special education funding and state and federal grants). The governmental funds of the School District use the following accounting approach:

Government Funds - All of the School 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 the modified accrual method of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future to finance the School District’s programs. We describe the relationship between governmental activities and governmental funds in a reconciliation.

Montcalm Area Intermediate School District
Management's Discussion and Analysis
Year Ended June 30, 2017

Financial Analysis of the District as a Whole

Summary of Net Position

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Assets		
Current and other assets	\$10,876,389	\$11,291,500
Capital Assets	<u>5,113,001</u>	<u>5,341,002</u>
Total Assets	15,989,390	16,632,502
Deferred Outflow of Resources	5,424,180	4,767,418
Liabilities		
Current liabilities	2,485,660	4,029,730
Long-term liabilities	<u>28,646,050</u>	<u>27,563,955</u>
Total liabilities	<u>31,131,710</u>	<u>31,593,685</u>
Deferred Inflow of Resources	944,609	762,638
Net Assets		
Invested in capital assets, net of related debt	3,855,995	3,964,002
Unrestricted	<u>(14,518,744)</u>	<u>(14,920,405)</u>
Total net position	<u><u>(\$10,662,749)</u></u>	<u><u>(\$10,956,403)</u></u>

Summary of Net Position

The total net position of the District on June 30, 2017 and 2016 was (\$10,662,749) and (\$10,956,403), respectively. The most significant portion of the District's net position is the negative unrestricted portion related to pensions. The District implemented GASB 68 in the 14/15 year which requires school district employers to report their portion of the long term obligation of the pension benefits as a liability.

\$3,855,995 of the District's current year total net position reflects investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Most of the debt will be repaid from money available from the general operations.

Current liabilities in the prior year included a state aid note payable in the amount of \$1,700,000. Due to increased cash flow, this type of short term borrowing was not necessary for the current fiscal year.

Montcalm Area Intermediate School District
Management's Discussion and Analysis
Year Ended June 30, 2017

Statement of Activities

Revenues	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Program revenue:		
Charges for services	\$15,787	\$29,952
Operating grants and contributions	15,039,609	14,974,875
General revenue:		
Property taxes	9,616,803	9,383,841
State aid - unrestricted	804,715	810,520
Other	236,944	262,288
	<u>25,713,858</u>	<u>25,461,476</u>
Total Revenues		
Functions/Programs Expenses		
Instruction	7,031,204	6,773,551
Support services	13,923,917	13,890,679
Interdistrict payments	4,287,591	4,375,034
Community services	103,129	137,243
Interest on long-term debt	74,363	82,665
	<u>25,420,204</u>	<u>25,259,172</u>
Total expenses		
Change in net position	293,654	202,304
Net position - beginning	<u>(10,956,403)</u>	<u>(11,158,707)</u>
Ending net assets	<u><u>(\$10,662,749)</u></u>	<u><u>(\$10,956,403)</u></u>

Montcalm Area Intermediate School District
Management's Discussion and Analysis
Year Ended June 30, 2017

Summary of Statement of Activities

As reported in the statement of activities, the cost of all governmental activities this year totaled \$25,420,204, an increase of \$161,032 or .6375% from last year. This was a slight increase from the previous year from continuing to provide consistent services throughout the county. In addition, certain activities were partially funded from those who benefited from the programs (\$15,787), or by other governments and organizations that subsidized certain programs with grants and contributions (\$15,039,609). We paid for the remaining "public benefit" portion of governmental activities with \$9,616,803 in taxes, \$804,715 in unrestricted state aid, and other revenues, like interest and general entitlements.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District's operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with this revenue.

School Districts Funds

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being held accountable for the resources taxpayers and others provide. In addition, the funds tend to provide more insight into the School Districts overall financial health. As the School District completed this year, the governmental funds reported a combined fund balance of \$8,401,705, representing an increase of \$1,127,587 from last year. The changes in major and non-major funds are as follows:

	General Fund	Special Education Fund	Vocational Education Fund	Other Non-major Funds	Total Government Funds
Fund Balance - Beginning of year	\$1,315,055	\$3,905,840	\$973,819	\$1,079,404	\$7,274,118
Increase (decrease)	<u>(1,505)</u>	<u>675,899</u>	<u>67,661</u>	<u>385,532</u>	<u>1,127,587</u>
Fund Balance - End of year	<u><u>\$1,313,550</u></u>	<u><u>\$4,581,739</u></u>	<u><u>\$1,041,480</u></u>	<u><u>\$1,464,936</u></u>	<u><u>\$8,401,705</u></u>

Montcalm Area Intermediate School District
Management's Discussion and Analysis
Year Ended June 30, 2017

Major Governmental Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenue 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 just before year end. A schedule showing the School District's original and final budget amounts compared to actual is provided in the required supplementary information of the financial statements.

Three budget amendments were made throughout the fiscal year to deal with unexpected changes in revenue and expenditures. Revenue budgets are amended to reflect known information such as receipt of additional grant funds while expenditures budgets are altered occasionally to reflect adjustments in assumptions and additional grants.

General Fund – The general fund actual revenues were \$5,243,070, which is more than the original budget estimate of \$5,115,271 and less than the final amended budget of \$5,329,570. The variance of \$86,500 is within 1.65% of the final budgeted amount.

Actual general fund expenditures were \$5,724,681, which is less than the original budget estimate of \$5,729,006 and less than the final amended budget of \$5,847,723. The variance of \$123,042 is within 2.1% of the final budgeted amount.

Special Education Fund – The special education fund actual revenues totaled \$17,846,431 while the original budget estimate totaled \$17,019,780. The final amended budget estimate totaled \$17,762,900. This left a variance of \$83,531.

Actual special education expenditures totaled \$16,474,034, while the original budget estimate totaled \$16,351,515. The final budget estimate totaled \$16,895,117.

Vocational Education – Actual and projected vocational education fund revenues had a variance of \$17,858. Actual vocational education fund revenues totaled \$2,595,357 compared to the original budget estimate of \$2,426,922. The final budget amendment totaled \$2,577,499.

The actual expenditures of the vocational education fund were \$2,417,097, which is more than the original budget of \$2,301,256, and lower than the final budget of \$2,439,517.

Montcalm Area Intermediate School District
Management's Discussion and Analysis
Year Ended June 30, 2017

Capital Assets and Debt Administration

Capital Assets

At June 30, 2017, the School District had \$5,113,001 invested in a broad range of capital assets, including land, buildings, vehicles, furniture and equipment. This amount represents a net decrease (including addition, deductions and depreciation) of \$228,001 from last year. Capital assets consist of the following:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Land	\$110,450	\$110,450
Buildings and building improvements	11,004,445	10,948,080
Buses and other vehicles	3,166,107	3,101,216
Furniture and equipment	2,443,199	2,289,767
Accumulated depreciation	<u>(11,611,200)</u>	<u>(11,108,511)</u>
Net capital assets	<u><u>\$5,113,001</u></u>	<u><u>\$5,341,002</u></u>

Debt

On November 23, 2010, the School District issued Energy Conservation Bonds totaling \$2,295,000 for the purposes of financing the cost of energy conservation improvements to the school facilities. These bonds have a 15-year repayment schedule. At the end of the year, the School District had \$1,224,000 outstanding on the Energy Conservation Bonds.

Other obligations are made up of accrued compensated absences and a capital lease. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Montcalm Area Intermediate School District
Management's Discussion and Analysis
Year Ended June 30, 2017

Economic Factors and Next Year's Budgets and Rates

Our Board and administration considered many factors when setting the District's 2017-18 fiscal year budget. The most important factors affecting the operating budget are the economic condition of the State and new legislation. The June 30, 2018 budget was adopted based on an estimate of property tax revenue, state aid and grant funding. State law requires the School to amend the budget if actual School District resources are not sufficient to fund original appropriations.

One of the primary revenue sources for the District is property taxes and the equalized value is expected to grow in 2017-18. This is certainly a positive sign as taxable value is a lagging indicator meaning taxable value should show positive growth for 2017-18. Further, in May of 2014 the citizens of Montcalm County supported and passed a 1.3 mill increase in special education millage. As a result, this additional levy will generate approximately \$2,750,000 for the fourth year in a row allowing the ISD to provide additional support services to local area districts.

Also as stated above, legislative changes can greatly impact the State's School Aid Fund. The actual revenue received by the District depends on the State's ability to collect revenue to fund its appropriations to public schools and intermediate school districts. Worsening economic conditions along with legislative changes have the potential to further impact state revenues. Further reductions in programs and services may be required to bring future expenditures in line with projected future revenues.

In addition, our Board must also consider the ever increasing cost of employee benefits and retirement. Estimating what those costs will be for the upcoming year is always a challenge. Regardless, in spite of these challenges, the District remains committed to find the most cost effective ways to make efficient use of the resources provided while fulfilling its mission of delivering service to local districts and educational opportunities for all learners.

Request for Information

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Stephanie Weese, Associate Superintendent of Finance, Montcalm Area Intermediate School District, P.O. Box 367, Stanton, Michigan 48888.

BASIC FINANCIAL STATEMENTS

Montcalm Area Intermediate School District
Statement of Net Position
June 30, 2017

	<u>Governmental Activities</u>
Assets	
Cash	\$ 8,135,375
Accounts receivable	13,347
Due from other governmental units	2,525,381
Inventory	32,507
Prepaid items	169,779
Capital assets not being depreciated	110,450
Capital assets - net of accumulated depreciation	<u>5,002,551</u>
 Total assets	 15,989,390
 Deferred Outflows of Resources	
Deferred amount relating to net pension liability	<u>5,424,180</u>
 Total assets and deferred outflows of resources	 <u>21,413,570</u>

See Accompanying Notes to the Financial Statements

Montcalm Area Intermediate School District
Statement of Net Position
June 30, 2017

	Governmental Activities
Liabilities	
Accounts payable	\$ 80,415
Due to other governmental units	880,076
Payroll deductions and withholdings	164,067
Accrued expenditures	521,935
Accrued salaries payable	679,722
Unearned revenue	159,445
Noncurrent liabilities	
Net pension liability	27,088,627
Debt due within one year	164,002
Debt due in more than one year	1,393,421
Total liabilities	31,131,710
Deferred Inflows of Resources	
Deferred amount relating to net pension liability	944,609
Total liabilities and deferred inflows of resources	32,076,319
Net Position	
Net investment in capital assets	3,855,995
Unrestricted (deficit)	(14,518,744)
Total net position	\$ (10,662,749)

See Accompanying Notes to the Financial Statements

Montcalm Area Intermediate School District
Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental activities					
Instruction	\$ 7,031,204	\$ -	\$ 7,063,489	\$ -	\$ 32,285
Supporting services	13,923,917	-	7,976,120	-	(5,947,797)
Community services	103,129	15,787	-	-	(87,342)
Interdistrict payments	4,287,591	-	-	-	(4,287,591)
Interest on long-term debt	74,363	-	-	-	(74,363)
Total governmental activities	<u>\$ 25,420,204</u>	<u>\$ 15,787</u>	<u>\$ 15,039,609</u>	<u>\$ -</u>	<u>(10,364,808)</u>
General revenues					
Property taxes, levied for general purposes					9,616,803
State aid - unrestricted					804,715
Interest and investment earnings					15,231
Gain on sale of capital assets					29,000
Other					192,713
Total general revenues					<u>10,658,462</u>
Change in net position					293,654
Net position - beginning					<u>(10,956,403)</u>
Net position - ending					<u>\$ (10,662,749)</u>

See Accompanying Notes to the Financial Statements

Montcalm Area Intermediate School District
Governmental Funds
Balance Sheet
June 30, 2017

	General Fund	Special Education Fund	Vocational Education Fund	Capital Project Funds	Total Governmental Funds
Assets					
Cash	\$ 1,781,613	\$ 4,229,121	\$ 1,059,705	\$ 1,064,936	\$ 8,135,375
Accounts receivable	3,657	1,054	8,636	-	13,347
Due from other funds	-	-	-	400,000	400,000
Due from other governmental units	766,835	1,664,222	94,324	-	2,525,381
Inventory	-	-	32,507	-	32,507
Prepaid items	67,598	96,600	5,581	-	169,779
	<u>2,619,703</u>	<u>5,990,997</u>	<u>1,200,753</u>	<u>1,464,936</u>	<u>11,276,389</u>
Total assets	<u>\$ 2,619,703</u>	<u>\$ 5,990,997</u>	<u>\$ 1,200,753</u>	<u>\$ 1,464,936</u>	<u>\$ 11,276,389</u>
Liabilities					
Accounts payable	\$ 42,915	\$ 32,060	\$ 5,440	\$ -	\$ 80,415
Due to other funds	100,000	300,000	-	-	400,000
Due to other governmental units	710,589	155,396	14,091	-	880,076
Payroll deductions and withholdings	164,067	-	-	-	164,067
Accrued expenditures	156,981	308,095	45,883	-	510,959
Accrued salaries payable	25,032	560,831	93,859	-	679,722
Unearned revenue	106,569	52,876	-	-	159,445
	<u>1,306,153</u>	<u>1,409,258</u>	<u>159,273</u>	<u>-</u>	<u>2,874,684</u>
Total liabilities	<u>1,306,153</u>	<u>1,409,258</u>	<u>159,273</u>	<u>-</u>	<u>2,874,684</u>

See Accompanying Notes to the Financial Statements

Montcalm Area Intermediate School District
Governmental Funds
Balance Sheet
June 30, 2017

	General Fund	Special Education Fund	Vocational Education Fund	Capital Project Funds	Total Governmental Funds
Fund Balance					
Non-spendable					
Inventory	\$ -	\$ -	\$ 32,507	\$ -	\$ 32,507
Prepaid items	67,598	96,600	5,581	-	169,779
Restricted for					
Special education	-	4,485,139	-	-	4,485,139
Vocational education	-	-	1,003,392	-	1,003,392
Assigned					
Capital projects	-	-	-	1,464,936	1,464,936
Subsequent year budget	80,935	-	-	-	80,935
Unassigned	1,165,017	-	-	-	1,165,017
Total fund balance	<u>1,313,550</u>	<u>4,581,739</u>	<u>1,041,480</u>	<u>1,464,936</u>	<u>8,401,705</u>
Total liabilities and fund balance	<u>\$ 2,619,703</u>	<u>\$ 5,990,997</u>	<u>\$ 1,200,753</u>	<u>\$ 1,464,936</u>	<u>\$ 11,276,389</u>

See Accompanying Notes to the Financial Statements

Montcalm Area Intermediate School District
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2017

Total fund balances for governmental funds	\$ 8,401,705
Total net position for governmental activities in the statement of net position is different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	110,450
Capital assets - net of accumulated depreciation	5,002,551
Deferred outflows (inflows) of resources	
Deferred inflows of resources resulting from net pension liability	(944,609)
Deferred outflows of resources resulting from net pension liability	5,424,180
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(10,976)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Compensated absences	(300,417)
Bonds payable	(1,224,000)
Other loans payable and liabilities	(33,006)
Net pension liability	<u>(27,088,627)</u>
Net position of governmental activities	<u>\$ (10,662,749)</u>

See Accompanying Notes to the Financial Statements

Montcalm Area Intermediate School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2017

	General Fund	Special Education Fund	Vocational Education Fund	Capital Project Funds	Total Governmental Funds
Revenues					
Local sources	\$ 515,227	\$ 8,983,908	\$ 1,605,484	\$ -	\$ 11,104,619
State sources	3,680,500	4,832,153	501,661	-	9,014,314
Federal sources	74,383	3,808,829	431,155	-	4,314,367
Interdistrict sources	972,960	221,541	57,057	-	1,251,558
Total revenues	5,243,070	17,846,431	2,595,357	-	25,684,858
Expenditures					
Current					
Education					
Instruction	639,971	4,771,287	1,091,736	-	6,502,994
Supporting services	2,771,494	9,136,818	978,941	-	12,887,253
Community services	69,759	28,146	-	-	97,905
Interdistrict payments	2,168,076	1,958,168	161,347	-	4,287,591
Capital outlay	40,887	459,808	99,636	14,468	614,799
Debt service					
Principal	23,911	82,579	57,513	-	164,003
Interest and other expenditures	10,583	37,228	27,924	-	75,735
Total expenditures	5,724,681	16,474,034	2,417,097	14,468	24,630,280
Excess (deficiency) of revenues over expenditures	(481,611)	1,372,397	178,260	(14,468)	1,054,578

See Accompanying Notes to the Financial Statements

Montcalm Area Intermediate School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2017

	General Fund	Special Education Fund	Vocational Education Fund	Capital Project Funds	Total Governmental Funds
Other Financing Sources (Uses)					
Capital leases	\$ 10,122	\$ 29,486	\$ 4,401	\$ -	\$ 44,009
Proceeds from sale of capital assets	-	25,000	4,000	-	29,000
Transfers in	569,984	-	-	400,000	969,984
Transfers out	(100,000)	(750,984)	(119,000)	-	(969,984)
Total other financing sources (uses)	480,106	(696,498)	(110,599)	400,000	73,009
Net change in fund balance	(1,505)	675,899	67,661	385,532	1,127,587
Fund balance - beginning	1,315,055	3,905,840	973,819	1,079,404	7,274,118
Fund balance - ending	<u>\$ 1,313,550</u>	<u>\$ 4,581,739</u>	<u>\$ 1,041,480</u>	<u>\$ 1,464,936</u>	<u>\$ 8,401,705</u>

See Accompanying Notes to the Financial Statements

Montcalm Area Intermediate School District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

Net change in fund balances - Total governmental funds	\$ 1,127,587
Total change in net position reported for governmental activities in the statement of activities is different because	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(797,083)
Capital outlay	569,082
Expenses are recorded when incurred in the statement of activities.	
Interest	1,372
Compensated absences	4,913
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	(1,207,002)
Net change in deferrals of resources related to the net pension liability	422,107
Net change between actual pension contributions and the cost of benefits earned net of employee contributions	52,684
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Debt issued	(44,009)
Repayments of long-term debt	164,003
Change in net position of governmental activities	\$ 293,654

See Accompanying Notes to the Financial Statements

Montcalm Area Intermediate School District
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2017

	<u>Agency Funds</u>
Assets	
Cash	<u>\$ 55,785</u>
Liabilities	
Accounts payable	\$ 1,434
Due to agency fund activities	<u>54,351</u>
Total liabilities	<u>\$ 55,785</u>

See Accompanying Notes to the Financial Statements

Montcalm Area Intermediate School District
Notes to the Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Montcalm Area Intermediate School District (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. The Montcalm Area Intermediate School District Board of Education (Board) is the primary government which has oversight and coordination responsibility related to public school education in Montcalm County. The Board receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are elected by the member districts, the governing body has separate legal standing and is fiscally independent of other governmental entities. As such, the Board has decision-making authority, the authority to levy taxes and determine its budget, the power to designate management, the ability to significantly influence operations and financial accountability. The Board does not include any component unit within its general purpose financial statements.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net position resulting from current year activities.

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Montcalm Area Intermediate School District
Notes to the Financial Statements
June 30, 2017

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Special Education Fund – The Special Education Fund consists of those activities involved in operating the programs necessary to provide for the education of students identified as needing special education services. The Fund's revenue sources include property taxes, federal and state sources, and inter-governmental reimbursements.

Vocational Education Fund – The Vocational Education Fund consists of those activities involved in operating the vocational and technical programs of the School District. The Fund's revenue sources include property taxes, federal and state sources, and inter-governmental reimbursements.

Capital Projects Funds – The capital project funds are used to record bond proceeds or other revenue and the disbursement of invoices specifically for acquiring new school sites, buildings, equipment, and for remodeling and repairs. The fund is kept open until the purpose for which the fund was created has been accomplished.

Additionally, the School District reports the following fund types:

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Net Position or Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Montcalm Area Intermediate School District
Notes to the Financial Statements
June 30, 2017

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2017, the rates are as follows per \$1,000 of assessed value.

General Fund	0.1747
Special Education Fund	3.5078
Vocational Education Fund	1.3384

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries.

Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

Investments – Investments are stated at fair value.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their acquisition value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000 and an estimated useful life in excess of five years. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District

does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Equipment and furniture	3-30 years
Buses and other vehicles	7 years

Deferred outflows of resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period.

For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce the net pension liability in the following year.

Compensated Absences – The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated sick leave benefits. A liability for these amounts is reported in governmental funds as it come due for payment.

Certified and administrative staff are entitled to a pay out when the employee retires from the School District in accordance with the Michigan School Employees' Retirement System and has completed at least ten years of service with the School District. Employees with ten to nineteen years of continuous service are eligible for a payout of one-third of his/her unused sick leave. Employees with twenty or more years of continuous service are eligible for a payout of one-half his/her unused sick leave. The daily rate for the payout shall be

Montcalm Area Intermediate School District
Notes to the Financial Statements
June 30, 2017

computed on an average of the employee's highest year's base pay divided by the average number of work days for that school year. The maximum sick leave accumulation allowed is 120 days.

Support staff follow the same policy, except the payout is calculated based on eight hour days and is paid at a daily rate of \$100.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

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.

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPSERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education. The Board of Education has granted the Superintendent and finance director the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

Montcalm Area Intermediate School District
Notes to the Financial Statements
June 30, 2017

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

The School District has adopted a minimum fund balance policy. The fund balance policy proscribes the minimum unrestricted fund balance equal to two months of General Fund operating expenditures.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

GASB Statement No. 77, *Tax Abatement Disclosures* requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting

government's tax revenues. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

Upcoming Accounting and Reporting Changes

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four

Montcalm Area Intermediate School District
Notes to the Financial Statements
June 30, 2017

fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending June 30, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. The effective date is for the fiscal year ending June 30, 2018.

The School District is evaluating the impact that the above GASBs will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund, Special Education Fund, and Vocational Education Fund. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year.

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Business	\$ 792,125	\$ 796,601	\$ 4,476
Capital outlay	19,044	40,887	21,843
Debt service	32,100	34,494	2,394
Transfers out	97,521	100,000	2,479
Special Education Fund			
Capital outlay	433,256	459,808	26,552
Debt service	115,500	119,807	4,307
Vocational Education Fund			
Instruction	1,088,433	1,091,736	3,303
Pupil	174,902	176,603	1,701
Debt service - principal	56,413	57,513	1,100

District-Wide Deficits

The School District has an unrestricted net position deficit for District-Wide activities in the amount of \$14,518,744 as of June 30, 2017. There are no governmental funds with a deficit.

Montcalm Area Intermediate School District
Notes to the Financial Statements
June 30, 2017

Note 3 - Deposits

The School District's deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 8,135,375	\$ 55,785	\$ 8,191,160

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 6,254,640
Investments in securities, mutual funds, and similar vehicles	1,936,285
Petty cash and cash on hand	235
Total	\$ 8,191,160

As of year end, the School District had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
MILAF + MAX Class	\$ 1,936,285	< 60 days	AAAm	Standard and Poor's

Interest rate risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. The School District's policy minimizes interest rate risk by requiring implementation of the following methods as defined by the Government Accountability Standards Board: segmented timed distribution, specific identification, weighted average maturity, duration and simulation model. Furthermore, the School

District's policy restricts investing in only those investments that conform with state and federal law.

Credit risk – State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk – The School District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, \$6,561,008 of the School District's bank balance of \$6,811,008 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 School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law.

Montcalm Area Intermediate School District
Notes to the Financial Statements
June 30, 2017

Note 4 - Fair Value Measurements

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The School District has the following recurring fair value measurements as of June 30, 2017:

Amounts invested in MILAF + Portfolio of \$1,936,285. The MILAF + Portfolio is not registered under Rule 2a-7 under the Investment Company Act of 1940. The money market securities are valued using amortized cost, which generally approximates the current fair value of the security. However, the value is not obtained from a quoted price in an active market (Level 2 inputs).

Note 5 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 110,450	\$ -	\$ -	\$ 110,450
Capital assets being depreciated				
Buildings and additions	10,948,080	56,365	-	11,004,445
Equipment and furniture	2,289,767	163,022	9,590	2,443,199
Buses and other vehicles	3,101,216	349,695	284,804	3,166,107
Total capital assets being depreciated	16,339,063	569,082	294,394	16,613,751
Less accumulated depreciation for				
Buildings and additions	7,092,263	398,159	-	7,490,422
Equipment and furniture	1,878,741	113,125	9,590	1,982,276
Buses and other vehicles	2,137,507	285,799	284,804	2,138,502
Total accumulated depreciation	11,108,511	797,083	294,394	11,611,200
Net capital assets being depreciated	5,230,552	(228,001)	-	5,002,551
Net capital assets	\$ 5,341,002	\$ (228,001)	\$ -	\$ 5,113,001

Depreciation expense was charged to activities of the School District as follows:

Governmental activities	
Instruction	\$ 265,979
Supporting services	527,100
Community services	4,004
Total governmental activities	\$ 797,083

Montcalm Area Intermediate School District
Notes to the Financial Statements
June 30, 2017

Note 6 - Interfund Receivables, Payables and Transfers

Individual interfund receivable and payable balances at year end were:

<u>Due From Fund</u>	<u>Due to Fund</u>	<u>Amount</u>
Capital Project Fund	General Fund	\$ 100,000
Capital Project Fund	Special Education Fund	<u>300,000</u>
		<u>\$ 400,000</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers consist of the following:

	<u>Transfers Out</u>			
	General	Special	Vocational	Total
	Fund	Education	Education	
Transfers in				
General Fund	\$ -	\$ 450,984	\$ 119,000	\$ 569,984
Capital Project Funds	100,000	300,000	-	400,000
	<u>\$ 100,000</u>	<u>\$ 750,984</u>	<u>\$ 119,000</u>	<u>\$ 969,984</u>

Interfund transfers represent indirect cost reimbursements for transfers made from the Special Education Fund and Vocational Education Fund to the General Fund. Interfund transfers from the Special Education Fund and General Fund to the Capital Projects Funds represent funds assigned for capital projects.

Note 7 - 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:

Medicaid payments	\$ 52,876
Grant and categorical aid payments received prior to meeting all eligibility requirements	<u>106,569</u>
Total	<u>\$ 159,445</u>

Note 8 - Leases

Operating Leases

The School District leases copy machines under non-cancelable operating leases. Total costs for such leases were \$86,127 for the year. The future minimum lease payments for these leases are as follows:

Year ending June 30,	
2018	\$ 80,652
2019	80,652
2020	80,652
2021	<u>6,721</u>
Total	<u>\$ 248,677</u>

Montcalm Area Intermediate School District
Notes to the Financial Statements
June 30, 2017

Capital Leases

The School District has a capital lease for server equipment. The future minimum lease payments are as follows:

Year ending June 30,	
2018	\$ 11,002
2019	11,002
2020	<u>11,002</u>
Present value of minimum lease payments	<u><u>\$ 33,006</u></u>

The assets acquired through the capital lease did not individually exceed the capitalization policy and therefore were not capitalized.

Note 9 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund and Special Education Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note				
General Fund	\$ 200,000	\$ -	\$ 200,000	\$ -
Special Education Fund	<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>	<u>-</u>
 Total	 <u><u>\$ 1,700,000</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 1,700,000</u></u>	 <u><u>\$ -</u></u>

Montcalm Area Intermediate School District
Notes to the Financial Statements
June 30, 2017

Note 10 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation bonds	\$ 1,377,000	\$ -	\$ 153,000	\$ 1,224,000	\$ 153,000
Capital lease	-	44,009	11,003	33,006	11,002
Compensated absences	305,330	-	4,913	300,417	-
Total	\$ 1,682,330	\$ 44,009	\$ 168,916	\$ 1,557,423	\$ 164,002

For governmental activities, compensated absences are primarily liquidated by the General, Special Education and Vocational Education Funds.

General obligation bonds payable at year end, consist of the following:

\$2,295,000 serial bond due in annual installments of
\$153,000 through May 1, 2025, interest at 5.50% \$ 1,224,000

Future principal and interest requirements for bonded debt are as follows:

Year Ending June 30,	Principal	Interest	Interest Subsidy	Net Interest	Total - Net
2018	\$ 153,000	\$ 67,320	\$ (66,463)	\$ 857	\$ 153,857
2019	153,000	58,905	(58,155)	750	153,750
2020	153,000	50,490	(49,847)	643	153,643
2021	153,000	42,075	(41,540)	535	153,535
2022	153,000	33,660	(33,232)	428	153,428
2023- 2025	459,000	50,490	(49,847)	643	459,643
Total	\$ 1,224,000	\$ 302,940	\$ (299,084)	\$ 3,856	\$ 1,227,856

Montcalm Area Intermediate School District
Notes to the Financial Statements
June 30, 2017

The general obligation bonds are payable from the General, Special Education, and Vocational Education Funds.

Interest expenditures for the fiscal year were \$75,735.

Compensated Absences

Accrued compensated absences at year end, consist of accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Note 11 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had \$12,260 of unemployment compensation expense for the year. No provision has been made for possible future claims.

Note 12 - Pension Plans and Post-Employment Benefits

Plan Description

The Michigan Public School Employees' Retirement System (MPERS) 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 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 at www.michigan.gov/mpsers-cafr.

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 for DB plan members are determined by final average compensation and years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. 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.

Montcalm Area Intermediate School District
Notes to the Financial Statements
June 30, 2017

A DB member or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. 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 and Funding Status

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 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, 2016 valuation will be amortized over a 21 year period for the plan's 2016 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2016.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	18.95%
Member Investment Plan	3.0 - 7.0	18.95%
Pension Plus	3.0 - 6.4	17.73%
Defined Contribution	0.0	14.56%

Required contributions to the pension plan from the School District were \$2,438,113 for the year ending September 30, 2016.

Net Pension Liability

At June 30, 2017, the School District reported a liability of \$27,088,627 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2015. The School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all employers' statutorily required contributions for the measurement period. At September 30, 2016, the School District's proportionate share percent was 0.1086 percent, which was an increase of 0.0026 percent since the prior measurement date.

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

For the year ended June 30, 2017, the School District recognized total pension expense of \$3,212,108. The School District's actual contributions for the years ended June 30, 2017, 2016, and 2015 were approximately \$1,782,000, \$1,780,000, and \$2,070,000, respectively.

Montcalm Area Intermediate School District
Notes to the Financial Statements
June 30, 2017

At June 30, 2017, the School 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	Amount to Amortize
Difference between expected and actual experience	\$ 337,596	\$ (64,201)	\$ 273,395
Changes in assumptions	423,509	-	423,509
Net difference between projected and actual earnings on pension plan investments	450,213	-	450,213
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,864,072	(36,597)	1,827,475
Employer contributions subsequent to the measurement date	2,348,790	(843,811)	-
	<u>\$ 5,424,180</u>	<u>\$ (944,609)</u>	<u>\$ 2,974,592</u>

\$2,348,790 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, 2018. \$843,811 reported as deferred inflows of resources relating to pensions resulting from employer contributions subsequent to the measurement date are 147c revenues received that will be recognized in the year ended June 30, 2018 when the related payments reduce the net pension liability.

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

Plan Year Ending September 30	Amount
2017	\$ 843,545
2018	808,143
2019	1,138,833
2020	184,071
	<u>\$ 2,974,592</u>

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, 2015
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of returns:
 - MIP and Basic Plans (Non-Hybrid): 8.0%
 - Pension Plus Plan (Hybrid): 7.0%
- Projected Salary Increases: 3.5-12.3%, including wage inflation at 3.5%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Healthcare Cost Trend Rate: 7.5% Year 1 graded to 3.5% Year 12

Montcalm Area Intermediate School District
Notes to the Financial Statements
June 30, 2017

- Mortality: RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA (for men, 140% of the table rates for ages 0-79, 133% of the table rates for ages 80-84, and 121.8% of the table rates for ages over 84 were used and for women, 96% of the table rates were used).

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for liabilities is the average of the expected remaining service lives of all employees in years: (4.6273 for non-university employers). The recognition period for assets in years is 5.0000. Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report (CAFR) (www.michigan.gov/mpsers-cafr).

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, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.00%	5.9%
Alternative Investment Pools	18.00%	9.2%
International Equity	16.00%	7.2%
Fixed Income Pools	10.50%	0.9%
Real Estate and Infrastructure Pools	10.00%	4.3%
Absolute Return Pools	15.50%	6.0%
Short Term Investment Pools	2.00%	0.0%
	100.00%	

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

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0% (7.0% for the Hybrid 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.

Montcalm Area Intermediate School District
Notes to the Financial Statements
June 30, 2017

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the School 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-point higher:

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
\$ 34,883,333	\$ 27,088,627	\$ 20,516,940

*Non-university employers, the Basic plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.

Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR. See the 2016 MPSERS CAFR (www.michigan.gov/mpsers-cafr).

Payables to the Pension Plan

There were no significant payables to the pension plan that are not ordinary accruals to the district.

Post-Employment Benefits

In addition to the pension benefits described above, state law requires the School District to provide post-employment healthcare benefits for eligible retirees and beneficiaries through the Michigan Public School Employees Retirement System (MPERS).

The 2012 Retirement Reform included changes to retiree healthcare benefits. New employees hired after the effective date who elect this benefit are enrolled in the defined contribution Personal Healthcare

Fund. This establishes a portable tax-deferred account in which the participant contributes up to 2% of their salary, and receives up to a 2% employer match. These funds can be used to pay for healthcare expenses in retirement.

Employees working prior to the enactment of the 2012 Retirement Reform have two options: (a) the Personal Healthcare Fund, or (b) the defined benefit Premium Subsidy benefit.

Employees electing the defined benefit Premium Subsidy benefit contribute 3% of their compensation, and the employer contributes an actuarially determined percent of payroll for all participants. Upon retirement members receive a premium subsidy towards health, dental and vision insurance. The subsidy is a percent of the premium cost, with the percentage varying based on several factors.

For the periods July 1, 2016 through September 30, 2016, and October 1, 2016 through June 30, 2017, the employer contribution rate ranged from 6.40% to 6.83% and 5.69% to 5.91%, respectively.

The School District's actual contributions match the required contributions for the years ended June 30, 2017, 2016, and 2015 were approximately \$582,500, \$558,400, and \$305,400, respectively.

Unfunded Accrued Liability

During the year ending June 30, 2017, the School District had contributions in the amount of \$1,157,809 to the MPERS. This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 11.70% for the year ending June 30, 2017.

Montcalm Area Intermediate School District
Notes to the Financial Statements
June 30, 2017

Note 13 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year ended June 30, 2017.

Note 14 - Tax Abatements

The School District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions granted by the City of Greenville and Broomfield Township. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities.

For the fiscal year ended June 30, 2017, the School District's property tax revenues were reduced by approximately \$142,000 under these programs.

There are no significant abatements made by the School District.

REQUIRED SUPPLEMENTARY INFORMATION

Montcalm Area Intermediate School District
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Revenues				
Local sources	\$ 516,557	\$ 519,153	\$ 515,227	\$ (3,926)
State sources	3,547,683	3,761,761	3,680,500	(81,261)
Federal sources	60,000	78,311	74,383	(3,928)
Interdistrict sources	991,031	970,345	972,960	2,615
Total revenues	5,115,271	5,329,570	5,243,070	(86,500)
Expenditures				
Instruction				
Basic programs	585,376	647,856	638,248	(9,608)
Added needs	3,452	2,000	1,723	(277)
Supporting services				
Pupil	64,389	76,813	57,789	(19,024)
Instructional staff	760,380	799,572	760,268	(39,304)
General administration	385,707	396,425	382,641	(13,784)
Business	784,126	792,125	796,601	4,476
Operations and maintenance	323,501	309,536	300,889	(8,647)
Pupil transportation services	6,159	3,945	2,522	(1,423)
Central	472,161	487,312	470,784	(16,528)
Other	-	1,500	-	(1,500)
Community services	73,030	99,527	69,759	(29,768)
Interdistrict payments	2,225,010	2,179,968	2,168,076	(11,892)
Capital outlay	11,915	19,044	40,887	21,843

Montcalm Area Intermediate School District
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Debt service				
Principal	\$ 22,000	\$ 21,500	\$ 23,911	\$ 2,411
Interest and fiscal charges	11,800	10,600	10,583	(17)
Total expenditures	<u>5,729,006</u>	<u>5,847,723</u>	<u>5,724,681</u>	<u>(123,042)</u>
Deficiency of revenues over expenditures	<u>(613,735)</u>	<u>(518,153)</u>	<u>(481,611)</u>	<u>36,542</u>
Other Financing Sources (Uses)				
Capital leases	-	-	10,122	10,122
Transfers in	664,000	563,986	569,984	5,998
Transfers out	-	(97,521)	(100,000)	2,479
Total other financing sources (uses)	<u>664,000</u>	<u>466,465</u>	<u>480,106</u>	<u>18,599</u>
Net change in fund balance	50,265	(51,688)	(1,505)	55,141
Fund balance - beginning	<u>1,315,055</u>	<u>1,315,055</u>	<u>1,315,055</u>	<u>-</u>
Fund balance - ending	<u><u>\$ 1,365,320</u></u>	<u><u>\$ 1,263,367</u></u>	<u><u>\$ 1,313,550</u></u>	<u><u>\$ 55,141</u></u>

Montcalm Area Intermediate School District
Required Supplementary Information
Budgetary Comparison Schedule - Special Education Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Revenues				
Local sources	\$ 8,739,000	\$ 8,905,710	\$ 8,983,908	\$ 78,198
State sources	4,886,628	4,830,245	4,832,153	1,908
Federal sources	3,286,752	3,805,463	3,808,829	3,366
Interdistrict sources	107,400	221,482	221,541	59
Total revenues	17,019,780	17,762,900	17,846,431	83,531
Expenditures				
Current				
Education				
Instruction - added needs	4,763,509	4,834,633	4,771,287	(63,346)
Supporting services				
Pupil	5,571,007	5,628,858	5,516,387	(112,471)
Instructional staff	1,712,533	1,715,385	1,600,834	(114,551)
General administration	39,000	40,500	39,924	(576)
Business	33,000	18,212	15,173	(3,039)
Operations and maintenance	416,083	430,855	400,165	(30,690)
Pupil transportation services	1,606,474	1,504,244	1,400,747	(103,497)
Central	162,539	170,371	163,588	(6,783)
Community services	500	28,300	28,146	(154)
Interdistrict payments	1,547,000	1,975,003	1,958,168	(16,835)
Capital outlay	382,900	433,256	459,808	26,552

Montcalm Area Intermediate School District
Required Supplementary Information
Budgetary Comparison Schedule - Special Education Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Debt service				
Principal	\$ 74,970	\$ 75,500	\$ 82,579	\$ 7,079
Interest	42,000	40,000	37,228	(2,772)
Total expenditures	<u>16,351,515</u>	<u>16,895,117</u>	<u>16,474,034</u>	<u>(421,083)</u>
Excess of revenues over expenditures	<u>668,265</u>	<u>867,783</u>	<u>1,372,397</u>	<u>504,614</u>
Other Financing Sources (Uses)				
Capital leases	-	-	29,486	29,486
Proceeds from sale of capital assets	20,000	20,000	25,000	5,000
Transfers out	(520,760)	(750,984)	(750,984)	-
Total other financing sources (uses)	<u>(500,760)</u>	<u>(730,984)</u>	<u>(696,498)</u>	<u>34,486</u>
Net change in fund balance	167,505	136,799	675,899	539,100
Fund balance - beginning	<u>3,905,840</u>	<u>3,905,840</u>	<u>3,905,840</u>	<u>-</u>
Fund balance - ending	<u><u>\$ 4,073,345</u></u>	<u><u>\$ 4,042,639</u></u>	<u><u>\$ 4,581,739</u></u>	<u><u>\$ 539,100</u></u>

Montcalm Area Intermediate School District
Required Supplementary Information
Budgetary Comparison Schedule - Vocational Education Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Revenues				
Local sources	\$ 1,510,247	\$ 1,595,368	\$ 1,605,484	\$ 10,116
State sources	436,200	493,904	501,661	7,757
Federal sources	430,475	431,170	431,155	(15)
Interdistrict sources	50,000	57,057	57,057	-
Total revenues	<u>2,426,922</u>	<u>2,577,499</u>	<u>2,595,357</u>	<u>17,858</u>
Expenditures				
Current				
Education				
Instruction	1,020,601	1,088,433	1,091,736	3,303
Supporting services				
Pupil	171,208	174,902	176,603	1,701
Instructional staff	168,573	181,943	180,213	(1,730)
General administration	6,000	5,000	4,565	(435)
School administration	161,657	168,026	162,462	(5,564)
Business	1,700	1,000	824	(176)
Operations and maintenance	401,863	374,569	369,326	(5,243)
Central	95,754	89,534	84,948	(4,586)
Interdistrict payments	169,590	164,926	161,347	(3,579)
Capital outlay	13,450	106,846	99,636	(7,210)

Montcalm Area Intermediate School District
Required Supplementary Information
Budgetary Comparison Schedule - Vocational Education Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Debt service				
Principal	\$ 56,610	\$ 56,413	\$ 57,513	\$ 1,100
Interest	34,250	27,925	27,924	(1)
Total expenditures	<u>2,301,256</u>	<u>2,439,517</u>	<u>2,417,097</u>	<u>(22,420)</u>
Excess of revenues over expenditures	<u>125,666</u>	<u>137,982</u>	<u>178,260</u>	<u>40,278</u>
Other Financing Uses				
Capital leases	-	-	4,401	4,401
Proceeds from sale of capital assets	-	4,000	4,000	-
Transfers out	(119,000)	(119,000)	(119,000)	-
Total other financing sources (uses)	<u>(119,000)</u>	<u>(115,000)</u>	<u>(110,599)</u>	<u>4,401</u>
Net change in fund balance	6,666	22,982	67,661	44,679
Fund balance - beginning	<u>973,819</u>	<u>973,819</u>	<u>973,819</u>	<u>-</u>
Fund balance - ending	<u><u>\$ 980,485</u></u>	<u><u>\$ 996,801</u></u>	<u><u>\$ 1,041,480</u></u>	<u><u>\$ 44,679</u></u>

Montcalm Area Intermediate School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th)

	June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
A. Reporting unit's proportion of net pension liability (%)	0.11%	0.11%	0.10%							
B. Reporting unit's proportionate share of net pension liability	\$ 27,088,627	\$ 25,881,625	\$ 21,112,641							
C. Reporting unit's covered-employee payroll	\$ 9,275,677	\$ 8,860,916	\$ 8,209,911							
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered- employee payroll	292.04%	292.09%	257.16%							
E. Plan fiduciary net position as a percentage of total pension liability	63.27%	63.17%	66.20%							

**Montcalm Area Intermediate School District
Required Supplementary Information
Schedule of the School District's Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years**

	For the Years Ended June 30,										
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
A. Statutorily required contributions	\$ 1,782,605	\$ 1,780,419	\$ 2,070,127								
B. Contributions in relation to statutorily required contributions	<u>1,782,605</u>	<u>1,780,419</u>	<u>2,070,127</u>								
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>								
D. Reporting unit's covered- employee payroll	\$ 9,567,564	\$ 9,162,777	\$ 8,764,641								
E. Contributions as a percentage of covered-employee payroll	18.63%	19.43%	23.62%								

Notes:

Benefit changes - There were no changes of benefit terms in 2017.

Changes in assumptions - There were no changes of benefit assumptions in 2017.

OTHER SUPPLEMENTARY INFORMATION

Montcalm Area Intermediate School District
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2017

Year Ending June 30,	2010 Energy Conservation Bond Fund
2018	\$ 153,000
2019	153,000
2020	153,000
2021	153,000
2022	153,000
2023	153,000
2024	153,000
2025	153,000
Total	\$ 1,224,000
Principal payments due the first day of	May 1
Interest payments due the first day of	May 1 and November 1
Interest rate	5.50%
Original issue	\$ 2,295,000

**Montcalm Area
Intermediate School District**

Single Audit Report

June 30, 2017



Table of Contents

	Page
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3
Schedule of Expenditures of Federal Awards	5
Notes to the Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	8
Summary Schedule of Prior Audit Findings	10



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditors' Report

Management and the Board of Education
Montcalm Area Intermediate School District
Stanton, 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 Montcalm Area Intermediate School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Montcalm Area Intermediate School District's basic financial statements, and have issued our report thereon dated October 3, 2017.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montcalm Area Intermediate School 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.

Yeo & Yeo, P.C.

Alma, Michigan
October 3, 2017



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Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Management and the Board of Education
Montcalm Area Intermediate School District
Stanton, Michigan

Report on Compliance for Each Major Federal Program

We have audited Montcalm Area Intermediate School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Montcalm Area Intermediate School District's major federal programs for the year ended June 30, 2017. Montcalm Area Intermediate School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Montcalm Area Intermediate School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Montcalm Area Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Montcalm Area Intermediate School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Montcalm Area Intermediate School 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, 2017.

Report on Internal Control over Compliance

Management of Montcalm Area Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Montcalm Area Intermediate School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Montcalm Area Intermediate School District's internal control over compliance.

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Montcalm Area Intermediate School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Montcalm Area Intermediate School District's basic financial statements. We issued our report thereon dated October 3, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is 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 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Yeo & Yeo, P.C.

Alma, Michigan
October 3, 2017

**Montcalm Area Intermediate School District
Schedule of Expenditures of Federal Awards
For the Year ended June 30, 2017**

Federal Grantor Pass-Through Grantor Program or Cluster Title	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2016	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2017	Current Year Cash Transferred to Subrecipients
U.S. Department of Education								
Passed through the Michigan Department of Education:								
Special Education - Grants to States:	84.027A							
Project number 160450-1516		\$ 2,818,893	\$ 1,930,656	\$ 253,832	\$ 1,006,609	\$ 888,237	\$ 135,460	\$ -
Project number 170450-1617		2,870,815	-	-	2,003,318	2,530,000	526,682	-
Project number 170480-1617		50,000	-	-	50,000	50,000	-	-
Project number 170490-1617		58,000	-	-	46,677	58,000	11,323	-
Total Special Education - Grants to States		5,797,708	1,930,656	253,832	3,106,604	3,526,237	673,465	-
Special Education - Preschool Grants:	84.173A							
Project number 160460-1516		93,473	93,473	5,368	5,368	-	-	-
Project number 170460-1617		96,399	-	-	68,468	96,399	27,931	67,963
Total Special Education - Preschool Grants		189,872	93,473	5,368	73,836	96,399	27,931	67,963
Total Special Education Cluster		5,987,580	2,024,129	259,200	3,180,440	3,622,636	701,396	67,963
Title I Grants to Local Educational Agencies	84.010							
Project number 161570-1516		6,500	4,331	4,331	4,750	419	-	-
Project number 171570-1617		8,249	-	-	1,718	1,718	-	-
Total Title I Grants to Local Educational Agencies		14,749	4,331	4,331	6,468	2,137	-	-
Career and Technical Education - Basic Grants to States:	84.048A							
Project number 163520-161210		400,010	400,010	64,621	64,621	-	-	-
Project number 173520-171210		405,475	-	-	371,188	405,475	34,287	161,347
Total Career and Technical Education - Basic Grants to States		805,485	400,010	64,621	435,809	405,475	34,287	161,347
Special Education - Grants for Infants and Families:	84.181A							
Project number 171340-1617		109,240	-	-	85,511	109,240	23,729	-
Education for Homeless Children and Youth	84.196A							
Project number 162320-1516		70,069	57,888	3,201	3,201	-	-	-
Project number 172320-1617		77,193	-	-	44,340	62,513	18,173	-
Total Education for Homeless Children & Youth		147,262	57,888	3,201	47,541	62,513	18,173	-
Total U.S. Department of Education		7,064,316	2,486,358	331,353	3,755,769	4,202,001	777,585	229,310
U.S. Department of Health and Human Services								
Passed through the Michigan Department of Community Health:								
Medical Assistance Program	93.778	42,717	-	-	42,717	42,717	-	-
Total Federal Awards		\$ 7,107,033	\$ 2,486,358	\$ 331,353	\$ 3,798,486	\$ 4,244,718	\$ 777,585	\$ 229,310

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Montcalm Area Intermediate School District
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2017

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Montcalm Area Intermediate School District under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Montcalm Area Intermediate School District, it is not intended to and does not present the financial position and changes in financial positions of Montcalm Area Intermediate School District.

Note 2 - Summary of Significant Accounting Policies

Expenditures

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in the Uniform Guidance and OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments* where certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

Montcalm Area Intermediate School District has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Reconciliation to the Financial Statements

The federal revenues per the financial statements are in agreement with the schedule of expenditures of federal awards with the following reconciliation:

Federal revenue - financial statements	\$ 4,314,367
Less: federal debt payment subsidy	<u>(69,649)</u>
Expenditures of federal awards	<u>\$ 4,244,719</u>

Montcalm Area Intermediate School District
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2017

Note 4 - Subrecipients

Federal Grantor Pass-Through Grantor Program or Cluster Title	Grant/ Project Number	Federal CFDA Number	Approved Grant Amount	Current Year Expenditures	Current Year Cash Transferred to Subrecipient
U.S. Department of Education					
Passed through Michigan Department of Education					
Special Education - Preschool Grants	170460-1617	84.173A			
Greenville Public Schools			\$ 48,933	\$ 48,933	\$ 48,933
Tri County Area Schools			19,030	19,030	19,030
			<u>67,963</u>	<u>67,963</u>	<u>67,963</u>
Career and Technical Education - Basic Grants to States	173520-171210	84.048A			
Gratiot Isabella RESD			91,446	91,446	91,446
Ionia County ISD			69,901	69,901	69,901
			<u>161,347</u>	<u>161,347</u>	<u>161,347</u>
Total			<u>\$ 229,310</u>	<u>\$ 229,310</u>	<u>\$ 229,310</u>

Note 5 - Michigan Department of Education Disclosures

The federal amounts reported on the grant auditor report are in agreement with the schedule of expenditures of federal awards.

Montcalm Area Intermediate School District
Schedule of Findings and Questioned Costs
June 30, 2017

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

There were no Government Auditing Standards findings for the year ended June 30, 2017.

SECTION III - FEDERAL AWARD FINDINGS

There were no federal award findings for the year ended June 30, 2017.

Montcalm Area Intermediate School District
Summary Schedule of Prior Audit Findings
June 30, 2017

SECTION IV - PRIOR AUDIT FINDINGS

There were no findings for the year ended June 30, 2016.



October 3, 2017

Management and the Board of Education
Montcalm Area Intermediate School District
Stanton, MI

We have completed our audit of the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Montcalm Area Intermediate School District as of and for the year ended June 30, 2017, and have issued our report dated October 3, 2017. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The first appendix to this letter sets forth those communications as follows:

I. Auditors' Communication of Significant Matters with Those Charged with Governance

In addition, we have identified additional matters that are not required to be communicated but we believe are valuable for management:

II. Matters for Management's Consideration

We discussed these matters with various personnel in the School District during the audit and we would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, and others within the School District, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Alma, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 8, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. The School District has adopted Government Accounting Standards Board Statement (GASB) No. 77, *Tax Abatement Disclosures*, effective July 1, 2016. The Statement requires disclosures of tax abatement information. We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements 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 School District's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending June 30, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. The effective date is for the fiscal year ending June 30, 2018.

The School District is evaluating the impact the above pronouncements will have on its financial reporting.

Regulatory and Other Updates

Cybersecurity Posture

Cybersecurity posture, an overall measure of cybersecurity strength, is more prevalent than ever as organizations continue to face cybersecurity risks. Billions of emails are sent every day, some of which contain attachments with malicious files or malicious embedded links aimed at negatively impacting unsuspecting organizations. A recent study showed as many as four out of five U.S. companies have suffered from an attack. Not only can a successful attack cost thousands of dollars and put a strain on IT resources while remediation efforts are underway, but sensitive information may be breached.

Risk assessment is a first step in mitigating cybersecurity risks and improving your School District's overall cybersecurity posture. The National Institute of Standards and Technology published *Framework for Improving Critical Infrastructure Cybersecurity*, which "enables organizations, regardless of size, degree of cybersecurity risk, or cybersecurity sophistication, to apply the principles and best practices of risk management to improving the security and resilience of critical infrastructure." The framework is designed to cover five areas including identification, protection, detection, responsiveness and recovery. The publication can be found at www.nist.gov.

Placing significant emphasis on evaluating your School District's cybersecurity posture, and channeling sufficient resources towards proper risk assessment, implementation, and education will reduce the likelihood of a cybersecurity threat, and help lessen the impact of a breach.

Audit and FID Submission Deadline

The deadline to submit the Financial Information Database (FID) and school district financial audits will be November 1st. This will continue to be the deadline for future fiscal years as it is now State Law.

Uniform Grant Guidance (Super Circular)

In December 2013, the Federal Office of Management and Budget (OMB) issued final guidance on administrative requirements. The Guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102 and A-133 and the guidance in Circular A-50 on Single Audit Act follow-up. School districts implemented the new administrative requirements and Cost Principles for all new federal grants awarded after December 26, 2014, and to additional funding to existing awards (referred to as funding increments) made after that date. EDGAR is the source for guidance that school districts will follow. Additional information and resources are available at the following websites:

- OMB http://www.whitehouse.gov/omb/grants_docs
- Council on Federal Assistance Reform (COFAR) <https://cfo.gov/cofar/>
- US Department of Education <http://1.usa.gov/1rzFswz>
- EDGAR <http://1.usa.gov/1pOUq2p>
- MDE http://www.michigan.gov/mde/0,4615,7-140-5236_76204---,00.html

Implementation of Federal Grant Procurement Standards is Delayed

In May 2017, the federal government granted an additional one-year delay for implementation of the procurement standards under the Uniform Guidance. The grace period now extends through December 25, 2017. Therefore entities with fiscal years beginning on or after December 26, 2017 must have procurement standards, for federal expenditures, that meet the more stringent requirements of 2 CFR 200.317 to 326. For school districts, it will apply to fiscal year 2019 and therefore, must be in place starting July 1, 2018. If your School District did not previously adopt and implement procurement policies and procedures in accordance with 2 CFR 200 you should go through the appropriate channels to elect and document usage of the additional grace period year. The grace period decision and documentation should go through the same process as the adoptions of procurement policies. It is imperative that your procurement policies – whatever they are documented as – be followed. The Uniform Guidance and the old guidance in the OMB Circulars provide minimum requirements that must be covered by an entity's procurement policies. If an entity's policies are stricter than the federal rules, the entity policies still must be followed. As you adopt new procurement policies, we also recommend that you consider separate policies for federal and non-federal expenditures to ease the administrative burden of certain federal requirements.

Fiscal Year (FY) 2018 School Aid

The School Aid budget for FY 2018 was not signed until late July. Following are some significant highlights of the bill:

- The per pupil Foundation Grants for FY 2018 will increase by a range of \$60 to \$120 using the "2X formula." The increase will be added to the FY 2017 foundation grant resulting in the lowest foundation for FY 2018 being \$7,631 and the maximum state guaranteed foundation being \$8,289.
- The Pupil Membership Blend will remain at 90% of the current school year October count and 10% of the prior school year February count.
- The Section 31a At-Risk funding is increased by \$120,011,800 to \$499,000,000. Eligibility is expanded from free lunch eligible pupils to include pupils eligible for reduced price lunch, TANF,

SNAP, or migrant, homeless, or pupils in foster care. Hold Harmless and Out of Formula districts are now eligible, but will be capped at 30% of the per pupil allowance. Districts that are currently eligible would receive approximately \$777 per pupil and newly eligible districts would receive approximately \$233 per pupil.

- The per pupil funding under Sections 20f(2) and 20f(4) will be equal to the per pupil funding under those Sections in 2016-17.
- Section 147c is reduced by approximately \$22.0 million to reflect higher rates of return on investments.
- ISD General Operation funding under Section 81 will remain at \$67.1 million.
- Shared Time Instruction for Nonpublic and Homeschool Pupils Section 23f caps the maximum FTE for which a nonpublic school pupil may be counted in a shared-time program at 0.75 FTE per pupil.

Boilerplate changes include:

- A New Section 160 has been added which requires districts seeking a waiver to begin the school year before Labor Day to hold a public hearing with the MDE in the district before the waiver can be granted.
- A New Section 164g has been added which imposes a penalty on any district using State Aid funds to pay expenses related to legal action against the state.
- A New Section 164h has been added to state that there will be a state school aid penalty for a district or ISD that enters into a collective bargaining agreement that fails to comply with requirements including prohibitions on the automatic deduction of union dues from payroll and racial or religious preferences in hiring.

Early Warning

Pursuant to Public Act 109 of 2015, each school district and public school academy that has a General Fund balance less than 5% of total unrestricted general revenue for either of the 2014-2015 or 2015-2016 school fiscal years is required to submit budget assumptions to the Center for Educational Performance and Information (CEPI). The budget assumption data collection period begins June 1, 2017 and is open through July 7, 2017. The Department of Treasury will not declare potential fiscal stress based solely on a school district's or public school academy's budget assumption data.

Uniform Budgeting and Accounting Act (UBAA)

The UBAA establishes budget and accounting requirements for local governments and school districts, including public school academies. It also establishes oversight requirements for MDE as well as the Michigan Attorney General. Material violations of the UBAA, including but not limited to General Fund deficits, should be reported as financial statement findings in the audit report. UBAA states that if it becomes apparent during the year that the probable revenues will be less than the budgeted revenues, the fiscal officer shall present recommendations to the legislative body which, if fiscal adopted, would prevent expenditures from exceeding available revenues for the fiscal year. UBAA states that an officer of the School District shall not incur expenditures against an appropriation account in excess of the amount appropriated by the board. Noncompliance includes, but is not limited to, over-expending the budget authorized by the board. MDE is analyzing the General Fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level. MDE has stated a 0% tolerance for UBAA noncompliance.

Unclaimed Property

Beginning in 2018, the State of Michigan will require the filing of zero balance reports for businesses and governmental agencies who hold property on behalf of others, such as uncashed payroll or vendor checks and other items comprising unclaimed property. This is a revision from the most recent change in 2012, which only encouraged, but did not require, reporting of zero unclaimed property situations. Under the negative attestation requirement, businesses and governmental agencies must ensure they are filing even in situations where entities have no unclaimed property.

Current rules require unclaimed property to be identified as of March 31st of each year and reported to the State on or before July 1. Property that has reached its applicable dormancy period (generally one year or three years) as of March 31 must be remitted with and reported on Michigan State Form 2011, *Michigan Holder Transmittal for Annual Report of Unclaimed Property* and the appropriate annual reporting form (there are separate forms for cash & safe deposit boxes and for securities). If the holder (business or government entity) has more than ten items to report, they must use electronic media for the annual report. The due date for this filing is July 1 (or the next work day if the 1st is on a weekend).

These rules remain unchanged, except that beginning in 2018, the negative attestation requirement will go into effect. Free software is available on the State of Michigan web site at <http://www.michigan.gov/treasury/>. The web site is a valuable resource for information regarding the law, filing requirements and related penalties, including the 33 page *Manual for Reporting Unclaimed Property*.

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 that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

There were no uncorrected misstatements that were more than trivial.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other 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 School 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 the School 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.

Other Reports

Other information that is required to be reported to you is included in the: Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Compliance For Each Major Federal Program; Independent Auditors' Report on Internal Control Over Compliance; Independent Auditors' Report on Schedule of Expenditures of Federal Awards Required by the Uniform Grant Guidance; and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's contributions, and budgetary comparison information, we 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 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.

Report on Other Supplementary Information

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

Appendix II
Matters for Management's Consideration

In planning and performing our audit of the financial statements of Montcalm Area Intermediate School District as of and for the year ended June 30, 2017, we considered Montcalm Area Intermediate School District's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

However, during our audit we became aware of a matter for management's consideration that is an opportunity for improving compliance. This letter does not affect our report dated October 3, 2017, on the financial statements of Montcalm Area Intermediate School District. Our comments and recommendations regarding that matter are:

Allowable Costs – Employees Charged to Grants

During our testing of payroll charged to federal grants, we noted that two employees were charged to a federal grant, but there was no documentation to identify their work performed under federal and non-federal activities. These two employees only worked for a portion of the school year, and the total amount in question that was charged to federal grants was not material in amount.

We recommend that all personnel working under any federal program properly document their involvement with the program, and identify time worked under federal and non-federal activities.