MONTABELLA COMMUNITY SCHOOLS

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

YEAR ENDED JUNE 30, 2018

Maner Costerisan
Certified Public Accountants
Business & Technology Advisors

C O N T E N T S

	Page
Independent auditor's report	4 - 6
Management's Discussion and Analysis	7 - 13
Basic financial statements	14
Government-wide financial statements	
Statement of net position	15
Statement of activities	16
Fund financial statements	
Balance sheet - governmental funds	17 - 18
Statement of revenues, expenditures and changes in fund balances - governmental funds	19 - 20
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities	21
Fiduciary funds	
Statement of fiduciary net position	22
Statement of changes in fiduciary net position	23
Notes to financial statements	24 - 54
Required supplementary information	55
Budgetary comparison schedule - general fund	56
Schedule of the reporting unit's proportionate share of the net pension liability	57
Schedule of the reporting unit's pension contributions	58
Schedule of the reporting unit's proportionate share of the net OPEB liability	59
Schedule of the reporting unit's OPEB contributions	60
Notes to required supplementary information	61

C O N T E N T S

Page

Additional supplementary information 62

Nonmajor governmental fund types

Combining balance sheet 63

Combining statement of revenues, expenditures, and changes in fund balances 64

Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* .... 65 - 66

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Montabella Community Schools

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 Montabella Community Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Montabella Community Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Montabella Community Schools as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 10 to the financial statements, Montabella Community Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Montabella Community Schools' basic financial statements. The additional 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 additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated September 12, 2018 on our consideration of Montabella Community Schools' 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 Montabella Community Schools' 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 Montabella Community Schools' internal control over financial reporting and compliance.

Maner Costerisan PC

September 12, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Montabella Community Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

For the year ended June 30, 2018 Montabella Community Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These changes are significant at the government-wide level.

FINANCIAL HIGHLIGHTS

Total Government-Wide District revenues were approximately $9.9 million with expenses of approximately $8.9 million; total district revenues exceed expenses by approximately $1.0 million.

In 2017-2018 the District's general fund was funded primarily by a $7,631 per pupil State of Michigan foundation allowance. The general fund received 77% of its revenue from state sources.

The student blended count for 2017 - 2018 was 781.

At June 30, 2018, the fund balance in the general fund was $2,158,125. This is an increase of $134,868 from the 2016 - 2017 fiscal year.

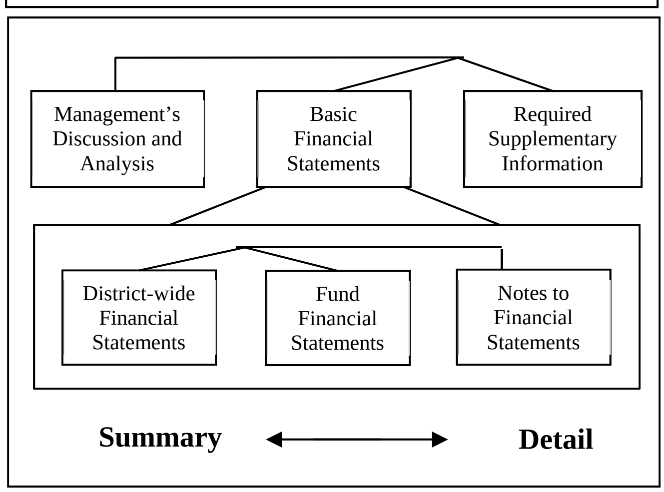
During the 2017 - 2018 fiscal year the District repaid $1.03 million of principal from its long-term debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* that the District-wide statements.
- The *governmental funds* statements tell how basic services like instruction and support services were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

Figure A-1
Organization of Montabella Community Schools' Annual Financial Report



The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year and related pension and other postemployment benefit information. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2
Major Features of District-wide and Fund Financial Statements

		Fund financial statements	
	District-wide statements	Governmental funds	Fiduciary funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net position * Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Montabella's funds do not currently contain capital assets, although they can
Type of inflow-outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when good or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The statements of net position include *all* of the District's assets, deferred inflows, deferred outflows, and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report on the District's *net position* and how they have changed. Net position - the difference between the District's assets, deferred outflows, deferred inflows, and liabilities - is one way to measure the District's overall financial health or *position*.

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt, and its capital projects fund) or to show that it is properly using certain revenues (like food service).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

- Fiduciary funds - The District is the trustee, or *fiduciary*, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position - The District's combined net position at the beginning of the fiscal year, restated due to the implementation of GASB Statement 75, was ($1,740,853) and on June 30, 2018 was ($743,341) which represents an increase of $997,512 as recorded in the statement of activities.

Table A-3
Montabella Community Schools' Net Position

	2018	2017
Current and other assets	$ 4,622,205	$ 4,181,542
Capital assets	10,426,153	10,782,987
Total assets	15,048,358	14,964,529
Deferred outflows	3,100,947	1,672,597
Long-term debt outstanding	2,243,072	3,279,452
Other liabilities	1,004,747	885,924
Net pension liability	10,799,943	10,121,856
Net other postemployment benefits liability	3,677,930	-
Total liabilities	17,725,692	14,287,232
Deferred inflows	1,166,954	330,731
Net position:		
Net investment in capital assets	8,461,080	7,892,878
Restricted for capital projects - sinking fund	1,115,051	980,195
Restricted for debt service	147,417	109,255
Unrestricted	(10,466,889)	(6,963,165)
Total net position	$ (743,341)	$ 2,019,163

The 2017 figures have not been restated for the adoption of GASB 75.

Table A-4
Changes in Montabella Community Schools' Net Position

	2018	2017
Revenues:		
Program revenues:		
Charges for services	$ 141,883	$ 195,028
Federal and state categorical grants	2,179,034	1,890,175
General revenues:		
Property taxes	2,607,493	2,632,414
State aid - unrestricted	4,671,076	4,600,904
Other	274,149	82,828
Total revenues	9,873,635	9,401,349
Expenses:		
Instruction	4,938,019	4,657,103
Support services	3,343,917	2,928,316
Community services	5,112	22,360
Food services	440,011	516,720
Interest on long-term debt	149,064	204,931
Total expenses	8,876,123	8,329,430
Change in net position	$ 997,512	$ 1,071,919

The 2017 figures have not been restated for the adoption of GASB 75.

District Governmental Activities:

The District's financial condition is relatively stable. The District experienced a slight decrease in enrollment for 2017 - 2018 of less than 1%. In 2017 - 2018 the District's enrollment of 781 was slightly below the 2016 - 2017 enrollment level by four students.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds:

Fund balance	
General fund	$2,158,125
Sinking fund	$1,115,051
All other funds	$331,282

This is a combined fund balance of $3,604,458 compared to a fund balance of $3,280,485 in 2016 - 2017.

General Fund and Budget Highlights:

During the 2017 - 2018 fiscal year, the District's budget was amended in the fall to reflect student count, staff changes, and the teacher contract. Additional, subsequent amendments were done to capture minor operational changes throughout the year.

Overall, the difference between the final general fund amended expenditure budget and end of year actual figures amounted to less than 3%. Revenue received was less than the final June 30, 2018 Board adopted budget by $117,442. This difference was primarily related to less 31a and Title I spending than previously anticipated. District expenditures ended the year with $224,250 less expended than the final approved budget. District-wide cost containment in personnel, supplies, and purchased services accounted for a large proportion of this difference.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Table A-5
Montabella Community Schools

	2018			2017
	Cost	Accumulated depreciation	Net book value	Net book value
Buildings and improvements	$ 1,274,355	$ 1,103,419	$ 170,936	$ 542,999
Furniture and equipment	17,522,362	7,483,897	10,038,465	10,049,474
Vehicles	2,078,897	1,862,145	216,752	190,514
Total	$ 20,875,614	$ 10,449,461	$ 10,426,153	$ 10,782,987

Long-term Debt

At year end the District had approximately $2.2 million in long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 5 to the financial statements.

During the year ended June 30, 2018, the District made principal payments in the amount of $1,030,000.

A decrease in compensated absences of $6,380 was also recorded.

Table A-6
Montabella Community Schools
Outstanding Long-Term Debt

	2018	2017
General obligation bonds and other debt	$ 2,175,000	$ 3,205,000
Compensated absences	68,072	74,452
	$ 2,243,072	$ 3,279,452

FACTORS BEARING ON THE DISTRICT'S FUTURE

Our elected officials and administration considered any factors when setting the District's 2018 - 2019 fiscal year budgets. One of the most important factors affecting the budget is our pupil count. Another is the state foundation revenue which is determined by multiplying the blended pupil count by the foundation allowance per pupil. The blended count for the 2018 - 2019 fiscal year will consist of 90% of the October 2018 count and 10% of the February 2018 count. The 2018 - 2019 budget was adopted in June 2018, based on an estimated blended student enrollment of 753.

Approximately 75% of total budgeted general fund revenue is derived from the foundation allowance, including property taxes. Under state law, the District cannot generate additional property tax revenue for general operations. As a result, District funding is heavily dependent on the state's ability to fund local school operations. Once the final pupil count and related per pupil funding is validated, State law requires the District to amend the budget if actual district resources are not sufficient to fund original operations.

Since the District's revenue is heavily dependent on state funding and the health of the state's school aid fund, the actual revenue received depends on the state's ability to collect revenues to fund its appropriation to school districts. The state periodically holds a revenue-estimating conference to estimate revenues.

The community passed a new bond proposal in May of 2018 that will have an impact on the financial picture of the District. The bonds will be sold in two phases, the first will be in the Spring of 2019, the second in the Spring of 2021.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Montabella Community Schools central office which is located at 302 West Main Street, Edmore, Michigan.

BASIC FINANCIAL STATEMENTS

MONTABELLA COMMUNITY SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental activities
ASSETS:	
Cash and cash equivalents	$ 3,293,197
Receivables:	
Accounts receivable	1,801
Intergovernmental receivables	1,276,966
Contract receivable	27,500
Inventories	13,114
Prepaids	9,627
Capital assets, net of accumulated depreciation	10,426,153
TOTAL ASSETS	15,048,358
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred charge on refunding, net of amortization	209,927
Related to pensions	2,602,841
Related to other postemployment benefits	288,179
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,100,947
LIABILITIES:	
Accounts payable	116,851
Accrued salaries and related items	465,579
Accrued retirement	241,990
Accrued interest	14,500
Intergovernmental payable	3,768
Unearned revenue	162,059
Noncurrent liabilities:	
Due within one year	1,083,614
Due in more than one year	1,159,458
Net pension liability	10,799,943
Net other postemployment benefits liability	3,677,930
TOTAL LIABILITIES	17,725,692
DEFERRED INFLOWS OF RESOURCES:	
Related to pensions	608,624
Related to other postemployment benefits	124,341
Related to state aid funding for pension and other postemployment benefits	433,989
TOTAL DEFERRED INFLOWS OF RESOURCES	1,166,954
NET POSITION:	
Net investment in capital assets	8,461,080
Restricted for capital projects - sinking fund	1,115,051
Restricted for debt service	147,417
Unrestricted	(10,466,889)
TOTAL NET POSITION	$ (743,341)

See notes to financial statements.

MONTABELLA COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Functions/programs	Expenses	Program revenues: Charges for services	Program revenues: Operating grants	Governmental activities: Net (expense) revenue and changes in net position
Governmental activities:				
Instruction	$ 4,938,019	$ 10,019	$ 1,178,165	$ (3,749,835)
Support services	3,343,917	53,373	589,660	(2,700,884)
Community services	5,112	-	5,144	32
Food services	440,011	78,491	406,065	44,545
Interest on long-term debt	149,064	-	-	(149,064)
Total governmental activities	$ 8,876,123	$ 141,883	$ 2,179,034	(6,555,206)
General revenues:				
Property taxes, levied for general purposes				1,114,316
Property taxes, levied for debt service				1,169,598
Property taxes, levied for sinking fund				323,579
Investment earnings				7,600
State sources - unrestricted				4,671,076
Intermediate district sources				140,847
Other				125,702
Total general revenues				7,552,718
CHANGE IN NET POSITION				997,512
NET POSITION, beginning of year, as restated				(1,740,853)
NET POSITION, end of year				$ (743,341)

MONTABELLA COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General fund	Sinking fund	Total nonmajor funds	Total governmental funds
ASSETS				
ASSETS:				
Cash and cash equivalents	$ 1,769,620	$ 1,204,534	$ 319,043	$ 3,293,197
Receivables:				
Accounts receivable	1,801	-	-	1,801
Intergovernmental receivables	1,262,849	-	14,117	1,276,966
Contract receivable	27,500	-	-	27,500
Inventories	-	-	13,114	13,114
Prepaids	9,566	-	61	9,627
TOTAL ASSETS	$ 3,071,336	$ 1,204,534	$ 346,335	$ 4,622,205
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	$ 15,729	$ 89,483	$ 11,639	$ 116,851
Accrued salaries and related items	465,452	-	127	465,579
Accrued retirement	238,703	-	3,287	241,990
Intergovernmental payable	3,768	-	-	3,768
Unearned revenue	162,059	-	-	162,059
TOTAL LIABILITIES	885,711	89,483	15,053	990,247
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue	27,500	-	-	27,500
FUND BALANCES:				
Nonspendable:				
Inventories	-	-	13,114	13,114
Prepaids	9,566	-	61	9,627
Restricted for:				
Debt service	-	-	161,917	161,917
Capital projects	-	1,115,051	-	1,115,051
Food service	-	-	130,777	130,777

See notes to financial statements.

	General fund	Sinking fund	Total nonmajor funds	Total governmental funds
FUND BALANCES (Concluded):				
Assigned for:				
Subsequent years expenditures	$ 291,033	$ -	$ 25,413	$ 316,446
Unassigned:				
General fund	1,857,526	-	-	1,857,526
TOTAL FUND BALANCES	2,158,125	1,115,051	331,282	3,604,458
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 3,071,336	$ 1,204,534	$ 346,335	$ 4,622,205
Total governmental fund balances				$ 3,604,458
Amounts reported for governmental activities in the statement of net position are different because:				
Deferred outflows of resources - deferred charges on refunding, net of amortization				209,927
Deferred outflows of resources - related to pensions				2,602,841
Deferred inflows of resources - related to pensions				(608,624)
Deferred outflows of resources - related to other postemployment benefits				288,179
Deferred inflows of resources - related to other postemployment benefits				(124,341)
Deferred inflows of resources - related to state funding for pension and other postemployment benefits				(433,989)
Capital assets used in governmental activities are not financial resources and are not reported in the funds:				
The cost of the capital assets is			$ 20,875,614	
Accumulated depreciation is			(10,449,461)	
				10,426,153
Revenue not recorded in the funds due to not being collected until after September 1st:				
Unavailable revenue - contract receivable				27,500
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Bonds payable				(2,175,000)
Compensated absences				(68,072)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid				(14,500)
Net pension liability				(10,799,943)
Net other postemployment benefits liability				(3,677,930)
Net position of governmental activities				$ (743,341)

See notes to financial statements.

MONTABELLA COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	General fund	Sinking fund	Total nonmajor funds	Total governmental funds
REVENUES:				
Local sources:				
Property taxes	$ 1,114,316	$ 323,579	$ 1,169,598	$ 2,607,493
Tuition	7,738	-	-	7,738
Investment earnings	3,668	2,570	1,362	7,600
Food sales	-	-	78,491	78,491
Other	150,509	-	-	150,509
Total local sources	1,276,231	326,149	1,249,451	2,851,831
State sources	6,068,723	5,598	55,208	6,129,529
Federal sources	355,496	-	371,090	726,586
Incoming transfers and other	140,847	-	-	140,847
Total revenues	7,841,297	331,747	1,675,749	9,848,793
EXPENDITURES:				
Current:				
Instruction	4,597,023	-	-	4,597,023
Supporting services	3,186,913	-	-	3,186,913
Community services	5,144	-	-	5,144
Food service activities	-	-	442,003	442,003

See notes to financial statements.

	General fund	Sinking fund	Total nonmajor funds	Total governmental funds
EXPENDITURES (Concluded):				
Current (Concluded):				
Capital outlay	$ -	$ 196,891	$ -	$ 196,891
Debt service:				
Principal repayment	-	-	1,030,000	1,030,000
Interest	-	-	128,200	128,200
Other	-	-	1,297	1,297
Total expenditures	7,789,080	196,891	1,601,500	9,587,471
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	52,217	134,856	74,249	261,322
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital assets	62,651	-	-	62,651
Transfers in	20,000	-	-	20,000
Transfers out	-	-	(20,000)	(20,000)
Total other financing sources (uses)	82,651	-	(20,000)	62,651
NET CHANGE IN FUND BALANCES	134,868	134,856	54,249	323,973
FUND BALANCES:				
Beginning of year	2,023,257	980,195	277,033	3,280,485
End of year	$ 2,158,125	$ 1,115,051	$ 331,282	$ 3,604,458

See notes to financial statements.

MONTABELLA COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Net change in fund balances total governmental funds	$	323,973
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense		(651,985)
Capital outlay		317,955
Gain on disposal of capital assets		(22,804)
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:		
Accrued interest payable, beginning of the year		21,367
Accrued interest payable, end of the year		(14,500)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:		
Payments on debt		1,030,000
Amortization of deferred charge on refunding		(104,964)
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:		
Deferred inflows of resources - unavailable revenue, beginning of the year		(36,500)
Deferred inflows of resources - unavailable revenue, end of year		27,500
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:		
Accrued compensated absences, beginning of the year		74,452
Accrued compensated absences, end of the year		(68,072)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:		
Pension related items		33,978
Other postemployment benefits related items		73,117
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension and other postemployment benefits contributions subsequent to the measurement period:		
Pension and other postemployment benefit related items, beginning of year		427,984
Pension and other postemployment benefit related items, end of year		(433,989)
Change in net position of governmental activities	$	997,512

See notes to financial statements.

MONTABELLA COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	Agency fund	Private purpose trust fund
ASSETS		
ASSETS:		
Cash and cash equivalents	$ 104,078	$ 83,885
LIABILITIES AND NET POSITION		
LIABILITIES:		
Due to student and other groups	104,078	-
NET POSITION:		
Reserved for trust activities	-	83,885
TOTAL NET POSITION	$ -	$ 83,885

See notes to financial statements.

MONTABELLA COMMUNITY SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2018

	Private purpose trust fund
ADDITIONS:	
Scholarship donations	$ 106,938
DEDUCTIONS:	
Scholarships awarded	39,000
CHANGE IN NET POSITON	67,938
NET POSITION:	
Beginning of year	15,947
End of year	$ 83,885

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes, and intergovernmental revenues.

B. Reporting Entity

Montabella Community Schools (the "District") is governed by the Montabella Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements (GASB).

C. Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Continued)

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The capital projects *sinking fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes. The District has complied with the applicable provisions of § 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95 relating to sinking funds.

Other Nonmajor Funds

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service activities in the special revenue fund.

The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust fund* accounts for funds entrusted to the District for scholarship awards and both the principal and interest may be spent. These funds are not reported in the District's government-wide financial statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Concluded)

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources.* The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting,* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the current year ended, the foundation allowance was based on pupil membership counts.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

The private-purpose trust fund is reported using the *economic resources measurements focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis if accounting* for reporting its assets and liabilities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

2. Public hearings are conducted to obtain taxpayer comments.

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

5. The budget was amended during the year with supplemental appropriations, the last one approved prior to year ended June 30, 2018. The District does not consider these amendments to be significant.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and cash equivalents

   The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of 3 months or less from the date of acquisition.

2. Investments

   Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity.

   State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

3. Inventories and prepaid items

   Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

   Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

4. Capital assets

Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of 2 years. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Land and construction in progress if any are not depreciated. The other property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Lives
Buildings and improvements	20 - 50
Furniture and equipment	5 - 20
Vehicles	8

5. Defined benefit plans

For purposes of measuring the net pension and other postemployment benefit liability, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefits expense, information about the fiduciary net position of the Michigan Public Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

6. Deferred outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The District has three items that qualify for reporting in this category. They are the deferred charge on refunding, pension and other postemployment benefits related items reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

7. Deferred inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has four items that qualify for reporting in this category. The first item arises only in the modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from receipts that are received after 60 days of year end. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available. The second is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement period. The third and fourth items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

8. Net position flow assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

9. Fund balance flow assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the District that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenues and Expenditures/Expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2018, the District levied the following amounts per $1,000 of assessed valuation:

Fund	Mills
General Fund:	
Non-Principal Residence Exemption (PRE)	17.9532
Commercial Personal Property	5.9532
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	5.4200
Sinking fund:	
PRE, Non-PRE, Commercial Personal Property	1.4995

3. Compensated absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses (Concluded)

4. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2018, the District had no investments.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2018, $3,169,086 of the District’s bank balance of $3,669,086 was exposed to custodial credit risk because it was uninsured and uncollateralized. The above amounts include interest bearing accounts. The carrying amount on the financial statements is $3,481,160. The fiduciary fund balances are included in the above balances.

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the 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 District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

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

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

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

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

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

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

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

The carrying amount of deposits is as follows:

Deposits - including fiduciary funds of $187,963	$ 3,481,160

The above amounts are reported in the financial statements as follows:

Cash and cash equivalents - district-wide	$ 3,293,197
Cash and cash equivalents - agency fund	104,078
Cash and cash equivalents - private purpose trust fund	83,885
	$ 3,481,160

NOTE 3 - CAPITAL ASSETS

A summary of changes in the District's capital assets are as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Governmental activities:				
Capital assets, being depreciated:				
Buildings and improvements	$ 1,198,180	$ 76,175	$ -	$ 1,274,355
Furniture and equipment	17,481,040	41,322	-	17,522,362
Vehicles	2,132,394	200,458	253,955	2,078,897
Total capital assets	20,811,614	317,955	253,955	20,875,614
Accumulated depreciation:				
Buildings and improvements	655,181	448,238	-	1,103,419
Furniture and equipment	7,431,566	52,331	-	7,483,897
Vehicles	1,941,880	151,416	231,151	1,862,145
Total accumulated depreciation	10,028,627	651,985	231,151	10,449,461
Net governmental capital assets	$ 10,782,987	$(334,030)	$ 22,804	$10,426,153

Depreciation for the fiscal year ended June 30, 2018 amounted to $651,985 which was allocated in the following manner:

Instruction	$ 423,790
Support services	228,195
	$ 651,985

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2018 consist of the following:

Governmental units:	
State aid	$ 1,069,511
Federal revenue	152,244
Intermediate and other sources	55,211
	$ 1,276,966

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

NOTE 5 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

	Compensated absences	Bonds payable	Total
Balance, July 1, 2017	$ 74,452	$ 3,205,000	$ 3,279,452
Additions	18,644	-	18,644
Deletions	(25,024)	(1,030,000)	(1,055,024)
Balance, June 30, 2018	68,072	2,175,000	2,243,072
Due within one year	13,614	1,070,000	1,083,614
Due in more than one year	$ 54,458	$ 1,105,000	$ 1,159,458

Bonds payable at June 30, 2018 is comprised of the following:

2010 building and site bonds - $1,550,000, due in annual installments of $310,000 to $350,000 through May 1, 2020 with interest at 4%.	$ 660,000
2015 refunding bonds - $3,820,000, due in annual installments of $755,000 to $760,000 through May 1, 2020 with interest at 4%.	1,515,000
Total bonded debt	2,175,000
Accumulated compensated absences	68,072
Total general long-term debt	$ 2,243,072

NOTE 5 - LONG-TERM DEBT (Concluded)

In prior years, the District had defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2018, $2,470,000 of the 1999 Building and Site bonds and $1,610,000 of the 2005 Refunding bonds outstanding are considered defeased.

The annual requirement to amortize debt outstanding as of June 30, 2018, including interest payments of $131,200 are as follows:

Year ending June 30,	Principal	Interest	Total
2019	$ 1,070,000	$ 87,000	$ 1,157,000
2020	1,105,000	44,200	1,149,200
	2,175,000	131,200	2,306,200
Accumulated compensated absences	68,072	-	68,072
	$ 2,243,072	$ 131,200	$ 2,374,272

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (System) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the Board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www://michigan.gov/orsschools.

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

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

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Benefits Provided - Overall

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

Plan name	Plan type	Plan status
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefits Provided - Pension

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

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

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

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

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

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

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Pension Reform 2012 (Concluded)

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

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

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

Final Average Compensation (FAC) - Average of highest 60 consecutive months (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected Option 4, in which case the FAC is calculated at the transition date.

Pension Reform of 2017

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

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Benefits Provided - Other Postemployment Benefit (OPEB)

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus Plan members), have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

Regular Retirement (no reduction factor for age)

Eligibility - A Basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Regular Retirement (no reduction factor for age) (Concluded)

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

Member Contributions

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

Employer Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Postemployment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of September 30, 2016 valuation will be amortized over a 22-year period for fiscal 2017.

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

	Pension	Other Postemployment Benefit
October 1, 2016 - September 30, 2017	15.27% - 19.03%	5.69% - 5.91%
October 1, 2017 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Employer Contributions (Concluded)

The District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately $1,121,000, with $1,111,000 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately $331,000, with $314,000 specifically for the Defined Benefit Plan.

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

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

Pension Liabilities

At June 30, 2018, the District reported a liability of $10,799,943 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the District's proportion was 0.04168% and 0.04057%.

MPSERS (Plan) Non-university employers:	September 30, 2017	September 30, 2016
Total pension liability	$ 72,407,218,688	$ 67,917,445,078
Plan fiduciary net position	$ 46,492,967,573	$ 42,968,263,308
Net pension liability	$ 25,914,251,115	$ 24,949,181,770
Proportionate share	0.04168%	0.04057%
Net pension liability for the district	$ 10,799,943	$ 10,121,856

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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

For the year ended June 30, 2018, the District recognized pension expense of $1,076,522.

At June 30, 2018, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Changes in proportion and differences between employer contributions and proportionate share of contributions	$ 275,785	$ 39,323
Differences between expected and actual experience	93,859	52,993
Changes of assumptions	1,183,220	-
Net difference between projected and actual plan investments earnings	-	516,308
Reporting Unit's contributions subsequent to the measurement date	1,049,977	-
	$ 2,602,841	$ 608,624

$1,049,977, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Year ended September 30,	Amount
2018	$ 276,772
2019	446,991
2020	212,971
2021	7,506

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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

OPEB Liabilities

At June 30, 2018, the District reported a liability of $3,677,930 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the District's proportion was 0.04153%.

MPSERS (Plan) Non-university employers:		September 30, 2017
Total other postemployment benefit liability	$	13,920,945,991
Plan fiduciary net position	$	5,065,474,948
Net other postemployment benefit liability	$	8,855,471,043
Proportionate share		0.04153%
Net other postemployment benefit liability for the District	$	3,677,930

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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

For the year ended June 30, 2018, the District recognized OPEB expense of $241,239.

At June 30, 2018, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Changes in proportion and differences between employer contributions and proportionate share of contributions	$ 20	$ -
Differences between expected and actual experience	-	39,159
Net difference between projected and actual plan investments earnings	-	85,182
Reporting Unit's contributions subsequent to the measurement date	288,159	-
	$ 288,179	$ 124,341

$288,159, reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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

Year ended September 30,	Amount
2018	$ (30,042)
2019	(30,042)
2020	(30,042)
2021	(30,042)
2022	(4,153)

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions

Investment rate of return for pension - 7.5% a year, compounded annually net of investment and administrative expenses for the non-hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the hybrid group (Pension Plus Plan).

Investment rate of return for OPEB - 7.5% a year, compounded annually net of investment and administrative expenses.

Salary increases - The rate of pay increase used for individual members is 3.5%.

Inflation - 3.0%.

Mortality assumptions - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2025 using projection scale BB (for men, 80% of the table rates were used and for women, 70% of the table rates were used).

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2016. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

The long-term expected rate of return on pension and Other Postemployment Benefit plan investments - The pension rate was 7.5% (7% Pension Plus Plan), and the Other Postemployment Benefit rate was 7.5%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Cost of living pension adjustments - 3.0% annual non-compounded for MIP members.

Healthcare cost trend rate for Other Postemployment Benefit - 7.5% for year 1 and graded to 3.5% to year 12.

Additional assumptions for Other Postemployment Benefit only - applies to individuals hired before September 4, 2012:

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

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

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions (Continued)

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

The target asset allocation at September 30, 2017 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment category	Target allocation	Long-term expected real rate of return*
Domestic Equity Pools	28.0%	5.6%
Private Equity Pools	18.0%	8.7%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	(0.1)%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short Term Investment Pools	2.0%	(0.9)%
	100.0%	

* Long term rates of return are net of administrative expenses and 2.3% inflation.

Pension discount rate - The discount rate used to measure the total pension liability was 7.5% (7.0% for Pension Plus Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that plan members contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions (Continued)

OPEB discount rate - The discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school districts contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net pension liability to changes in the discount rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for Pension Plus Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	Pension		
	1% Decrease (6.5% / 6.0%)	Discount rate (7.5% / 7.0%)	1% Increase (8.5% / 8.0%)
Reporting Unit's proportionate share of the net pension liability	$ 14,068,734	$ 10,799,943	$ 8,047,830

Sensitivity of the net OPEB liability to changes in the discount rate - The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the Reporting Unit's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	Other Postemployment Benefit		
	1% Decrease (6.5%)	Discount rate (7.5%)	1% Increase (8.5%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	$ 4,307,918	$ 3,677,930	$ 3,143,266

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Concluded)

Actuarial Assumptions (Concluded)

Sensitivity to the net OPEB liability to changes in the healthcare cost trend rates - The following presents the Reporting Unit's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.5%), as well as what the Reporting Unit's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	Other postemployment benefit		
	1% Decrease (6.5% decreasing to 2.5%)	Healthcare cost trend rates (7.5% decreasing to 3.5%)	1% Increase (8.5% decreasing to 4.5%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	$ 3,114,712	$ 3,677,930	$ 4,317,424

Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2017 Comprehensive Annual Financial Report.

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

Other Information

On December 20, 2017, the Michigan Supreme Court affirmed that Public Act 75 of 2010 is unconstitutional as it substantially impaired the employee's employment contracts by involuntarily reducing the employee's wages by 3%. As a result, the funds collected pursuant to Public Act 75 before the effective date of Public Act 300 of 2012, must be refunded to the employees in accordance with the Michigan Court of Claims judgment on the aforementioned court case. Effective September 30, 2017, the 3% contribution collected under Public Act 75, which amounted to approximately $554 million (including interest), was posted as a liability on the plan's CAFR report.

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of $500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 8 - TRANSFERS

The food service fund transferred $20,000 to the general fund for indirect costs.

NOTE 9 - TAX ABATEMENTS

The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions, Brownfield Redevelopment Agreements, and Payments in Lieu of Taxes (PILOT) granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield Redevelopment Agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties; PILOT programs apply to multiple unit housing for citizens of low income and the elderly. The property taxes abated for all funds by municipality under these programs are as follows:

Municipality	Taxes abated
Broomfield Township	$ 4,405

The taxes abated for the general fund operating millage is considered by the State of Michigan when determining the District's section 22 funding of the State School Aid Act.

There are no significant abatements made by the District.

NOTE 10 - NEW ACCOUNTING STANDARD

For the year ended June 30, 2018, the District implemented the following new pronouncement: GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

Summary:

GASB Statement No. 75 requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

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

	Governmental activities
Net postion as previously stated July 1, 2017	$ 2,019,163
Adoption of GASB Statement 75:	
Net other postemployment benefit liability	(3,879,401)
Deferred outflows	292,192
Deferred inflows	(172,807)
Net postion as restated July 1, 2017	$ (1,740,853)

NOTE 11 - UPCOMING ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for the District's 2020 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

NOTE 11 - UPCOMING ACCOUNTING PRONOUNCEMENTS (Concluded)

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

REQUIRED SUPPLEMENTARY INFORMATION

MONTABELLA COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	$ 1,258,600	$ 1,330,295	$ 1,276,231	$ (54,064)
State sources	5,582,702	6,093,467	6,068,723	(24,744)
Federal sources	338,853	395,392	355,496	(39,896)
Incoming transfers and other	200,500	139,585	140,847	1,262
Total revenues	7,380,655	7,958,739	7,841,297	(117,442)
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	3,385,444	3,537,514	3,492,537	44,977
Added needs	1,065,861	1,159,013	1,104,486	54,527
Total instruction	4,451,305	4,696,527	4,597,023	99,504
Supporting services:				
Pupil	414,758	380,783	370,227	10,556
Instructional staff	363,467	394,324	376,446	17,878
General administration	257,853	260,514	257,172	3,342
School administration	400,859	393,196	388,782	4,414
Business	136,714	116,136	115,956	180
Operation/maintenance	661,843	763,329	734,459	28,870
Pupil transportation	632,270	623,146	590,273	32,873
Central services	118,050	145,618	144,418	1,200
Athletics and other	217,393	227,750	209,180	18,570
Total supporting services	3,203,207	3,304,796	3,186,913	117,883
Community services	-	12,007	5,144	6,863
Total expenditures	7,654,512	8,013,330	7,789,080	224,250
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(273,857)	(54,591)	52,217	106,808
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	-	-	62,651	62,651
Transfers in	-	15,000	20,000	5,000
Total other financing sources (uses)	-	15,000	82,651	67,651
NET CHANGE IN FUND BALANCE	$ (273,857)	$ (39,591)	134,868	$ 174,459
FUND BALANCE:				
Beginning of year			2,023,257	
End of year			$ 2,158,125	

MONTABELLA COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)

	2017	2016	2015	2014
Reporting Unit's proportion of net pension liability (%)	0.04168%	0.04057%	0.04082%	0.04011%
Reporting Unit's proportionate share of net pension liability	$ 10,799,943	$ 10,121,856	$ 9,969,392	$ 8,833,751
Reporting Unit's covered-employee payroll	$ 3,531,072	$ 3,208,392	$ 3,370,415	$ 3,256,555
Reporting Unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	305.85%	315.48%	295.79%	271.26%
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	64.21%	63.27%	63.17%	66.20%

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

MONTABELLA COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED
AS OF THE YEAR ENDED JUNE 30)

	2018	2017	2016	2015
Statutorily required contributions	$ 1,110,500	$ 942,795	$ 890,322	$ 743,352
Contributions in relation to statutorily required contributions	1,110,500	942,795	890,322	743,352
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Reporting Unit's covered-employee payroll	$ 3,610,635	$ 3,341,304	$ 3,358,407	$ 3,378,733
Contributions as a percentage of covered-employee payroll	30.76%	28.22%	26.51%	22.00%

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

MONTABELLA COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)

	2017
Reporting Unit's proportion of net OPEB liability (%)	0.04153%
Reporting Unit's proportionate share of net OPEB liability	$ 3,677,930
Reporting Unit's covered-employee payroll	$ 3,531,072
Reporting Unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll (%)	104.16%
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)	36.39%

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

MONTABELLA COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S OPEB CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED
AS OF THE PLAN YEAR ENDED JUNE 30)

	2018
Statutorily required contributions	$ 314,359
Contributions in relation to statutorily required contributions	314,359
Contribution deficiency (excess)	$ -
Reporting Unit's covered-employee payroll	$ 3,610,635
Contributions as a percentage of covered-employee payroll	8.71%

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

MONTABELLA COMMUNITY SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018

Changes of benefits terms: There were no changes of benefit terms in 2017.

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

ADDITIONAL SUPPLEMENTARY INFORMATION

MONTABELLA COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2018

	Special revenue	Debt service		Total
	Food service	2010	2015 refunding	nonmajor funds
ASSETS				
ASSETS:				
Cash and cash equivalents	$ 157,126	$ 46,356	$ 115,561	$ 319,043
Intergovernmental receivables	14,117	-	-	14,117
Inventories	13,114	-	-	13,114
Prepaids	61	-	-	61
TOTAL ASSETS	$ 184,418	$ 46,356	$ 115,561	$ 346,335
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	$ 11,639	$ -	$ -	$ 11,639
Accrued salaries and related items	127	-	-	127
Accrued retirement	3,287	-	-	3,287
TOTAL LIABILITIES	15,053	-	-	15,053
FUND BALANCES:				
Nonspendable:				
Inventories	$ 13,114	$ -	$ -	$ 13,114
Prepaids	61	-	-	61
Restricted for:				
Debt service	-	46,356	115,561	161,917
Food service	130,777	-	-	130,777
Assigned for:				
Subsequent years expenditures	25,413	-	-	25,413
TOTAL FUND BALANCES	169,365	46,356	115,561	331,282
TOTAL LIABILITIES AND FUND BALANCES	$ 184,418	$ 46,356	$ 115,561	$ 346,335

MONTABELLA COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2018

	Special revenue	Debt service		Total
	Food service	2010 building and site	2015 refunding	nonmajor funds
REVENUES:				
Local sources:				
Property taxes	$ -	$ 306,929	$ 862,669	$ 1,169,598
Investment earnings	401	-	961	1,362
Food sales	78,491	-	-	78,491
Total local sources	78,892	306,929	863,630	1,249,451
State sources	34,975	5,301	14,932	55,208
Federal sources	371,090	-	-	371,090
Total revenues	484,957	312,230	878,562	1,675,749
EXPENDITURES:				
Current:				
Food service activities	442,003	-	-	442,003
Debt service:				
Principal repayment	-	265,000	765,000	1,030,000
Interest	-	37,000	91,200	128,200
Other	-	300	997	1,297
Total expenditures	442,003	302,300	857,197	1,601,500
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	42,954	9,930	21,365	74,249
OTHER FINANCING SOURCES (USES):				
Transfers out	(20,000)	-	-	(20,000)
NET CHANGE IN FUND BALANCES	22,954	9,930	21,365	54,249
FUND BALANCES:				
Beginning of year	146,411	36,426	94,196	277,033
End of year	$ 169,365	$ 46,356	$ 115,561	$ 331,282

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Education
Montabella Community Schools

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Montabella Community Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Montabella Community Schools' basic financial statements and have issued our report thereon dated September 12, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Montabella Community Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Montabella Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Montabella Community Schools' 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 Montabella Community Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Maner Costerisan PC

September 12, 2018

Maner Costerisan
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September 12, 2018

To the Board of Education
Montabella Community Schools

In planning and performing our audit of the financial statements of Montabella Community Schools as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered Montabella Community Schools' internal control over financial reporting (internal control) as a basis for designing our auditing 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted matters involving the internal control and other operational matters that is presented for your consideration. This letter does not affect our report dated September 12, 2018 on the financial statements of Montabella Community Schools. We will review the status of these comments during our next audit engagement. Our comments and recommendations, which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of this matter, or assist you in implementing the recommendations. Our comments are summarized as follows.

Food Service Fund Balance

Per Michigan Department of Education (MDE) guidelines, school food authorities (SFA) must operate food services on a nonprofit basis. During our audit procedures, we noted that the fund balance of Montabella Community Schools' food service fund exceeded the three months' average expenditures of the fund by $20,031. MDE requires that the SFA spend down the excess by the end of the next school year. We recommend that Montabella Community Schools make an effort to spend down the excess by June 30, 2019.

This report is intended solely for the information and use of management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner Costerisan PC

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September 12, 2018

To the Board of Directors
Montabella Community Schools

We have audited the financial statements of Montabella Community Schools for the year ended June 30, 2018, and have issued our report thereon dated September 12, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Montabella Community Schools' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

1. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Montabella Community Schools are described in Note 1 to the financial statements. During 2018 the District implemented Governmental Accounting Standard No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The application of existing policies was not changed during 2018. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

> Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability.
>
> The estimated liabilities are approximately $10,800,000 and $3,700,000, respectively. We evaluated the key factors and assumptions used to develop the balance of the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate in calculating the liability for employee compensated absences:
>
> The estimated liability is approximately $68,000. We evaluated the key factors and assumptions used to develop the balance of employee compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's determination of the estimated life span of the capital assets:
>
> We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. In addition, certain amounts included in capital assets have been estimated based on an outside appraisal company.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

We did not identify any sensitive disclosures.

2. Difficulties Encountered in Performing the Audit

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

3. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

4. Disagreements with Management

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

5. Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 12, 2018.

6. Management Consultations with Other Independent Accountants

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

7. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Montabella Community Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Other Matters

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

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

Very truly yours,

Maner Costerisan PC