CENTRAL MONTCALM PUBLIC SCHOOLS

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

YEAR ENDED JUNE 30, 2018

Maner Costerisan
Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Central Montcalm Public 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 Central Montcalm Public Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Central Montcalm Public 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 Central Montcalm Public 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, Central Montcalm Public 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 Central Montcalm Public Schools' basic financial statements. The additional supplementary information, as identified in the table of contents, including the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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. The additional supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

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

Maner Costerisan PC

September 12, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Central Montcalm Public Schools' (CMPS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on 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, Central Montcalm Public 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 District revenues were approximately $19 million with expenses of approximately $18.1 million; total District revenues exceed expenses by approximately $900,000.

In 2017-2018 the District's general fund was funded primarily with a $7,631 per pupil State of Michigan foundation allowance. The General Fund received 84% of its revenue from state sources.

The student blended count for 2017-2018 was 1,599.

At June 30, 2018, the fund balance of the general fund was $3,385,006. This is an increase from the 2016-2017 fiscal year of $260,614.

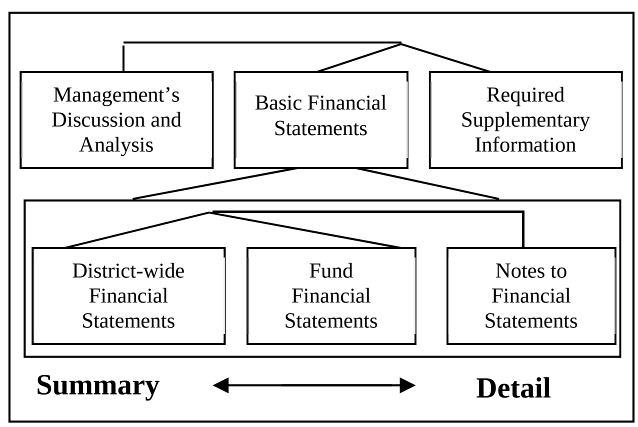
During the 2017-2018 fiscal year the District repaid $1.59 million of principal from its long-term debt.

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* than the District-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education 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 Central Montcalm Public 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

	District-wide Statements	Fund Financial Statements: Governmental Funds	Fund Financial Statements: 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 assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources 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, Central Montcalm Public Schools' funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during 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 goods 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 assets include *all* of the District's assets, deferred outflows, deferred inflows 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 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 financial health or *position*.

- Over time, increases or decreases in the District's net position is an indicator 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 debts) 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 scholarship fund and 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 GASB Statement 75 implementation, was ($14,473,932) and on June 30, 2018 was ($13,538,021) which represents an increase of $935,911 as recorded in the statement of activities.

Table A-3
Central Montcalm Public Schools' Net position

	June 30, 2018	June 30, 2017
Current and other assets	$ 6,308,766	$ 10,126,882
Capital assets, net of depreciation	24,377,062	21,509,984
Total assets	30,685,828	31,636,866
Deferred outflows of resources	7,298,845	4,345,135
Long-term debt outstanding	12,514,621	14,231,701
Other liabilities	3,440,154	4,042,575
Net pension liability	24,598,468	22,968,783
Net other postemployment benefits liability	8,394,855	-
Total liabilities	48,948,098	41,243,059
Deferred inflows of resources	2,574,596	793,048
Net position:		
Net investment in capital assets	10,970,338	9,984,163
Restricted for debt service	450,206	405,618
Unrestricted	(24,958,565)	(16,443,887)
Total net position	$ (13,538,021)	$ (6,054,106)

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

Table A-4 Changes to Central Montcalm Public Schools' Net Position		
Revenues:	2018	2017
Program revenues:		
Charges for services	$ 268,784	$ 282,383
Federal and state categorical grants	4,350,145	3,056,326
General revenues:		
Property taxes	3,670,307	3,631,315
State aid - unrestricted	10,366,842	11,595,019
Other	372,800	117,352
Total revenues	19,028,878	18,682,395
Expenses:		
Instruction	10,594,097	9,870,922
Support services	6,181,953	5,414,754
Food services	755,189	829,368
Community services	496	1,531
Interest on long-term debt	419,896	458,574
Depreciation - unallocated	141,336	860,736
Total expenses	18,092,967	17,435,885
Change in net position	$ 935,911	$ 1,246,510

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 has experienced a slight increase in enrollment for 2017-2018 of approximately 2%. In 2017-2018 the District's enrollment of 1,599 was slightly above the 2016-2017 enrollment level by 31 students.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

<u>Fund balance</u>

General fund	$ 3,385,006
2016 Capital projects fund	$ 476,365
All other funds	$ 882,477

This is a combined fund balance of $4,743,848 compared to a fund balance of $7,959,114 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 teacher contract. Additional subsequent amendments were done to capture minor changes throughout the year.

Overall, the difference between the final general fund amended expenditure budget and end of the year actual figures amounted approximately 2%. Revenue received was less than the final June 30, 2018 Board adopted budget by $144,884. This decrease was primarily federal sources. District expenditures ended the year with $347,633 less expended than the final approved budget. District-wide cost containment in personnel, supplies, and energy accounted for a large share of these adjustments.

Capital Asset and Debt Administration

Capital Assets

The District's capital assets are as follows:

Table A-5
Central Montcalm Public Schools' Capital Assets

	2018			2017
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 12,802	$ -	$ 12,802	$ 12,802
Construction in progress	-	-	-	1,353,152
Buildings and improvements	36,475,991	12,920,861	23,555,130	19,351,553
Furniture and equipment	4,896,673	4,303,957	592,716	541,046
Vehicles	1,088,287	871,873	216,414	251,431
Total	$ 42,473,753	$ 18,096,691	$ 24,377,062	$ 21,509,984

Long-term Debt

At June 30, 2018, the District had approximately $14.3 million in long-term obligations as shown in Table A-6. More detailed information is available in Note 6 to the financial statements.

During the year ended June 30, 2018, the District made principal payments in the amount of $1.59 million.

A decrease in compensated absences of $1,706 was also recorded.

Table A-6
Central Montcalm Public Schools' Outstanding Long-Term Debt

	2018	2017
General obligation bonds and other debt	$ 13,818,004	$ 15,450,550
Installment purchase	300,000	375,000
Compensated absences	193,045	194,751
Total	$ 14,311,049	$ 16,020,301

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of one existing factor that could significantly affect its financial health in the future:

Foundation Allowance: The 2017-18 base state aid foundation allowance of $7,631 is expected to be increased next year by $240 per student with a budgeted amount per student amount of $7,871. The State has established the $7,871 as the new base foundation for future planning.

Transparency and Security Upgrades in 2019: The District identified the need to upgrade security by securing an Installment Purchase Agreement to purchase and install the Total LED System and SmartBoot System, together with ballistic shields, lockout smart lights, etc., at a cost of $416,538.00. This will add an extra layer of security to the previously renovated entry corridors and parking areas of the buildings. This project will be completed in 2019.

Bond Project Completion 2020: The District will undertake the second phase of their bond project in 2020. This will include a phone system upgrade, parking and drive reconfiguration, and partial roof and window replacement.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors 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, contact the Business Office, Central Montcalm Public Schools, 1480 S Sheridan Rd, Stanton, MI 48888.

BASIC FINANCIAL STATEMENTS

CENTRAL MONTCALM PUBLIC SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental activities
ASSETS:	
Cash and cash equivalents	$ 3,036,013
Receivables:	
Accounts receivable	668
Intergovernmental receivables	2,617,639
Inventories	20,516
Prepaids	157,565
Restricted cash and cash equivalents - capital projects	3,698
Restricted investments - capital projects	472,667
Capital assets not being depreciated	12,802
Capital assets, net of accumulated depreciation	24,364,260
TOTAL ASSETS	30,685,828
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred charge on refunding, net of amortization	234,915
Related to other postemployment benefits	614,524
Related to pensions	6,449,406
TOTAL DEFERRED OUTFLOWS OF RESOURCES	7,298,845
LIABILITIES:	
Accounts payable	67,905
Accrued salaries and related items	881,683
Accrued retirement	573,930
Accrued interest	78,808
Intergovernmental payable	2,347
Unearned revenue	39,053
Noncurrent liabilities:	
Due within one year	1,796,428
Due in more than one year	12,514,621
Net other postemployment benefits liability	8,394,855
Net pension liability	24,598,468
TOTAL LIABILITIES	48,948,098
DEFERRED INFLOWS OF RESOURCES:	
Related to other postemployment benefits	283,807
Related to pensions	1,311,342
Related to state aid funding for pension and other postemployment benefits	979,447
TOTAL DEFERRED INFLOWS OF RESOURCES	2,574,596
NET POSITION:	
Net investment in capital assets	10,970,338
Restricted for debt service	450,206
Unrestricted	(24,958,565)
TOTAL NET POSITION	$ (13,538,021)

See notes to financial statements.

CENTRAL MONTCALM PUBLIC 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	$ 10,594,097	$ -	$ 2,533,942	$ (8,060,155)
Support services	6,181,953	33,064	1,082,511	(5,066,378)
Community services	496	74,532	496	74,532
Food services	755,189	161,188	733,196	139,195
Interest on long-term debt	419,896	-	-	(419,896)
Unallocated depreciation	141,336	-	-	(141,336)
Total governmental activities	$ 18,092,967	$ 268,784	$ 4,350,145	(13,474,038)
General revenues:				
Property taxes, levied for general purposes				1,615,535
Property taxes, levied for debt service				2,054,772
Investment earnings				57,996
State sources - unrestricted				10,366,842
Intermediate sources				255,418
Other				59,386
Total general revenues				14,409,949
CHANGE IN NET POSITION				935,911
NET POSITION, beginning of year, as restated				(14,473,932)
NET POSITION, end of year				$ (13,538,021)

CENTRAL MONTCALM PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General fund	2016 Capital Projects	Total nonmajor funds	Total governmental funds
ASSETS				
ASSETS:				
Cash and cash equivalents	$ 2,151,241	$ -	$ 884,772	$ 3,036,013
Receivables:				
Accounts receivable	668	-	-	668
Intergovernmental receivables	2,604,284	-	13,355	2,617,639
Due from other funds	13,000	-	-	13,000
Inventories	-	-	20,516	20,516
Prepaids	152,884	-	4,681	157,565
Cash and cash equivalents - restricted		3,698		3,698
Restricted investments	-	472,667	-	472,667
TOTAL ASSETS	$ 4,922,077	$ 476,365	$ 923,324	$ 6,321,766
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	$ 41,752	$ -	$ 26,153	$ 67,905
Accrued salaries and related items	879,989	-	1,694	881,683
Accrued retirement	573,930	-	-	573,930
Due to other funds	-	-	13,000	13,000
Intergovernmental payable	2,347	-	-	2,347
Unearned revenue	39,053	-	-	39,053
TOTAL LIABILITIES	1,537,071	-	40,847	1,577,918
FUND BALANCES:				
Nonspendable:				
Inventories	-	-	20,516	20,516
Prepaids	152,884	-	4,681	157,565

See notes to financial statements.

	General fund	2016 Capital Projects	Total nonmajor funds	Total governmental funds
FUND BALANCES (Concluded):				
Restricted for:				
Debt service	$ -	$ -	$ 529,014	$ 529,014
Capital projects	-	476,365	-	476,365
Food service	-	-	328,266	328,266
Assigned for:				
Subsequent year expenditures	507,696	-	-	507,696
Unassigned	2,724,426	-	-	2,724,426
TOTAL FUND BALANCES	3,385,006	476,365	882,477	4,743,848
LIABILITIES AND FUND BALANCES	$ 4,922,077	$ 476,365	$ 923,324	$ 6,321,766

Total governmental fund balances		$ 4,743,848
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred outflows of resources - charges on refunding, net of amortization		234,915
Deferred outflows of resources - related to pensions		6,449,406
Deferred outflows of resources - related to other postemployment benefits		614,524
Deferred inflows of resources - related to pensions		(1,311,342)
Deferred inflows of resources - related to other postemployment benefits		(283,807)
Deferred inflows of resources - related to state funding for pension and other postemployment benefits		(979,447)
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
The cost of the capital assets is	$ 42,473,753	
Accumulated depreciation is	(18,096,691)	
		24,377,062
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Bonds and other long-term debt payable		(14,118,004)
Compensated absences		(193,045)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid		(78,808)
Net other postemployment benefits liability		(8,394,855)
Net pension liability		(24,598,468)
Net position of governmental activities		$ (13,538,021)

See notes to financial statements.

CENTRAL MONTCALM PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	General fund	2016 Capital projects	Total nonmajor funds	Total governmental funds
REVENUES:				
Local sources:				
Property taxes	$ 1,615,535	$ -	$ 2,054,772	$ 3,670,307
Tuition	4,910	-	-	4,910
Investment earnings	11,980	40,833	5,183	57,996
Food sales	-	-	161,094	161,094
Other	161,940	-	94	162,034
Total local sources	1,794,365	40,833	2,221,143	4,056,341
State sources	13,389,828	-	70,482	13,460,310
Federal sources	578,321	-	662,714	1,241,035
Incoming transfers and other	255,550	-	-	255,550
Total revenues	16,018,064	40,833	2,954,339	19,013,236
EXPENDITURES:				
Current:				
Instruction	10,008,308	-	-	10,008,308
Supporting services	5,724,147	-	-	5,724,147
Community services	496	-	-	496
Food service activities	-	-	743,200	743,200
Capital outlay	-	3,607,926	38,630	3,646,556
Debt service:				
Principal repayment	75,000	-	1,515,000	1,590,000
Interest	13,050	-	504,195	517,245
Other	-	-	3,365	3,365
Total expenditures	15,821,001	3,607,926	2,804,390	22,233,317
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	197,063	(3,567,093)	149,949	(3,220,081)
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital assets	4,815	-	-	4,815
Transfers in	63,000	-	4,264	67,264
Transfers out	(4,264)	-	(63,000)	(67,264)
Total other financing sources (uses)	63,551	-	(58,736)	4,815
NET CHANGE IN FUND BALANCES	260,614	(3,567,093)	91,213	(3,215,266)
FUND BALANCES:				
Beginning of year	3,124,392	4,043,458	791,264	7,959,114
End of year	$ 3,385,006	$ 476,365	$ 882,477	$ 4,743,848

See notes to financial statements.

CENTRAL MONTCALM PUBLIC 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	$ (3,215,266)
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	(968,060)
Capital outlay	3,845,048
Loss on disposal of capital assets	(9,910)
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	86,207
Accrued interest payable, end of the year	(78,808)
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	1,590,000
Amortization of deferred charges on refunding	(21,356)
Amortization of bond premium	117,546
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	194,751
Accrued compensated absences, end of the year	(193,045)
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:	
Other postemployment benefits related items	85,820
Pension related items	(512,658)
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement period:	
Pension and other postemployment benefit related items, beginning of year	995,089
Pension and other postemployment benefit related items, end of year	(979,447)
Change in net position of governmental activities	$ 935,911

CENTRAL MONTCALM PUBLIC SCHOOLS
STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2018

	Agency fund
ASSETS:	
Cash and cash equivalents	$ 225,020
LIABILITIES:	
Due to student and other groups	$ 225,020

See notes to financial statements.

CENTRAL MONTCALM PUBLIC SCHOOLS
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

The Central Montcalm Public Schools (the "District") is governed by the Central Montcalm Public 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 (GASB) Statements.

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 *2016 capital projects fund* accounts for bond proceeds and construction costs related to the issuance of the 2016 Building and Site bonds. The 2016 capital projects fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of Section 1351a of the Revised School Code.

The projects for which the 2016 bonds were issued were considered complete as of December 15, 2017 and the cumulative revenues and expenditures recognized for the bond period were as follows:

	2016 Bond
Revenue and other financing sources	$ 5,457,844
Expenditures and transfers	$ 4,981,479

The above revenue amount includes net bond proceeds of $5,405,000 for the 2016 bond.

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 resources accumulated and payments made for principal and interest on long-term general obligation 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 *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).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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 state-wide 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 agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

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 funds. The capital projects fund is appropriated on a project-length basis. Other funds do not have appropriated budgets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information (Concluded)

Budgetary basis of accounting (Concluded):

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 5 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 is 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	5 - 10

5. Defined benefit plan

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

10. Fund balance policies (Concluded)

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.

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 date is 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)	18.00
Commercial Personal Property	6.00
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	7.00

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses (Concluded)

3. Compensated absences

The District's policy permits employees to accumulate earned, but unused, vacation and other leave time, based on the length of 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.

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 the following investments:

Investment Type	Fair Value	Weighted average maturity (years)	Standard & Poor's rating	%
MILAF+ Cash Mgmt Class	$ 38	0.0027	AAAm	0.01%
MILAF+ MAX Class	472,629	0.0027	AAAm	99.99%
Total fair value	$ 472,667			100.00%
Portfolio weighted average maturity		0.0027		

1 day maturity equals 0.0027, one year equals 1.00

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. The two pooled investment funds utilized by the District are the Michigan Investment Liquid Asset Fund Cash Mgmt Class and Max Class (MILAF). These are external pooled investment funds of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2018, the fair value of the District's investments is the same as the value of the pool shares.

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

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). As of June 30, the District did not have investments in commercial paper and corporate bonds.

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, $3,455,047 of the District's bank balance of $3,955,047 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount of all deposits is $3,264,731.

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.

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

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

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 hold any investments that are subject to fair value measurement.

At June 30, 2018, the carrying amount is as follows:

Deposits - including fiduciary fund of $225,020	$ 3,264,731
Investments	472,667
	$ 3,737,398

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

Cash and cash equivalents - agency fund	$ 225,020
Cash and cash equivalents - District-wide	3,036,013
Cash and cash equivalents - 2016 capital projects	3,698
Restricted investments - 2016 capital projects	472,667
	$ 3,737,398

CENTRAL MONTCALM PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 12,802	$ -	$ -	$ 12,802
Construction in progress	1,353,152	-	1,353,152	-
Total capital assets, not being depreciated	1,365,954	-	1,353,152	12,802
Capital assets, being depreciated:				
Buildings and improvements	31,514,912	4,961,079	-	36,475,991
Furniture and equipment	4,715,765	180,908	-	4,896,673
Vehicles	1,230,143	56,213	198,069	1,088,287
Total capital assets, being depreciated	37,460,820	5,198,200	198,069	42,460,951
Accumulated depreciation:				
Buildings and improvements	12,163,359	757,502	-	12,920,861
Furniture and equipment	4,174,719	129,238	-	4,303,957
Vehicles	978,712	81,320	188,159	871,873
Total accumulated depreciation	17,316,790	968,060	188,159	18,096,691
Net capital assets being depreciated	20,144,030	4,230,140	9,910	24,364,260
Net governmental capital assets	$21,509,984	$ 4,230,140	$ 9,910	$24,377,062

Depreciation expense was charged to the District as follows:

Governmental activities:	
Instruction	$ 331,077
Support services	495,647
Unallocated	141,336
Total governmental activities	$ 968,060

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

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

Governmental units:	
State aid	$ 2,415,398
Federal revenue	202,241
	$ 2,617,639

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

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances at June 30, 2018 are as follows:

Receivable fund		Payable fund	
General fund	$ 13,000	Food service fund	$ 13,000

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 6 - 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 and other debt	Installment purchase	Total
Balance, July 1, 2017	$ 194,751	$ 15,450,550	$ 375,000	$ 16,020,301
Additions	111,425	-	-	111,425
Deletions	(113,131)	(1,632,546)	(75,000)	(1,820,677)
Balance, June 30, 2018	193,045	13,818,004	300,000	14,311,049
Due within one year	76,428	1,645,000	75,000	1,796,428
Due in more than one year	$ 116,617	$ 12,173,004	$ 225,000	$ 12,514,621

Interest expense for the year ended June 30, 2018 was approximately $420,000.

NOTE 6 - LONG-TERM DEBT (Concluded)

Long-term obligations at June 30, 2018 are comprised of the following:

$10,460,000 2015 Refunding Bonds due in annual installments ranging from $590,000 to $830,000 through May 1, 2029, with interest ranging from 3.00% to 5.00%.	$ 7,800,000
$5,405,000 2016 Building and Site Bonds, due in annual installments ranging from $55,000 to $740,000 through May 1, 2025, with interest ranging from 0.95% to 2.25%.	4,725,000
Plus: premiums on bond refundings	1,293,004
Total general obligation debt	13,818,004
Accumulated compenated absences	193,045
$900,000 Energy Installment Purchase Agreement, due in annual installments of $75,000 through May 1, 2022, with interest of 3.48%.	300,000
Total general long-term debt	$ 14,311,049

The District 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 liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2018, $9,300,000 of bonds outstanding are considered defeased

The annual requirements to amortize debt outstanding as of June 30, 2018, including interest payments of $2,547,736 are as follows:

Year ending June 30,	Principal	Interest	Total
2019	$ 1,645,000	$ 472,846	$ 2,117,846
2020	1,710,000	428,156	2,138,156
2021	1,495,000	373,676	1,868,676
2022	1,585,000	321,996	1,906,996
2023	1,545,000	267,886	1,812,886
2024 - 2028	4,255,000	653,676	4,908,676
2029	590,000	29,500	619,500
	12,825,000	2,547,736	15,372,736
Premiums on bond refundings	1,293,004	-	1,293,004
Accumulated compensated absences	193,045	-	193,045
	$ 14,311,049	$ 2,547,736	$ 16,858,785

NOTE 7 - DEFINED BENEFIT PLAN 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.

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.

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Benefits Provided – Pension (Concluded)

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 Plan member. Pension Plus Plan 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 Plan members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus Plan members.

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

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Pension Reform 2012 (Concluded)

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.

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.

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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 Plan) 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.

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.

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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.

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 7 - DEFINED BENEFIT PLAN 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 $2,507,000, with $2,479,000 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 $727,000, with $700,000 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 $24,598,468 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 0.09492 and 0.09206 percent.

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	$ 24,949,181,763
Proportionate share	0.09492%	0.09206%
Net pension liability for the District	$ 24,598,468	$ 22,968,783

NOTE 7 - DEFINED BENEFIT PLAN 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 approximately $2,992,000.

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	$ 1,258,960	$ 14,673
Differences between expected and actual experience	213,777	120,700
Changes of assumptions	2,694,958	-
Net difference between projected and actual plan investments earnings	-	1,175,969
Reporting Unit's contributions subsequent to the measurement date	2,281,711	-
	$ 6,449,406	$ 1,311,342

$2,281,711, 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	$ 865,599
2019	1,275,644
2020	688,715
2021	26,395

NOTE 7 - DEFINED BENEFIT PLAN 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 $8,394,855 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 0.09480 percent.

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		0.09480%
Net other postemployment benefit liability for the District	$	8,394,855

NOTE 7 - DEFINED BENEFIT PLAN 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 approximtaely $614,200.

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	$ 383	$ -
Differences between expected and actual experience	-	89,380
Changes of assumptions	-	-
Net difference between projected and actual plan investments earnings	-	194,427
Reporting Unit's contributions subsequent to the measurement date	614,141	-
	$ 614,524	$ 283,807

$614,141, 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	$ (68,498)
2019	(68,498)
2020	(68,498)
2021	(68,498)
2022	(9,432)

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions

Investment rate of return - 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, 2015. 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 plan investments - The rate was 7.5% (7% Pension Plus Plan) 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 one and graded to 3.5% to year twelve.

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 7 - DEFINED BENEFIT PLAN 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.

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.

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions (Continued)

Sensitivity of the net pension liability to changes in the discount rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using 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	$ 32,043,622	$ 24,598,468	$ 18,330,122

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	$ 9,832,801	$ 8,394,855	$ 7,174,488

NOTE 7 - DEFINED BENEFIT PLAN 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 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	$ 7,109,313	$ 8,394,855	$ 9,854,497

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2016 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 8 - 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 9 - TRANSFERS

The general fund transferred $4,264 to the food service fund for current year GSRP meal reimbursement. The food service fund transferred $63,000 to the general fund for current year indirect costs reimbursement.

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 Postemployment 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.

NOTE 10 - NEW ACCOUNTING STANDARD (Concluded)

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

	Governmental activities
Net postion as previously stated July 1, 2017	$ (6,054,106)
Adoption of GASB Statement 75:	
Net other postemployment benefit liability	(8,854,712)
Deferred outflows	704,754
Deferred inflows	(269,868)
Net postion as restated July 1, 2017	$ (14,473,932)

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.

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

CENTRAL MONTCALM PUBLIC SCHOOLS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	$ 1,825,300	$ 1,806,064	$ 1,794,365	$ (11,699)
State sources	12,624,952	13,439,660	13,389,828	(49,832)
Federal sources	572,203	663,554	578,321	(85,233)
Incoming transfers and other	256,000	253,670	255,550	1,880
Total revenues	15,278,455	16,162,948	16,018,064	(144,884)
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	7,595,602	7,709,326	7,694,307	15,019
Added needs	2,311,382	2,365,061	2,314,001	51,060
Total instruction	9,906,984	10,074,387	10,008,308	66,079
Supporting services:				
Pupil	809,654	848,763	840,107	8,656
Instructional staff	607,801	675,533	570,616	104,917
General administration	463,308	456,911	440,587	16,324
School administration	809,998	873,749	861,577	12,172
Business	188,354	219,562	216,825	2,737
Operations and maintenance	1,490,346	1,574,706	1,496,410	78,296
Pupil transportation services	787,158	806,720	777,958	28,762
Central	325,246	320,509	288,686	31,823
Other	231,002	226,964	231,381	(4,417)
Total supporting services	5,712,867	6,003,417	5,724,147	279,270
Community service	1,500	2,780	496	2,284
Debt service	88,050	88,050	88,050	-
Total expenditures	15,709,401	16,168,634	15,821,001	347,633
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(430,946)	(5,686)	197,063	202,749
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital assets	3,000	4,815	4,815	-
Transfers in	35,000	50,000	63,000	13,000
Transfers out	(6,000)	(5,400)	(4,264)	1,136
Total other financing sources (uses)	32,000	49,415	63,551	14,136
NET CHANGE IN FUND BALANCE	$ (398,946)	$ 43,729	260,614	$ 216,885
FUND BALANCE:				
Beginning of year			3,124,392	
End of year			$ 3,385,006	

CENTRAL MONTCALM PUBLIC 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 (%)	0.09492%	0.09206%	0.08686%	0.08658%
Reporting unit's proportionate share of net pension liability	$ 24,598,468	$ 22,968,783	$ 21,215,454	$ 19,070,313
Reporting unit's covered-employee payroll	$ 7,950,895	$ 7,952,870	$ 6,896,273	$ 7,055,881
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	309.38%	288.81%	307.64%	270.28%
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, reporting units should present information for those years for which information is available.

CENTRAL MONTCALM PUBLIC 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	$ 2,479,009	$ 2,215,927	$ 1,946,425	$ 1,588,054
Contributions in relation to statutorily required contributions	2,479,009	2,215,927	1,946,425	1,588,054
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Reporting unit's covered-employee payroll	$ 8,005,846	$ 7,911,372	$ 7,041,731	$ 6,922,934
Contributions as a percentage of covered-employee payroll	30.96%	28.01%	27.64%	22.94%

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

CENTRAL MONTCALM PUBLIC 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 (%)	0.09480%
Reporting unit's proportionate share of net OPEB liability	$ 8,394,855
Reporting unit's covered-employee payroll	$ 7,950,895
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll (%)	105.58%
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, reporting units should present information for those years for which information is available.

CENTRAL MONTCALM PUBLIC 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 YEAR ENDED JUNE 30)

	2018
Statutorily required contributions	$ 700,028
Contributions in relation to statutorily required contributions	700,028
Contribution deficiency (excess)	$ -
Reporting unit's covered-employee payroll	$ 8,005,846
Contributions as a percentage of covered-employee payroll	8.74%

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

CENTRAL MONTCALM PUBLIC SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018

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

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

ADDITIONAL SUPPLEMENTARY INFORMATION

CENTRAL MONTCALM PUBLIC SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2018

	Special revenue		
	Food service	**Debt service**	**Total nonmajor funds**
ASSETS			
ASSETS:			
Cash and cash equivalents	$ 355,758	$ 529,014	$ 884,772
Intergovernmental receivables	13,355	-	13,355
Inventories	20,516	-	20,516
Prepaids	4,681	-	4,681
TOTAL ASSETS	$ 394,310	$ 529,014	$ 923,324
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	$ 26,153	$ -	$ 26,153
Accrued salaries and related items	1,694	-	1,694
Due to other funds	13,000	-	13,000
TOTAL LIABILITIES	40,847	-	40,847
FUND BALANCES:			
Nonspendable:			
Inventories	20,516	-	20,516
Prepaids	4,681	-	4,681
Restricted for:			
Debt service	-	529,014	529,014
Food service	328,266	-	328,266
TOTAL FUND BALANCES	353,463	529,014	882,477
TOTAL LIABILITIES AND FUND BALANCES	$ 394,310	$ 529,014	$ 923,324

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

	Special revenue		
	Food service	Debt service	Total nonmajor funds
REVENUES:			
Local sources:			
Property taxes	$ -	$ 2,054,772	$ 2,054,772
Investment earnings	206	4,977	5,183
Food sales	161,094	-	161,094
Other	94	-	94
Total local sources	161,394	2,059,749	2,221,143
State sources	70,482	-	70,482
Federal sources	662,714	-	662,714
Total revenues	894,590	2,059,749	2,954,339
EXPENDITURES:			
Current:			
Food service activities	743,200	-	743,200
Capital outlay	38,630	-	38,630
Debt service:			
Principal repayment	-	1,515,000	1,515,000
Interest	-	504,195	504,195
Other	-	3,365	3,365
Total expenditures	781,830	2,022,560	2,804,390
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	112,760	37,189	149,949
OTHER FINANCING SOURCES (USES):			
Transfers in	4,264	-	4,264
Transfers out	(63,000)	-	(63,000)
Total other financing sources (uses)	(58,736)	-	(58,736)
NET CHANGE IN FUND BALANCES	54,024	37,189	91,213
FUND BALANCES:			
Beginning of year	299,439	491,825	791,264
End of year	$ 353,463	$ 529,014	$ 882,477

CENTRAL MONTCALM PUBLIC SCHOOLS
COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
JUNE 30, 2018

	2012 Refunding	2015 Refunding	2016	Totals
ASSETS				
ASSETS:				
Cash and cash equivalents	$ 126,993	$ 399,816	$ 2,205	$ 529,014
FUND BALANCES				
FUND BALANCES:				
Restricted for debt service	$ 126,993	$ 399,816	$ 2,205	$ 529,014

CENTRAL MONTCALM PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2018

	2012 Refunding	2015 Refunding	2016	Totals
REVENUES:				
Local sources:				
Property taxes	$ 105,000	$ 1,279,772	$ 670,000	$ 2,054,772
Investment earnings	-	4,977	-	4,977
Total revenues	105,000	1,284,749	670,000	2,059,749
EXPENDITURES:				
Principal repayment	100,000	835,000	580,000	1,515,000
Interest	2,300	415,100	86,795	504,195
Other	125	2,115	1,125	3,365
Total expenditures	102,425	1,252,215	667,920	2,022,560
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,575	32,534	2,080	37,189
FUND BALANCES:				
Beginning of year	124,418	367,282	125	491,825
End of year	$ 126,993	$ 399,816	$ 2,205	$ 529,014

CENTRAL MONTCALM PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued revenue 7/1/2017	Adjustments	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued revenue 6/30/2018
U.S. Department of Agriculture:									
Passed through Michigan Department of Education:									
Child Nutrition Cluster:									
Non-Cash Assistance (Donated Food):									
National School Lunch Program:									
Entitlement	10.555		$ 55,575	$ -	$ -	$ -	$ 55,575	$ 55,575	$ -
Cash Assistance:									
National School Lunch Program	10.555	171960	422,300	-	-	361,438	60,862	60,862	-
National School Lunch Program	10.555	181960	396,320	-	-	-	390,166	396,320	6,154
			818,620	-	-	361,438	451,028	457,182	6,154
Total CFDA # 10.555 National School Lunch Program			874,195	-	-	361,438	506,603	512,757	6,154
School Breakfast Program	10.553	171970	138,811	-	-	120,887	17,924	17,924	-
School Breakfast Program	10.553	181970	127,937	-	-	-	125,788	127,937	2,149
			266,748	-	-	120,887	143,712	145,861	2,149
Total Cash Assistance			1,085,368	-	-	482,325	594,740	603,043	8,303
Summer Food Service Program for Children	10.559	170900	3,710	-	-	-	3,710	3,710	-
Summer Food Service Program for Children	10.559	171900	386	-	-	-	386	386	-
			4,096	-	-	-	4,096	4,096	-
Total Child Nutrition Cluster			1,145,039	-	-	482,325	654,411	662,714	8,303
Total U.S. Department of Agriculture			1,145,039	-	-	482,325	654,411	662,714	8,303

The accompanying notes are an integral part of this schedule.

CENTRAL MONTCALM PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued revenue 7/1/2017	Adjustments	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued revenue 6/30/2018
U.S. Department of Education:									
Passed through Michigan Department of Education:									
Title I Grants to Local Educational Agencies	84.010	171530-1617	$ 534,080	$ 102,172	$ (271)	$ 504,595	$ 101,901	$ -	$ -
Title I Grants to Local Educational Agencies	84.010	181530-1718	509,096	-	271	-	327,176	472,994	146,089
			1,043,176	102,172	-	504,595	429,077	472,994	146,089
Supporting Effective Instruction State Grants	84.367	170520-1617	115,795	10,121	-	78,593	10,121	-	-
Supporting Effective Instruction State Grants	84.367	180520-1718	126,198	-	-	-	57,478	76,525	19,047
			241,993	10,121	-	78,593	67,599	76,525	19,047
Rural Education	84.358B	180660-1718	28,802	-	-	-	-	28,802	28,802
Total U.S. Department of Education			1,313,971	112,293	-	583,188	496,676	578,321	193,938
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 2,459,010	$ 112,293	$ -	$ 1,065,513	$ 1,151,087	$ 1,241,035	$ 202,241

The accompanying notes are an integral part of this schedule.

CENTRAL MONTCALM PUBLIC SCHOOLS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Central Montcalm Public Schools under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Central Montcalm Public Schools, it is not intended to and does not present the financial position or changes in net position of Central Montcalm Public Schools.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. Central Montcalm Public Schools has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Management has utilized the Cash Management System (CMS) and Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards. The District does not pass through federal awards.

NOTE 3 - RECONCILING WITH AUDITED FINANCIAL STATEMENTS

Federal expenditures are reported as revenue in the following funds in the financial statements for the year ending June 30, 2018:

General fund	$ 578,321
Other nonmajor governmental funds	662,714
Total per financial statements	$ 1,241,035

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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
Central Montcalm Public 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 Central Montcalm Public Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Central Montcalm Public 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 Central Montcalm Public 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 Central Montcalm Public Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Central Montcalm Public 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 Central Montcalm Public 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

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Education
Central Montcalm Public Schools

Report on Compliance for Each Major Federal Program

We have audited Central Montcalm Public Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Central Montcalm Public Schools' major federal programs for the year ended June 30, 2018. Central Montcalm Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our unmodified opinion on compliance for major federal programs. However, our audit does not provide a legal determination of Central Montcalm Public Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Central Montcalm Public Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002, that we consider to be significant deficiencies.

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

Maner Costerisan PC

September 12, 2018

CENTRAL MONTCALM PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
➢ Material weakness(es) identified:	___ Yes _X_ No
➢ Significant deficiency(ies) identified?	___ Yes _X_ None reported
Noncompliance material to financial statements noted?	___ Yes _X_ No

Federal Awards

Internal control over major programs:	
➢ Material weakness(es) identified:	___ Yes _X_ No
➢ Significant deficiency(ies) identified?	_X_ Yes ___
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings that are required to be reported in accordance with Title 2 CFR Section 200.516(a)?	___ Yes _X_ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555, and 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	_X_ Yes ___ No

Section II - Financial Statement Findings

None

CENTRAL MONTCALM PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

Section III - Federal Award Findings and Questioned Costs

Finding 2018-001 Considered a significant deficiency

Federal Program:	Child Nutrition Cluster
CFDA #:	10.553, 10.555 and 10.559
Federal agency:	U.S. Department of Agriculture
Pass-through entity:	Michigan Department of Education
Pass-through number:	171960, 181960, 171970, 181970, 170900, 171900

Criteria: In order to comply with Michigan Department of Education requirements, the District's food service fund balance cannot exceed three months of operating expenditures.

Condition: Central Montcalm Public Schools' currently has more than the allowable fund balance in the non-profit food service fund. As a result, the District will be required to develop a spending plan to reduce the balance to an acceptable level during the current school year. The plan must be submitted to the Michigan Department of Education prior to implementation. Excess funds cannot be transferred to the general fund.

Questioned Costs: None

Cause: The District's corrective action plan, which was approved by the Michigan Department of Education, was insufficient to reduce the fund balance.

Effect: The District continues to have excessive fund balance in the non-profit food service fund.

Recommendation: The District should implement a budget, as well as the required Michigan Department of Education corrective action plan, for the 2018-19 school year that will adequately reduce the food service fund balance.

Status: The District will implement an appropriate budget and required Michigan Department of Education corrective action plan for 2018-19 to adequately reduce the excessive fund balance.

CENTRAL MONTCALM PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

Finding 2018-002 Considered a significant deficiency

Federal Program:	Child Nutrition Cluster
CFDA #:	10.553, 10.555 and 10.559
Federal agency:	U.S. Department of Agriculture
Pass-through entity:	Michigan Department of Education
Pass-through number:	171960, 181960, 171970, 181970, 170900, 171900

Criteria: In order to comply with Michigan Department of Education and United States Department of Agriculture (USDA) requirements, the District is required to review the lesser of 3% or 3,000 students who receive benefits for free or reduced lunch. If inadequate information is provided, the student must be moved to paid lunch.

Condition: Central Montcalm Public Schools' administrative review indicated that one of the families selected for verification provided only net pay information, when gross pay is required. Because of this, three students should have been moved to full pay lunch, but were instead allowed to continue receiving benefits for the remainder of the year.

Questioned Costs: $1,490, extrapolated value undeterminable

Cause: The District's administrative review did not properly identify students that should no longer receive benefits.

Effect: The District continued providing benefits to a student who had supplied inadequate information, and therefore, the District did not comply with USDA and Michigan Department of Education requirements.

Recommendation: The District should carefully review all administrative review selections to ensure that appropriate benefits are provided under the program.

Status: The District will implement a corrective action plan for 2018-19 to ensure that only allowable students receive benefits.

Central Montcalm Public School
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CORRECTIVE ACTION PLAN
CONTACT: AMY MEINHARDT
OVERSIGHT AGENCY: U.S. DEPARTMENT OF AGRICULTURE

Central Montcalm Public Schools respectfully submits the following corrective action plan for the year ended June 30, 2018.

Auditor: Maner Costerisan
2425 E. Grand River Avenue, Suite 1
Lansing, Michigan 48912

Audit Period: Year ended June 30, 2018

District responsible individual to implement this plan: Amy Meinhardt

The findings above from the June 30, 2018 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Findings - Federal Awards

Finding 2018-001 Considered a significant deficiency

Recommendation: The District should implement a budget, as well as the required Michigan Department of Education corrective action plan, for the 2018-19 school year that will adequately reduce the food service fund balance.

Action to be taken: Management agrees with the findings and we are in process of making the necessary changes to appropriately reduce the non-profit food service fund balance. Required spending will be included in our 2018-19 budget.

Finding 2018-002 Considered a significant deficiency

Recommendation: The District should carefully review all administrative review selections to ensure that appropriate benefits are provided under the program.

Action to be taken: Management agrees with the findings and we are in process of making the necessary changes to prevent this from happening in the future. The Food Service Director will take extra care in reviewing all documentation for administrative reviews, and will ensure that any students with incorrect or incomplete information are properly removed from receiving benefits.

CENTRAL MONTCALM PUBLIC SCHOOLS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018

Finding 2017-001 Considered immaterial non-compliance

Condition: Central Montcalm Public Schools' had more than the allowable fund balance in the non-profit food service fund.

Status: The District's fund balance in the non-profit food service fund still exceeds U.S. Department of Agriculture guidelines. We do not consider this issue resolved. See finding 2018-001.