

MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Montcalm Area Intermediate School District

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 Montcalm Area Intermediate School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Montcalm Area Intermediate School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 Montcalm Area Intermediate School District 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, Montcalm Area Intermediate School District 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 Montcalm Area Intermediate School District's 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*, are 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 audits 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 October 2, 2018 on our consideration of Montcalm Area Intermediate School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Montcalm Area Intermediate School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Montcalm Area Intermediate School District's internal control over financial reporting and compliance.

Maney Costeiran PC

October 2, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Montcalm Area Intermediate School District’s (MAISD) annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal year that ended June 30, 2018. Please read it in conjunction with the District’s financial statements, which immediately follow this section. A comparative analysis with the prior year has been provided.

For the year ended June 30, 2018, Montcalm Area Intermediate School District 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 **General Education fund** revenues and other financing sources were \$6.13 million and expenditures and other financing uses were \$6.06 million. At June 30, 2018, the fund balance in the general fund was \$1,384,395. This is an increase of \$70,845 from the 2016-2017 fiscal year.
- Total **Special Education fund** revenues and other financing sources were \$18.26 million and expenditures and other financing uses were \$18.43 million. At June 30, 2018, the fund balance in the special education fund was \$4,412,668. This is a decrease of \$169,071 from the 2016-2017 fiscal year.
- Total **Vocational Education fund** revenues were \$2.45 million and expenditures and other financing uses were \$2.27 million. At June 30, 2018, the fund balance in the vocational education fund was \$1,216,483. This is an increase of \$175,003 from the 2016-2017 fiscal year.

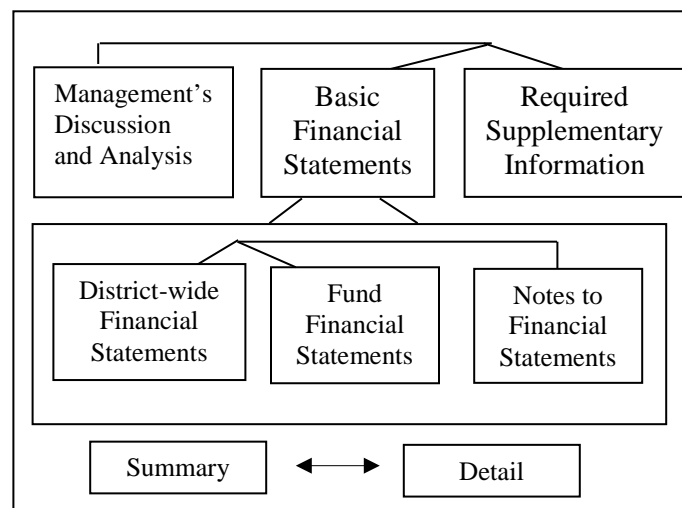
OVERVIEW OF THE FINANCIAL STATEMENTS

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 general 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 which the District acts solely as the trustee or agent for the benefit of others.

**Figure A-1
Organization of Montcalm Area Intermediate School District’s 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 budgets for the year and pension and other postemployment benefit related 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			
Scope	District-wide statements	Fund financial statements	
		Governmental funds	Fiduciary funds
	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary: General, Special Education, Vocational Education, and major Capital Projects Funds	Instances in which the District administers resources on behalf of someone else, such as professional organizations 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 assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, District's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when good or services have been received and the related liability is due and	All additions and deductions during the year, regardless of when cash is received or paid

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

DISTRICT-WIDE STATEMENTS

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

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

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

- Governmental activities - Most of the District's basic services are included here, such as general, special education, and vocational education. Property taxes, state aid, and federal grants 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.
- The District establishes other funds to control and manage money for particular purposes (like its capital projects funds) or to show that it is properly using certain revenues.

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or *fiduciary*, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position - The District's combined net position at the beginning of the fiscal year, restated due to the implementation of GASB Statement 75, was (\$20,750,106) and on June 30, 2018 was (\$21,052,603) which represents a decrease of \$302,497 as recorded in the statement of activities.

	2018	2017
Current and other assets	\$ 11,801,055	\$ 10,876,389
Capital assets	4,935,362	5,113,001
Total assets	<u>16,736,417</u>	<u>15,989,390</u>
Deferred outflows of resources	<u>9,124,372</u>	<u>5,424,180</u>
Other liabilities	3,306,516	2,485,660
Noncurrent liabilities	1,163,909	1,557,423
Net pension liability	29,337,003	27,088,627
Net other postemployment benefit liability	10,010,278	-
Total liabilities	<u>43,817,706</u>	<u>31,131,710</u>
Deferred inflows of resources	<u>3,095,686</u>	<u>944,609</u>
Net position:		
Net investment in capital assets	3,842,353	3,855,995
Unrestricted	<u>(24,894,956)</u>	<u>(14,518,744)</u>
Total net position	<u><u>\$ (21,052,603)</u></u>	<u><u>\$ (10,662,749)</u></u>

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

	2018	2017
Revenues:		
Program revenues:		
Charges for services	\$ 18,238	\$ 15,787
Operating grants and contributions	14,985,100	15,039,609
General revenues:		
Property taxes	9,885,511	9,616,803
State sources - unrestricted	1,080,528	804,715
Other	329,184	236,944
Total revenues	<u>26,298,561</u>	<u>25,713,858</u>
Expenses:		
Instruction	7,881,979	7,031,204
Support services	14,273,779	13,923,917
Community services	173,310	103,129
Interdistrict transactions	4,206,038	4,287,591
Interest on long-term debt	65,952	74,363
Total expenses	<u>26,601,058</u>	<u>25,420,204</u>
Change in net position	<u>\$ (302,497)</u>	<u>\$ 293,654</u>

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

District Governmental Activities:

The following factors have positively influenced Montcalm Area ISD's financial status at June 30, 2018.

- General Fund experienced in 2017-2018 an increase in state and interdistrict revenue and also expanded services.
- A Special Education Fund experienced in 2017-2018 a 2.2% increase in revenue while also expanding services.
- The Vocational Education fund experienced an increase in fund balance, although grant funding has decreased in 2017-2018.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Montcalm Area ISD completed the year with its governmental funds reporting *combined* fund balances of \$8,746,446, which is \$344,741 more than last year's combined ending fund balance of \$8,401,705. The changes in fund balances are as follows:

	<u>General fund</u>	<u>Special education</u>	<u>Vocational education</u>	<u>Capital projects</u>	<u>Total governmental funds</u>
Fund balance, beginning of year	\$ 1,313,550	\$ 4,581,739	\$ 1,041,480	\$ 1,464,936	\$ 8,401,705
Increase (decrease)	70,845	(169,071)	175,003	267,964	344,741
Fund balance, end of year	<u>\$ 1,384,395</u>	<u>\$ 4,412,668</u>	<u>\$ 1,216,483</u>	<u>\$ 1,732,900</u>	<u>\$ 8,746,446</u>

Budget Highlights:

Over the course of the year, Montcalm Area ISD revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. Three budget amendments were made throughout the current fiscal year.

General Fund:

- The general fund actual revenues were \$5,620,237, which is less than the original budget estimate of \$5,908,206 and more than the final amended budget of \$5,523,032. The variance of \$97,205 is within 1.76% of the final budgeted amount.
- Actual general fund expenditures were \$5,905,614, which is less than the original budget estimate of \$5,989,141 and less than the final amended budget of \$6,144,926. The variance of \$239,312 is within 3.89% of the final budgeted amount.

Special Education Fund:

- The special education fund actual revenues were \$18,247,259, which is more than the original budget estimate of \$18,019,008 and less than the final amended budget of \$18,344,407. The variance of \$97,148 is within 0.53% of the final budgeted amount.
- Actual special education fund expenditures were \$17,642,108, which is less than the original budget estimate of \$18,485,307 and less than the final amended budget of \$17,911,434. The variance of \$269,326 is within 1.50% of the final budgeted amount.

Vocational Education Fund:

- The vocational education fund actual revenues were \$2,445,613, which is more than the original budget estimate of \$2,332,222 and more than the final amended budget of \$2,423,982. The variance of \$21,631 is within 0.89% of the final budgeted amount.
- Actual vocational education fund expenditures were \$2,251,610, which is more than the original budget estimate of \$2,212,983 and less than the final amended budget of \$2,319,792. The variance of \$68,182 is within 2.94% of the final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets as of June 30 are as follows:

	2018	2017
Land	\$ 110,450	\$ 110,450
Buildings and improvements	11,046,186	11,004,445
Furniture and equipment	2,643,332	2,443,199
Transportation equipment	3,243,946	3,166,107
Total	17,043,914	16,724,201
Less accumulated depreciation	12,108,552	11,611,200
Net capital assets	<u>\$ 4,935,362</u>	<u>\$ 5,113,001</u>

Debt

As of June 30, 2018, the District had \$1,071,000 outstanding on the Energy Conservation bonds, compared to \$1,224,000 outstanding at the end of the prior year. The District repaid \$153,000 of principal during fiscal year 2017-2018.

Other obligations are made up of accumulated compensated absences and a capital lease. More detailed information about these other long-term liabilities are presented in Note 5 of the financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Our Board and administration considered many factors when setting the District's 2018-19 fiscal year budget. The most important factors affecting the operating budget are the economic condition of the State and new legislation. The June 30, 2019 budget was adopted based on an estimate of property tax revenue, state aid and grant funding. State law requires the School to amend the budget if actual School District resources are not sufficient to fund original appropriations.

One of the primary revenue sources for the District is property taxes and the equalized value is expected to grow in 2018-19. This is certainly a positive sign as taxable value is a lagging indicator meaning taxable value should show positive growth for 2018-19. Further, in May of 2014 the citizens of Montcalm County supported and passed a 1.3 mill increase in special education millage. As a result, this additional levy will generate approximately \$2,750,000 for the fifth year in a row allowing the ISD to provide additional support services to local area districts.

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental activities
ASSETS:	
Cash and cash equivalents	\$ 8,584,447
Receivables:	
Accounts receivable	2,034
Intergovernmental receivables	3,008,853
Inventories	56,881
Prepays	148,840
Capital assets not being depreciated	110,450
Capital assets, net of accumulated depreciation	4,824,912
TOTAL ASSETS	16,736,417
DEFERRED OUTFLOWS OF RESOURCES:	
Related to other postemployment benefit	765,414
Related to pension	8,358,958
TOTAL DEFERRED OUTFLOWS OF RESOURCES	9,124,372
LIABILITIES:	
Accounts payable	156,523
Accrued salaries and related items	1,020,452
Accrued retirement	398,067
Accrued interest	9,604
Intergovernmental payable	1,222,347
Unearned revenue	257,220
Noncurrent liabilities:	
Due within one year	242,303
Due in more than one year	1,163,909
Net other postemployment benefit liability	10,010,278
Net pension liability	29,337,003
TOTAL LIABILITIES	43,817,706
DEFERRED INFLOWS OF RESOURCES:	
Related to other postemployment benefit	338,420
Related to pension	1,571,909
Related to state aid funding for pension	1,185,357
TOTAL DEFERRED INFLOWS OF RESOURCES	3,095,686
NET POSITION:	
Net investment in capital assets	3,842,353
Unrestricted	(24,894,956)
TOTAL NET POSITION	\$ (21,052,603)

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net position</u>
Governmental activities:				
Instruction	\$ 7,881,979	\$ -	\$ 4,329,140	\$ (3,552,839)
Support services	14,273,779	-	7,650,315	(6,623,464)
Community services	173,310	18,238	98,606	(56,466)
Interdistrict transactions	4,206,038	-	2,907,039	(1,298,999)
Interest on long-term debt	65,952	-	-	(65,952)
Total governmental activities	<u>\$ 26,601,058</u>	<u>\$ 18,238</u>	<u>\$ 14,985,100</u>	<u>(11,597,720)</u>
General revenues:				
Property taxes, levied for general purposes				392,649
Property taxes, levied for special education				7,886,709
Property taxes, levied for vocational education				1,606,153
Investment earnings				32,593
State sources - unrestricted				1,080,528
Gain on sale of capital assets				13,000
Other				283,591
Total general revenues				<u>11,295,223</u>
CHANGE IN NET POSITION				(302,497)
NET POSITION, beginning of year, as restated				<u>(20,750,106)</u>
NET POSITION, end of year				<u>\$ (21,052,603)</u>

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	<u>General fund</u>	<u>Special education</u>	<u>Vocational education</u>	<u>Capital projects funds</u>	<u>Total governmental funds</u>
ASSETS					
ASSETS:					
Cash and cash equivalents	\$ 1,764,712	\$ 3,915,945	\$ 1,170,890	\$ 1,732,900	\$ 8,584,447
Receivables:					
Accounts receivable	1,425	609	-	-	2,034
Intergovernmental receivables	1,139,242	1,749,157	120,454	-	3,008,853
Inventories	-	-	56,881	-	56,881
Prepays	51,231	91,114	6,495	-	148,840
TOTAL ASSETS	<u>\$ 2,956,610</u>	<u>\$ 5,756,825</u>	<u>\$ 1,354,720</u>	<u>\$ 1,732,900</u>	<u>\$ 11,801,055</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 73,830	\$ 78,899	\$ 3,794	\$ -	\$ 156,523
Accrued salaries and related items	201,769	708,758	109,925	-	1,020,452
Accrued retirement	224,106	150,320	23,641	-	398,067
Intergovernmental payable	938,619	282,851	877	-	1,222,347
Unearned revenue	133,891	123,329	-	-	257,220
TOTAL LIABILITIES	<u>1,572,215</u>	<u>1,344,157</u>	<u>138,237</u>	<u>-</u>	<u>3,054,609</u>

See notes to financial statements.

	<u>General fund</u>	<u>Special education</u>	<u>Vocational education</u>	<u>Capital projects funds</u>	<u>Total governmental funds</u>
FUND BALANCES:					
Nonspendable:					
Inventories	\$ -	\$ -	\$ 56,881	\$ -	\$ 56,881
Prepays	51,231	91,114	6,495	-	148,840
Restricted for:					
Special education	-	3,502,341	-	-	3,502,341
Vocational education	-	-	1,077,194	-	1,077,194
Assigned for:					
Capital projects	-	-	-	1,732,900	1,732,900
Subsequent year's expenditures	150,622	819,213	75,913	-	1,045,748
Unassigned:					
General fund	1,182,542	-	-	-	1,182,542
TOTAL FUND BALANCES	<u>1,384,395</u>	<u>4,412,668</u>	<u>1,216,483</u>	<u>1,732,900</u>	<u>8,746,446</u>
LIABILITIES AND FUND BALANCES	<u>\$ 2,956,610</u>	<u>\$ 5,756,825</u>	<u>\$ 1,354,720</u>	<u>\$ 1,732,900</u>	<u>\$ 11,801,055</u>
Total governmental fund balances					\$ 8,746,446
Amounts reported for governmental activities in the statement of net position are different because:					
Deferred outflows of resources - related to pension				\$ 8,358,958	
Deferred outflows of resources - related to other postemployment benefit				765,414	
Deferred inflows of resources - related to pension				(1,571,909)	
Deferred inflows of resources - related to other postemployment benefit				(338,420)	
Deferred inflows of resources - related to state funding for pension				(1,185,357)	
				<u>6,028,686</u>	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:					
The cost of the capital assets is				17,043,914	
Accumulated depreciation is				(12,108,552)	
				<u>4,935,362</u>	
Long-term liabilities are not due and payable in the current period and are not reported in the funds:					
Bonds payable					(1,071,000)
Capital lease liability					(22,009)
Compensated absences					(313,203)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid					(9,604)
Net other postemployment benefit liability					(10,010,278)
Net pension liability					(29,337,003)
Net position of governmental activities					<u>\$ (21,052,603)</u>

See notes to financial statements.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	General fund	Special education	Vocational education	Capital projects funds	Total governmental funds
REVENUES:					
Local sources	\$ 548,814	\$ 9,208,947	\$ 1,634,916	\$ -	\$ 11,392,677
State sources	3,893,455	5,236,175	556,181	-	9,685,811
Federal sources	112,692	3,545,273	197,516	-	3,855,481
Interdistrict sources	1,065,276	256,864	57,000	-	1,379,140
Total revenues	<u>5,620,237</u>	<u>18,247,259</u>	<u>2,445,613</u>	<u>-</u>	<u>26,313,109</u>
EXPENDITURES:					
Current:					
Instruction	752,817	5,561,519	1,207,157	-	7,521,493
Supporting services	2,848,186	9,594,298	962,118	-	13,404,602
Community services	108,677	32,972	-	-	141,649
Interdistrict transactions	2,153,992	2,052,046	-	-	4,206,038
Capital outlay	8,625	285,604	-	182,036	476,265
Debt service:					
Principal	23,909	82,575	57,513	-	163,997
Interest and fiscal charges	9,408	33,094	24,822	-	67,324
Total expenditures	<u>5,905,614</u>	<u>17,642,108</u>	<u>2,251,610</u>	<u>182,036</u>	<u>25,981,368</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(285,377)</u>	<u>605,151</u>	<u>194,003</u>	<u>(182,036)</u>	<u>331,741</u>

See notes to financial statements.

	General fund	Special education	Vocational education	Capital projects funds	Total governmental funds
OTHER FINANCING SOURCES (USES):					
Transfers in	\$ 506,222	\$ -	\$ -	\$ 450,000	\$ 956,222
Transfers out	(150,000)	(787,222)	(19,000)	-	(956,222)
Proceeds from sale of capital assets	-	13,000	-	-	13,000
Total other financing sources (uses)	<u>356,222</u>	<u>(774,222)</u>	<u>(19,000)</u>	<u>450,000</u>	<u>13,000</u>
NET CHANGE IN FUND BALANCES	70,845	(169,071)	175,003	267,964	344,741
FUND BALANCES:					
Beginning of year	<u>1,313,550</u>	<u>4,581,739</u>	<u>1,041,480</u>	<u>1,464,936</u>	<u>8,401,705</u>
End of year	<u>\$ 1,384,395</u>	<u>\$ 4,412,668</u>	<u>\$ 1,216,483</u>	<u>\$ 1,732,900</u>	<u>\$ 8,746,446</u>

See notes to financial statements.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Net change in fund balances total governmental funds	\$ 344,741
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	(755,022)
Capital outlay	577,383
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	10,976
Accrued interest payable, end of the year	(9,604)
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	163,997
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	300,417
Accrued compensated absences, end of the year	(313,203)
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 benefit related items	190,075
Pension related items	(784,709)
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 related items, beginning of year	843,811
Pension related items, end of year	(1,185,357)
Other postemployment benefit related items, beginning of year	313,998
Change in net position of governmental activities	<u>\$ (302,497)</u>

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2018**

	<u>Agency fund</u>
ASSETS	
ASSETS:	
Cash and cash equivalents	<u>\$ 42,700</u>
LIABILITIES	
LIABILITIES:	
Due to agency fund activities	<u>\$ 42,700</u>

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
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

Montcalm Area Intermediate School District (the “District”) is governed by the Montcalm Area Intermediate School District 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 fund. 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.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The *vocational education fund* is the District's fund for those activities involved in operating the vocational and technical programs of the District. The fund's revenue sources include property taxes, federal and state sources, and inter-governmental reimbursements.

The *capital projects fund* is used to record other revenue and transfers from other funds and the acquisition of capital assets or construction of major capital projects.

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).

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.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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).

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

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

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

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

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

F. Budgetary Information

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, special education fund, and vocational education fund. The capital projects fund is appropriated on a project-length basis. Other funds do not have appropriated budgets.

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

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information (Concluded)

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.

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.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Investments (Concluded)

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.

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.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

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 (Concluded)

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

Buildings and improvements	20 - 50
Furniture and equipment	3 - 30
Transportation equipment	7

5. Defined benefit plans

For purposes of measuring the net pension and other postemployment benefit liability, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefits expense, information about the fiduciary net position of the Michigan Public Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. 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.

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 two items that qualify for reporting in this category. They are the pension and other postemployment benefits related items reported in the government-wide statement of net position. 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.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 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.

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.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

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

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

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

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

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.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenues and Expenditures/Expenses (Concluded)

2. Property taxes

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

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

Fund	Mills
General fund:	
General education	0.1743
Special revenue funds:	
Special education	3.5010
Vocational education	1.3384

3. Compensated absences

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

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.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenues and Expenditures/Expenses (Concluded)

4. Long-term obligations (Concluded)

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:

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's rating</u>	<u>%</u>
MILAF+ MAX Class	<u>\$ 1,919,989</u>	0.0027	AAAm	100%
Portfolio weighted average maturity		<u>0.0027</u>		
1 day maturity equals 0.0027, one year equals 1.00				

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund 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.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

MILAF 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. This fund is 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).

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, \$7,380,599 of the District's bank balance of \$7,630,599 was exposed to custodial credit risk because it was uninsured and uncollateralized. The above amounts include interest bearing accounts. The carrying amount of all deposits including fiduciary funds on the financial statements is \$6,707,158.

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.

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

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

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

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

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

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

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

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

The carrying amount of deposits and investments is as follows:

Deposits - including fiduciary funds of \$42,700	\$ 6,707,158
Investments	<u>1,919,989</u>
	<u><u>\$ 8,627,147</u></u>

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

Cash and cash equivalents - fiduciary funds	\$ 42,700
Cash and cash equivalents - District-wide	<u>8,584,447</u>
	<u><u>\$ 8,627,147</u></u>

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
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	\$ 110,450	\$ -	\$ -	\$ 110,450
Total assets not being depreciated	110,450	-	-	110,450
Capital assets, being depreciated:				
Buildings and improvements	11,004,445	41,741	-	11,046,186
Furniture and equipment	2,443,199	200,133	-	2,643,332
Transportation equipment	3,166,107	335,509	257,670	3,243,946
Total capital assets, being depreciated	16,613,751	577,383	257,670	16,933,464
Accumulated depreciation:				
Buildings	7,490,423	385,328	-	7,875,751
Equipment, computers and furnishing	1,982,275	103,133	-	2,085,408
School buses and other vehicles	2,138,502	266,561	257,670	2,147,393
Total accumulated depreciation	11,611,200	755,022	257,670	12,108,552
Net capital assets being depreciated	5,002,551	(177,639)	-	4,824,912
Net governmental capital assets	<u>\$ 5,113,001</u>	<u>\$ (177,639)</u>	<u>\$ -</u>	<u>\$ 4,935,362</u>

Depreciation expense was charged to programs of the District as follows:

Governmental activities:	
Instruction	\$ 249,157
Support services	498,315
Community services	7,550
	<u>\$ 755,022</u>

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Amounts due from other governmental units at June 30, 2018 consist of the following:

Other governmental units:	
State aid	\$ 1,669,033
Federal grants	696,350
Other	643,470
	<u>\$ 3,008,853</u>

No allowance for doubtful accounts is considered necessary.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2018:

	Accumulated compensated absences	Bonds payable	Capital lease	Total
Balance, July 1, 2017	\$ 300,417	\$ 1,224,000	\$ 33,006	\$ 1,557,423
Additions	12,786	-	-	12,786
Deletions	-	153,000	10,997	163,997
Balance, June 30, 2018	313,203	1,071,000	22,009	1,406,212
Due within one year	78,301	153,000	11,002	242,303
Due in more than one year	\$ 234,902	\$ 918,000	\$ 11,007	\$ 1,163,909

Long-term obligation debt at June 30, 2018 is comprised of the following:

2010 Energy Conservation Bond due in annual installments of \$153,000 through May 1, 2025, interest at 5.50%.	\$ 1,071,000
Compensated absences	313,203
Capital lease	22,009
Total general long-term debt	<u>\$ 1,406,212</u>

The annual requirement to amortize debt outstanding as of June 30, 2018, including interest payments of \$235,620 are as follows:

Year ending June 30,	Principal	Interest	Interest subsidy	Net interest	Total
2019	\$ 153,000	\$ 58,905	\$ (58,155)	\$ 750	\$ 153,750
2020	153,000	50,490	(49,847)	643	153,643
2021	153,000	42,075	(41,539)	536	153,536
2022	153,000	33,660	(33,231)	429	153,429
2023	153,000	25,245	(24,923)	322	153,322
2024 - 2025	306,000	25,245	(24,923)	322	306,322
	<u>\$ 1,071,000</u>	<u>\$ 235,620</u>	<u>\$ (232,618)</u>	<u>\$ 3,002</u>	<u>\$ 1,074,002</u>

Interest expenditures at the fund level was \$67,324 for the year ended June 30, 2018.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS

Plan Description

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

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

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

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:

<u>Plan name</u>	<u>Plan type</u>	<u>Plan status</u>
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.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - 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 (MPERS) who became a member of MPERS 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 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

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - 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 transition 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.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - 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.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - 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%

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

The District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately \$3,099,000, with \$3,067,000 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 \$884,000, with \$874,000 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 \$29,337,003 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 0.11321% and 0.10858%.

<u><i>MPSERS (Plan)</i> Non-university employers</u>	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Total pension liability	\$ 72,407,218,688	\$ 67,917,445,078
Plan fiduciary net position	\$ 46,492,967,573	\$ 42,968,263,308
Net pension liability	\$ 25,914,251,115	\$ 24,949,181,770
Proportionate share	0.11321%	0.10858%
Net pension liability for the District	\$ 29,337,003	\$ 27,088,627

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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

For the year ended June 30, 2018, the District recognized pension expense of \$3,851,650.

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	\$ 2,102,857	\$ 25,456
Differences between expected and actual experience	254,959	143,951
Changes of assumptions	3,214,102	-
Net difference between projected and actual plan investments earnings	-	1,402,502
Reporting Unit's contributions subsequent to the measurement date	2,787,040	-
	\$ 8,358,958	\$ 1,571,909

\$2,787,040, 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	\$ 1,402,595
2019	1,753,494
2020	775,378
2021	68,542

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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

OPEB Liabilities

At June 30, 2018, the District reported a liability of \$10,010,278 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 0.11304%.

<u>MPERS (Plan) Non-university employers:</u>	<u>September 30, 2017</u>
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	0.11304%
Net other postemployment benefit liability for the District	\$ 10,010,278

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$684,245.

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

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 12,789	\$ -
Differences between expected and actual experience	-	106,580
Net difference between projected and actual plan investments earnings	-	231,840
Reporting Unit's contributions subsequent to the measurement date	<u>752,625</u>	<u>-</u>
	<u><u>\$ 765,414</u></u>	<u><u>\$ 338,420</u></u>

\$752,625, 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:

<u>Year ended September 30,</u>	<u>Amount</u>
2018	\$ (78,922)
2019	(78,922)
2020	(78,922)
2021	(78,922)
2022	(9,943)

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions

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

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

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

Inflation - 3.0%

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

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

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

Cost of Living Pension Adjustments - 3.0% annual non-compounded for MIP members

Healthcare cost trend rate for other postemployment benefit - 7.5% for year 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.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions (Concluded)

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:

<u>Investment category</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return*</u>
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)%
	<u>100.0%</u>	

* 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.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (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	<u>\$ 38,216,357</u>	<u>\$ 29,337,003</u>	<u>\$ 21,861,152</u>

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	<u>\$ 8,477,360</u>	<u>\$ 10,010,278</u>	<u>\$ 11,750,800</u>

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

	Other postemployment benefit		
	Healthcare cost trend rates		1% Increase
	1% Decrease (6.5% decreasing to 2.5%)	(7.5% decreasing to 3.5%)	(8.5% decreasing to 4.5%)
Reporting Unit's proportionate share of the net other postemployment benefit liability	<u>\$ 11,724,929</u>	<u>\$ 10,010,278</u>	<u>\$ 8,555,077</u>

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Concluded)

Pension and OPEB Plan Fiduciary Net Position

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

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

Other Information

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

NOTE 7 - RISK MANAGEMENT

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

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2018 or any of the prior 3 years.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - TRANSFERS

The special education fund transferred \$487,222 and the vocational education fund transferred \$19,000 to the general fund for indirect cost reimbursements. The general fund transferred \$150,000 and the special education fund transferred \$300,000 to the capital projects funds for capital asset purchases.

NOTE 9 - TAX ABATEMENTS

The District is required to disclose significant tax abatements as required by GASB Statement No. 77, *Tax Abatements*.

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

Municipality	Taxes abated
City of Greenville	\$ 118,784
Broomfield Township	888
	\$ 119,672

The District is considered to be an “in-formula” district. The property tax revenue that is abated for the vocational education millage is considered when the State of Michigan determines the District’s funding under section 62 of the State School Aid Act.

There are no significant abatements made by the District.

NOTE 10 - NEW ACCOUNTING STANDARD

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

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - NEW ACCOUNTING STANDARD (Concluded)

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.

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

	Governmental activities
Net position as previously stated July 1, 2017	\$ (10,662,749)
Adoption of GASB Statement No. 75:	
Net other postemployment benefit liability	(10,558,626)
Deferred outflows	785,267
Deferred inflows	(313,998)
Net position as restated July 1, 2017	\$ (20,750,106)

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.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 - UPCOMING ACCOUNTING PRONOUNCEMENTS (Concluded)

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

REQUIRED SUPPLEMENTARY INFORMATION

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018**

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	\$ 517,251	\$ 534,062	\$ 548,814	\$ 14,752
State sources	3,745,357	3,759,205	3,893,455	134,250
Federal sources	86,933	142,412	112,692	(29,720)
Interdistrict sources	1,558,665	1,087,353	1,065,276	(22,077)
Total revenues	<u>5,908,206</u>	<u>5,523,032</u>	<u>5,620,237</u>	<u>97,205</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	650,057	764,104	750,232	13,872
Added needs	-	5,508	2,585	2,923
Total instruction	<u>650,057</u>	<u>769,612</u>	<u>752,817</u>	<u>16,795</u>
Supporting services:				
Pupil	72,722	72,944	61,011	11,933
Instructional staff	893,676	886,675	793,559	93,116
General administration	422,244	409,084	392,679	16,405
Business	805,934	814,279	810,591	3,688
Operation and maintenance	316,857	299,844	281,375	18,469
Pupil transportation	10,145	3,630	4,261	(631)
Central services	490,756	526,326	503,920	22,406
Other services	-	-	790	(790)
Total supporting services	<u>3,012,334</u>	<u>3,012,782</u>	<u>2,848,186</u>	<u>164,596</u>
Community services	101,105	166,065	108,677	57,388
Interdistrict transactions	2,191,845	2,152,437	2,153,992	(1,555)
Capital outlay	-	10,500	8,625	1,875
Debt service:				
Principal	24,000	24,030	23,909	121
Interest and fiscal charges	9,800	9,500	9,408	92
Total debt service	<u>33,800</u>	<u>33,530</u>	<u>33,317</u>	<u>213</u>
Total expenditures	<u>5,989,141</u>	<u>6,144,926</u>	<u>5,905,614</u>	<u>239,312</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(80,935)</u>	<u>(621,894)</u>	<u>(285,377)</u>	<u>336,517</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	608,268	506,222	(102,046)
Transfers out	-	(100,000)	(150,000)	(50,000)
Total other financing sources (uses)	<u>-</u>	<u>508,268</u>	<u>356,222</u>	<u>(152,046)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (80,935)</u>	<u>\$ (113,626)</u>	<u>70,845</u>	<u>\$ 184,471</u>
FUND BALANCE:				
Beginning of year			<u>1,313,550</u>	
End of year			<u>\$ 1,384,395</u>	

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
YEAR ENDED JUNE 30, 2018**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget</u>
REVENUES:				
Local sources	\$ 9,083,370	\$ 9,114,877	\$ 9,208,947	\$ 94,070
State sources	5,179,225	5,442,168	5,236,175	(205,993)
Federal sources	3,576,766	3,534,990	3,545,273	10,283
Interdistrict sources	179,647	252,372	256,864	4,492
Total revenues	<u>18,019,008</u>	<u>18,344,407</u>	<u>18,247,259</u>	<u>(97,148)</u>
EXPENDITURES:				
Current:				
Instruction:				
Added needs	5,586,948	5,616,921	5,561,519	55,402
Supporting services:				
Pupil	5,899,289	5,627,282	5,531,917	95,365
Instructional staff	1,636,270	1,659,050	1,651,947	7,103
General administration	36,000	36,000	36,170	(170)
Business	12,050	3,602	4,364	(762)
Operation and maintenance	452,890	407,723	458,758	(51,035)
Pupil transportation	1,820,088	1,747,847	1,729,906	17,941
Central services	172,675	213,304	181,236	32,068
Total supporting services	<u>10,029,262</u>	<u>9,694,808</u>	<u>9,594,298</u>	<u>100,510</u>
Community services	14,521	39,059	32,972	6,087
Interdistrict transactions	2,496,576	2,151,767	2,052,046	99,721
Capital outlay	265,000	293,200	285,604	7,596
Debt service:				
Principal	70,000	82,579	82,575	4
Interest and fiscal charges	23,000	33,100	33,094	6
Total debt service	<u>93,000</u>	<u>115,679</u>	<u>115,669</u>	<u>10</u>
Total expenditures	<u>18,485,307</u>	<u>17,911,434</u>	<u>17,642,108</u>	<u>269,326</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(466,299)</u>	<u>432,973</u>	<u>605,151</u>	<u>172,178</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(787,457)	(787,222)	235
Sale of capital assets	-	7,100	13,000	5,900
Total other financing sources (uses)	<u>-</u>	<u>(780,357)</u>	<u>(774,222)</u>	<u>6,135</u>
NET CHANGE IN FUND BALANCE	<u>\$ (466,299)</u>	<u>\$ (347,384)</u>	<u>(169,071)</u>	<u>\$ 178,313</u>
FUND BALANCE:				
Beginning of year			<u>4,581,739</u>	
End of year			<u>\$ 4,412,668</u>	

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
VOCATIONAL EDUCATION FUND
YEAR ENDED JUNE 30, 2018**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget</u>
REVENUES:				
Local sources	\$ 1,583,263	\$ 1,597,894	\$ 1,634,916	\$ 37,022
State sources	483,194	569,023	556,181	(12,842)
Federal sources	211,765	197,664	197,516	(148)
Interdistrict sources	54,000	59,401	57,000	(2,401)
Total revenues	<u>2,332,222</u>	<u>2,423,982</u>	<u>2,445,613</u>	<u>21,631</u>
EXPENDITURES:				
Current:				
Instruction:				
Added needs	1,167,433	1,224,579	1,207,157	17,422
Supporting services:				
Pupil	144,414	136,703	135,604	1,099
Instructional staff	169,839	205,609	201,690	3,919
General administration	6,000	6,000	5,958	42
School administration	167,179	163,313	165,134	(1,821)
Business	1,700	500	644	(144)
Operation and maintenance	404,960	397,283	354,122	43,161
Central services	66,923	103,467	98,966	4,501
Total supporting services	<u>961,015</u>	<u>1,012,875</u>	<u>962,118</u>	<u>50,757</u>
Debt service:				
Principal	84,535	57,515	57,513	2
Interest and fiscal charges	-	24,823	24,822	1
Total debt service	<u>84,535</u>	<u>82,338</u>	<u>82,335</u>	<u>3</u>
Total expenditures	<u>2,212,983</u>	<u>2,319,792</u>	<u>2,251,610</u>	<u>68,182</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>119,239</u>	<u>104,190</u>	<u>194,003</u>	<u>89,813</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(119,000)	(119,000)	(19,000)	100,000
Total other financing sources (uses)	<u>(119,000)</u>	<u>(119,000)</u>	<u>(19,000)</u>	<u>100,000</u>
NET CHANGE IN FUND BALANCE	<u>\$ 239</u>	<u>\$ (14,810)</u>	<u>175,003</u>	<u>\$ 189,813</u>
FUND BALANCE:				
Beginning of year			<u>1,041,480</u>	
End of year			<u>\$ 1,216,483</u>	

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 4 FISCAL YEARS (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting Unit's proportion of net pension liability (%)	0.11321%	0.10858%	0.10596%	0.09981%
Reporting Unit's proportionate share of net pension liability	\$ 29,337,003	\$ 27,088,627	\$ 25,881,625	\$ 21,112,641
Reporting Unit's covered-employee payroll	\$ 9,588,168	\$ 9,275,677	\$ 8,860,916	\$ 8,209,911
Reporting Unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	305.97%	292.04%	292.09%	257.16%
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.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 4 FISCAL YEARS (DETERMINED AS OF THE YEAR ENDED JUNE 30)**

	2018	2017	2016	2015
Statutorily required contributions	\$ 3,066,941	\$ 2,626,416	\$ 2,487,644	\$ 2,070,127
Contributions in relation to statutorily required contributions	3,066,941	2,626,416	2,487,644	2,070,127
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Reporting Unit's covered-employee payroll	\$ 9,869,872	\$ 9,567,564	\$ 9,162,777	\$ 8,764,641
Contributions as a percentage of covered-employee payroll	31.07%	27.45%	27.15%	23.62%

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.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST FISCAL YEAR (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)**

	2017
Reporting Unit's proportion of net OPEB liability (%)	0.11304%
Reporting unit's proportionate share of net OPEB liability	\$ 10,010,278
Reporting Unit's covered-employee payroll	\$ 9,588,168
Reporting Unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll (%)	104.40%
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

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S OPEB CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST FISCAL YEAR (DETERMINED AS OF THE YEAR ENDED JUNE 30)**

	2018
Statutorily required contributions	\$ 874,320
Contributions in relation to statutorily required contributions	874,320
Contribution deficiency (excess)	\$ -
Reporting Unit's covered-employee payroll	\$ 9,869,872
Contributions as a percentage of covered-employee payroll	8.86%

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.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018**

Changes of benefits terms: There were no changes of benefit terms for the plan year ending September 30, 2017.

Changes of assumptions: There were no changes of benefit assumptions for the plan year ending September 30, 2017.

ADDITIONAL SUPPLEMENTARY INFORMATION

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

Federal grantor/program title	Federal CFDA number	Award amount	Accrued revenue 7/1/2017	Prior year expenditures (memo only)	Current year receipts (cash basis)	Current year expenditures	Accrued revenue 6/30/2018	Current year cash transferred to subrecipient
<u>U.S. Department of Education:</u>								
Passed through Michigan Department of Education:								
Special Education Cluster:								
Special Education Grants to States:								
160450-1516	84.027	\$ 2,818,893	\$ 135,460	\$ 888,237	\$ 135,460	\$ -	\$ -	\$ -
170450-1617	84.027	2,870,815	526,682	2,530,000	818,588	340,815	48,909	-
170490-1617	84.027	58,000	11,323	58,000	11,323	-	-	-
180450-1718	84.027	2,925,413	-	-	2,320,123	2,819,788	499,665	-
180480 EOSD	84.027	50,000	-	-	41,228	50,000	8,772	-
180491 TC	84.027	58,000	-	-	42,562	58,000	15,438	-
Total CFDA# 84.027		8,781,121	673,465	3,476,237	3,369,284	3,268,603	572,784	-
Special Education Preschool Grants:								
170460-1617	84.173	96,399	27,931	96,399	27,931	-	-	-
180460-1718	84.173	96,714	-	-	45,259	96,714	51,455	70,653
Total CFDA# 84.173		193,113	27,931	96,399	73,190	96,714	51,455	70,653
Total Special Education Cluster		8,974,234	701,396	3,572,636	3,442,474	3,365,317	624,239	70,653

The accompanying notes are an integral part of this schedule.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

Federal grantor/program title	Federal CFDA number	Award amount	Accrued revenue 7/1/2017	Prior year expenditures (memo only)	Current year receipts (cash basis)	Current year expenditures	Accrued revenue 6/30/2018	Current year cash transferred to subrecipient
U.S. Department of Education:								
Passed through Michigan Department of Education:								
Career and Technical Education - Basic Grants to States:								
173520-171210	84.048	\$ 405,475	\$ 34,287	\$ 405,475	\$ 34,287	\$ -	\$ -	\$ -
183520-181210	84.048	174,664	-	-	155,218	174,664	19,446	-
Total CFDA# 84.048		580,139	34,287	405,475	189,505	174,664	19,446	-
Special Education - Grants for Infants and Families:								
171340-1617	84.181	109,240	23,729	109,240	23,729	-	-	-
181340-1718	84.181	107,552	-	-	84,831	107,552	22,721	-
Total CFDA# 84.181		216,792	23,729	109,240	108,560	107,552	22,721	-
Education for Homeless Children and Youth:								
172320-1617	84.196	77,193	18,173	62,513	32,853	14,680	-	-
182320-1718	84.196	63,061	-	-	31,791	41,859	10,068	-
Total CFDA# 84.196		140,254	18,173	62,513	64,644	56,539	10,068	-
Race to the Top Early Learning Challenge:								
144720-1617	84.412	32,480	-	-	32,480	32,480	-	-
144740-1718	84.412	30,144	-	-	5,416	15,012	9,596	-
Total CFDA# 84.412		62,624	-	-	37,896	47,492	9,596	-
Total U.S. Department of Education		9,974,043	777,585	4,149,864	3,843,079	3,751,564	686,070	70,653
U.S. Department of Health and Human Services:								
Passed through Michigan Department of Community Health:								
Medical Assistance Program	93.778	41,939	-	-	31,659	41,939	10,280	-
Total U.S. Department of Health and Human Services		41,939	-	-	31,659	41,939	10,280	-
Total Federal Awards		\$ 10,015,982	\$ 777,585	\$ 4,149,864	\$ 3,874,738	\$ 3,793,503	\$ 696,350	\$ 70,653

The accompanying notes are an integral part of this schedule.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PASS-THROUGH AMOUNTS
YEAR ENDED JUNE 30, 2018**

Federal grantor/program title/subrecipient name	Grant/ project Number	Federal CFDA number	Award amount	Due to subrecipient 7/1/2017	Subrecipient current year expenditures	Current year cash transferred to subrecipient	Due to subrecipient 6/30/2018
<u>U.S. Department of Education:</u>							
Passed through Michigan Department of Education:							
Special Education Preschool Grants:							
Greenville Public Schools	170460-1617	84.173	\$ 48,933	\$ 6,991	\$ -	\$ 6,991	\$ -
Greenville Public Schools	180460-1718	84.173	50,305	-	50,305	15,852	34,453
Tri County Area Schools	170460-1617	84.173	19,030	19,030	-	19,030	-
Tri County Area Schools	180460-1718	84.173	20,348	-	20,348	7,752	12,596
Total Special Education Preschool Grants			<u>\$ 138,616</u>	<u>\$ 26,021</u>	<u>\$ 70,653</u>	<u>\$ 49,625</u>	<u>\$ 47,049</u>

The accompanying notes are an integral part of this schedule.

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018**

1. Basis of Presentation - The accompanying Schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Montcalm Area Intermediate School District under programs of the federal government for the year ended June 30, 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 Montcalm Area Intermediate School District, it is not intended to and does not present the financial position or changes in net position of Montcalm Area Intermediate School District.
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. Montcalm Area Intermediate School District has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.
3. Management has utilized the Cash Management System (CMS) and the Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

4. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 112,692
Special education fund	3,545,273
Vocational education fund	<u>197,516</u>
Federal revenue per financial statements	3,855,481
Less: federal QZAB interest subsidy	<u>(61,978)</u>
Total federal expenditures	<u><u>\$ 3,793,503</u></u>

5. Subrecipients - Of the federal expenditures presented in the schedule of expenditures of federal awards, Montcalm Area Intermediate School District provided federal awards to subrecipients reported in the schedule of pass-through amounts.

**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
Montcalm Area Intermediate School District

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 Montcalm Area Intermediate School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Montcalm Area Intermediate School District's basic financial statements and have issued our report thereon dated October 2, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montcalm Area Intermediate School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Maney Costeiran PC

October 2, 2018

**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
Montcalm Area Intermediate School District

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Montcalm Area Intermediate School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (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 Montcalm Area Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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, material weaknesses may exist that have not been identified.

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

Maney Costeiran PC

October 2, 2018

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

➤ 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? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported with Title 2 CFR Section 200.516(a)? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.173	Special Education 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

Section III - Federal Award Findings and Questioned Costs

None

**MONTCALM AREA INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

There were no audit findings in the prior two years.