

ROCHESTER COMMUNITY SCHOOLS

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

JUNE 30, 2017

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October 31, 2017

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education of  
Rochester Community Schools

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Rochester Community Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the 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 Rochester Community Schools, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of funding progress and employer contributions for the pension plan, and budgetary comparison 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.

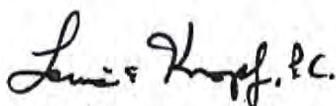
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rochester Community Schools' basic financial statements. The combining and individual non-major fund and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis 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*, and is also not a required part of the basic financial statements.

Such combining and individual non-major fund and other schedules and the schedule of expenditures of federal awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, on our consideration of the Rochester Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Rochester Community Schools' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rochester Community Schools' internal control over financial reporting and compliance.



LEWIS & KNOPF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS



Lewis  
& Knopf  
CPAs, PC

# ROCHESTER COMMUNITY SCHOOLS

## Management's Discussion and Analysis

The Management Discussion and Analysis provides an overview of the Rochester Community Schools' financial activities for the fiscal year ended June 30, 2017.

### Financial Highlights

- The liabilities and deferred inflows of the District exceeded its assets and deferred outflows at June 30, 2017 by \$22,170,929 (net position).
- The District's total net position increased by \$29,410,883.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$124,344,699, a decrease of \$25,786,397 in comparison with the prior year. The decrease was primarily due to construction projects recorded in the capital projects fund.
- At the end of the current fiscal year, total fund balance for the general fund was \$28,902,414.

### Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information about the change in the District's net position for the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused sick days).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the district include instruction, support services, community services, food services, bookstore, and athletics. The District has no business-type activities as of and for the year ending June 30, 2017.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

# ROCHESTER COMMUNITY SCHOOLS

## Management's Discussion and Analysis

**Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains five individual governmental funds. Information is presented separately on the governmental funds balance sheet and on the governmental funds statement of revenues, expenditures, and changes in fund balances for major funds which include the general, capital projects, and debt service funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided for the general fund herein to demonstrate compliance with that budget.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found after the basic financial statements of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management's discussion and analysis, budgetary comparison schedule, and the schedules for the MPSERS pension plan immediately following the notes to the financial statements. The combining fund statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

### Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$22,170,929 at the close of the most recent fiscal year.

The largest portion of the District's total assets reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment). Net position invested in capital assets, net of related debt used to acquire those assets that are still outstanding, totaled \$162,779,420 at June 30, 2017. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

# ROCHESTER COMMUNITY SCHOOLS

## Management's Discussion and Analysis

|                                    | Net Position<br>Governmental Activities<br>June 30, |                        |
|------------------------------------|---|------------------------|
|                                    | 2017  | 2016                   |
| Assets                             |   |                        |
| Current assets                     | \$ 146,219,857                                      | \$ 171,188,306         |
| Capital assets net of depreciation | 240,763,631   | 215,848,387            |
| Total assets                       | <u>386,983,488</u>                                  | <u>387,036,693</u>     |
| Deferred Outflows of Resources     | 35,732,342  | 30,127,357             |
| Liabilities                        |   |                        |
| Current liabilities                | 48,579,536  | 44,648,513             |
| Long-term liabilities              | 390,810,909   | 416,397,005            |
| Total liabilities                  | <u>439,390,445</u>                                  | <u>461,045,518</u>     |
| Deferred inflows of resources      | 5,496,314   | 7,700,344              |
| Net position (deficit)             |   |                        |
| Net Investment in capital assets   | 162,779,420   | 150,577,125            |
| Restricted for debt service        | 2,911,490   | 1,963,967              |
| Unrestricted                       | <u>(187,861,839)</u>                                | <u>(204,122,904)</u>   |
| Total net position (deficit)       | <u>\$ (22,170,929)</u>                              | <u>\$ (51,581,812)</u> |

An amount of \$2,911,490 included in net position of the District represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net position.

The deficit of (\$22,170,929) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations including the impact of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. More detailed information on this can be seen at Note 12 in the Notes to Financial Statements.



# ROCHESTER COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Changes in Net Position Governmental Activities

|                                      | June 30,               |                        |
|--------------------------------------|------------------------|------------------------|
|                                      | 2017                   | 2016                   |
| General revenue                      |                        |                        |
| Property taxes                       | \$ 43,833,696          | \$ 44,050,665          |
| State of Michigan aid, unrestricted  | 103,458,205            | 101,903,194            |
| Other – federal, state and local     | 15,321,436             | 13,424,024             |
| Program revenue                      |                        |                        |
| Charges for services – local         | 7,398,428              | 8,516,296              |
| Operating grants – federal and state | 30,556,215             | 29,934,813             |
| Total revenues                       | <u>200,567,980</u>     | <u>197,828,992</u>     |
| Expenses                             |                        |                        |
| Instruction                          | 90,623,730             | 115,955,077            |
| Support services                     | 54,902,471             | 50,875,773             |
| Community services                   | 3,206,787              | 2,848,346              |
| Food services                        | 2,744,727              | 3,430,313              |
| Athletics                            | 2,334,358              | 2,626,952              |
| Outgoing transfers and other uses    | 81,501                 | 4,000                  |
| Interest on long-term debt           | 8,884,483              | 5,100,887              |
| Bond issue costs                     | -                      | 632,611                |
| Depreciation (unallocated)           | 8,379,040              | 7,994,964              |
| Total expenses                       | <u>171,157,097</u>     | <u>189,468,923</u>     |
| Change in net position               | 29,410,883             | 8,360,069              |
| Net position – July 1                | <u>(51,581,812)</u>    | <u>(59,941,881)</u>    |
| Net position – June 30               | <u>\$ (22,170,929)</u> | <u>\$ (51,581,812)</u> |

### Financial Analysis of the Government's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental Funds.** The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

# ROCHESTER COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Financial Analysis of the Government's Funds (Continued)

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$124,344,699, a decrease of \$25,786,397 in comparison with the prior year. Unassigned fund balance totaled \$28,380,867 at June 30, 2017. A portion of the fund balance is non-spendable, restricted, or committed to indicate that it is not available for new spending because the underlying assets are included in inventory and prepaid expenses, are restricted for externally imposed constraints, or committed by board action, and are not available for current expenditure.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, the unassigned portion of fund balance was \$28,380,867, while total fund balance was \$28,902,414.

### General Fund Budgetary Highlights

Differences between the original and final amended budgets were not significant. Budget to actual comparisons were favorable.

### Capital Asset and Debt Administration

**Capital Assets.** The District's investment in capital assets for its governmental activities as of June 30, 2017 amounted to \$240,763,631 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, site improvements, vehicles and equipment.

Depreciation expense totaled \$8,379,040 for the year ended June 30, 2017.

The major capital asset purchases during the current fiscal year were the following:

- Buses
- Construction in progress

A summary of the District's capital assets (net of accumulated depreciation) as of June 30, 2017 and 2016 follows:

|                          | CAPITAL ASSETS AT YEAR END<br>(NET OF DEPRECIATION) |                      |
|--------------------------|---|----------------------|
|                          | 2017  | 2016                 |
| Land and improvements    | \$ 9,144,814  | \$9,144,814          |
| Construction in progress | 31,854,476  | 1,453,547            |
| Buildings and additions  | 189,433,152   | 195,917,755          |
| Site improvements        | 4,567,250   | 4,989,845            |
| Furniture and equipment  | 3,060,701   | 3,576,560            |
| Vehicles and buses       | 2,703,238   | 765,866              |
| Total                    | <u>\$ 240,763,631</u>                               | <u>\$215,848,387</u> |

Additional information on the District's capital assets can be found in Note 6 in the notes to the financial statement sections of this report.

# ROCHESTER COMMUNITY SCHOOLS

## Management's Discussion and Analysis

**Long-term Debt.** The District issues bonds to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

At the end of the current fiscal year, the District had total bonded debt outstanding of \$147,930,000. The District's total debt principal payments were \$18,065,000 during the current fiscal year.

Additional information on the District's long term debt can be found in Note 8 in the notes to the financial statement sections of this report.

### Factors Affecting the District's Future

The following factors were considered in preparing the District's budget for the 2017-18 fiscal year:

- The District continues to realign its general fund expenditure budget to approximate expected revenues.
- The District's foundation allowance is set by the State of Michigan and is dependent on the state's economic condition. The cost of the State pension system continues to absorb more State resources in the form of categorical MPSERS rate reimbursements. The District's share of the unfunded pension liability is reported in the government-wide statements as of June 30, 2017.

### Requests for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Financial Services or the Assistant Superintendent for Business Affairs, 501 W. University Drive, Rochester, Michigan 48307.

## BASIC FINANCIAL STATEMENTS

ROCHESTER COMMUNITY SCHOOLS  
STATEMENT OF NET POSITION  
JUNE 30, 2017

|  | Governmental<br>Activities |
|--|----------------------------|
| <u>ASSETS</u>  |                            |
| Cash and Cash Equivalents  | \$25,912,862               |
| Investments  | 95,000,667                 |
| Accounts Receivable  | 290,203                    |
| Due from Other Governmental Units                                | 24,383,472                 |
| Inventory  | 151,283                    |
| Prepaid Expenditures   | 481,370                    |
| Capital Assets, Not Being Depreciated - Construction in Progress | 31,854,476                 |
| Capital Assets, Not Being Depreciated - Land                     | 9,144,814                  |
| Capital Assets, Net of Accumulated Depreciation                  | 199,764,341                |
| <u>TOTAL ASSETS</u>  | \$386,983,488              |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u>                            |                            |
| Deferred Loss on Refunding                                       | 934,469                    |
| Related to Pensions  | 34,797,873                 |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u>                            | \$35,732,342               |
| <u>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>           | \$422,715,830              |
| <u>LIABILITIES</u>   |                            |
| Accounts Payable   | 6,777,456                  |
| Due to Other Governmental Units                                  | 1,844,193                  |
| Accrued Expenditures   | 4,637,347                  |
| Salaries Payable   | 8,934,646                  |
| Unearned Revenue   | 865,238                    |
| Claims Payable   | 808,520                    |
| Non-Current Liabilities - Due in One Year                        | 23,903,616                 |
| Non-Current Liabilities - Due in More than One Year              | 149,371,387                |
| Net Pension Liability  | 242,248,042                |
| <u>TOTAL LIABILITIES</u>   | \$439,390,445              |
| <u>DEFERRED INFLOWS OF RESOURCES</u>                             |                            |
| Deferred Gain on Refunding                                       | 241,872                    |
| Related to Pensions  | 5,254,442                  |
| <u>TOTAL DEFERRED INFLOWS OF RESOURCES</u>                       | \$5,496,314                |
| <u>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>       | \$444,886,759              |
| <u>NET POSITION</u>  |                            |
| Net Investment in Capital Assets                                 | 162,779,420                |
| Restricted   | 2,911,490                  |
| Unrestricted   | (187,861,839)              |
| <u>TOTAL NET POSITION</u>  | (\$22,170,929)             |

See notes to the financial statements

ROCHESTER COMMUNITY SCHOOLS  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017

| <u>FUNCTIONS/PROGRAMS</u>                    | <u>Expenses</u>             | <u>Program Revenues</u>   |                            | <u>Governmental</u>           |
|--|-----------------------------|---------------------------|----------------------------|-------------------------------|
|  |                             | <u>Charges For</u>        | <u>Specific</u>            | <u>Activities</u>             |
|  |                             | <u>Services</u>           | <u>Operating</u>           | <u>Net (Expense)</u>          |
|  |                             |                           | <u>Grants and</u>          | <u>Revenue and</u>            |
|  |                             |                           | <u>Contributions</u>       | <u>Change in</u>              |
|  |                             |                           |                            | <u>Net Position</u>           |
| Governmental Activities:                     |                             |                           |                            |                               |
| Instruction                                  | \$90,623,730                | \$4,325,120               | \$28,222,112               | (\$58,076,498)                |
| Support Services                             | 54,902,471                  | 818,035                   | 1,049,097                  | (53,035,339)                  |
| Community Services                           | 3,206,787                   | 0                         | 0                          | (3,206,787)                   |
| Athletics                                    | 2,334,358                   | 0                         | 0                          | (2,334,358)                   |
| Outgoing Transfers and Other Uses            | 81,501                      | 0                         | 0                          | (81,501)                      |
| Food Service                                 | 2,744,727                   | 2,255,273                 | 1,285,006                  | 795,552                       |
| Interest - Long-Term Obligations             | 8,884,483                   | 0                         | 0                          | (8,884,483)                   |
| Depreciation - Unallocated                   | 8,379,040                   | 0                         | 0                          | (8,379,040)                   |
| <b><u>Total Governmental Activities:</u></b> | <b><u>\$171,157,097</u></b> | <b><u>\$7,398,428</u></b> | <b><u>\$30,556,215</u></b> | <b><u>(\$133,202,454)</u></b> |
| General Revenues:                            |                             |                           |                            |                               |
| Taxes:                                       |                             |                           |                            |                               |
| Property Taxes, Levied for General Purposes  |                             |                           |                            | 17,145,927                    |
| Property Taxes, Levied for Debt Retirement   |                             |                           |                            | 26,687,769                    |
| State Sources - Unrestricted                 |                             |                           |                            | 103,458,205                   |
| Interdistrict Sources                        |                             |                           |                            | 11,179,573                    |
| Investment Earnings                          |                             |                           |                            | 910,200                       |
| Miscellaneous                                |                             |                           |                            | 3,214,713                     |
| Gain on Sale of Assets                       |                             |                           |                            | 16,950                        |
| Total General Revenues and Transfers         |                             |                           |                            | <u>\$162,613,337</u>          |
| <b>Change in Net Position</b>                |                             |                           |                            | <u>\$29,410,883</u>           |
| Net Position - Beginning of Year             |                             |                           |                            | <u>(51,581,812)</u>           |
| <b><u>Net Position - End of Year</u></b>     |                             |                           |                            | <b><u>(\$22,170,929)</u></b>  |

See notes to the financial statements.

ROCHESTER COMMUNITY SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017

|   | General<br>Fund            | Debt<br>Retirement<br>Fund | Capital<br>Projects<br>Fund | Non-Major<br>Governmental<br>Funds |
|---|----------------------------|----------------------------|-----------------------------|------------------------------------|
| <b><u>ASSETS</u></b>                                  |                            |                            |                             |                                    |
| Cash and Cash Equivalents                             | \$20,045,640               | \$2,485,279                | \$1,248,641                 | \$2,133,302                        |
| Investments   | 0                          | 0                          | 95,000,667                  | 0                                  |
| Accounts Receivable                                   | 93,994                     | 0                          | 195,909                     | 300                                |
| Due from Other Governmental Units                     | 24,309,874                 | 0                          | 0                           | 73,598                             |
| Inventory   | 57,607                     | 0                          | 0                           | 93,676                             |
| Prepaid Expenditures                                  | 463,940                    | 0                          | 17,430                      | 0                                  |
| <b><u>TOTAL ASSETS</u></b>                            | <b><u>\$44,971,055</u></b> | <b><u>\$2,485,279</u></b>  | <b><u>\$96,462,647</u></b>  | <b><u>\$2,300,876</u></b>          |
| <b><u>LIABILITIES</u></b>                             |                            |                            |                             |                                    |
| Accounts Payable                                      | \$1,129,593                | \$0                        | \$5,184,056                 | \$463,807                          |
| Due to Other Governmental Units                       | 1,844,028                  | 0                          | 0                           | 165                                |
| Accrued Expenditures                                  | 3,453,625                  | 0                          | 0                           | 0                                  |
| Salaries Payable                                      | 8,934,646                  | 0                          | 0                           | 0                                  |
| Unearned Revenue                                      | 706,749                    | 0                          | 0                           | 158,489                            |
| Total Liabilities                                     | <u>\$16,068,641</u>        | <u>\$0</u>                 | <u>\$5,184,056</u>          | <u>\$622,461</u>                   |
| <b><u>FUND BALANCES</u></b>                           |                            |                            |                             |                                    |
| Non-Spendable   |                            |                            |                             |                                    |
| Inventory   | 57,607                     | 0                          | 0                           | 93,676                             |
| Prepaid Expenditures                                  | 463,940                    | 0                          | 17,430                      | 0                                  |
| Restricted  |                            |                            |                             |                                    |
| Debt Retirement                                       | 0                          | 2,485,279                  | 0                           | 0                                  |
| Food Service  | 0                          | 0                          | 0                           | 1,547,915                          |
| Capital Projects                                      |                            |                            |                             |                                    |
| Committed   | 0                          | 0                          | 91,261,161                  | 36,824                             |
| Unassigned  | 28,380,867                 | 0                          | 0                           | 0                                  |
| Total Fund Balances                                   | <u>\$28,902,414</u>        | <u>\$2,485,279</u>         | <u>\$91,278,591</u>         | <u>\$1,678,415</u>                 |
| <b><u>TOTAL LIABILITIES AND<br/>FUND BALANCES</u></b> | <b><u>\$44,971,055</u></b> | <b><u>\$2,485,279</u></b>  | <b><u>\$96,462,647</u></b>  | <b><u>\$2,300,876</u></b>          |

See notes to the financial statements.

ROCHESTER COMMUNITY SCHOOLS  
RECONCILIATION OF TOTAL GOVERNMENTAL  
FUND BALANCES TO NET POSITION OF  
GOVERNMENTAL ACTIVITIES  
JUNE 30, 2017

|                      |   |                       |
|----------------------|---|-----------------------|
| <u>Total</u>         | Total Governmental Fund Balances:   | \$124,344,699         |
| Governmental         |   |                       |
| <u>Funds</u>         | Amounts reported for governmental activities in the statement of net position are different because:  |                       |
| \$25,912,862         | Deferred Outflows of Resources - Deferred Loss on Refunding   | 934,469               |
| 95,000,667           | Deferred Outflows of Resources - Related to Pensions  | 34,797,873            |
| 290,203              | Deferred Inflows of Resources - Deferred Gain on Refunding  | (241,872)             |
| 24,383,472           | Deferred Inflows of Resources - Related to Pensions   | (5,254,442)           |
| 151,283              |   |                       |
| 481,370              |   |                       |
| <u>\$146,219,857</u> | Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental fund  |                       |
|                      | Cost of Assets  | 345,341,722           |
|                      | Accumulated Depreciation  | <u>(136,432,567)</u>  |
| \$6,777,456          | Capital Assets - Net of Accumulated Depreciation  | \$208,909,155         |
| 1,844,193            |   |                       |
| 3,453,625            | Construction in Progress  | 31,854,476            |
| 8,934,646            |   |                       |
| 865,238              | Accrued Interest on Long-Term Debt  | (1,183,722)           |
| <u>\$21,875,158</u>  |   |                       |
|                      | Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of: |                       |
| 151,283              |   |                       |
| 481,370              | Bonds Payable   | \$147,930,000         |
|                      | Capital Lease   | 73,040                |
| 2,485,279            | Unamortized Premium   | 21,952,359            |
| 1,547,915            | Claims Payable  | 808,520               |
|                      | Compensated Absences Payable/Retirement/Termination   | <u>3,319,604</u>      |
| 91,297,985           | Total Long-Term Liabilities   | (174,083,523)         |
| 28,380,867           |   |                       |
| <u>\$124,344,699</u> | Net Pension Liability   | <u>(242,248,042)</u>  |
|                      | <u>TOTAL NET POSITION -</u>   |                       |
| <u>\$146,219,857</u> | <u>GOVERNMENTAL ACTIVITIES</u>  | <u>(\$22,170,929)</u> |



**ROCHESTER COMMUNITY SCHOOLS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2017**

|   | General<br>Fund      | Debt<br>Retirement<br>Fund | Capital<br>Projects<br>Fund | Non-Major<br>Governmental<br>Funds |
|---|----------------------|----------------------------|-----------------------------|------------------------------------|
| <b>REVENUES</b>   |                      |                            |                             |                                    |
| Local Sources   | \$26,500,048         | \$26,712,108               | \$875,598                   | \$2,328,024                        |
| State Sources   | 127,135,419          | 0                          | 0                           | 252,433                            |
| Federal Sources   | 4,544,898            | 0                          | 0                           | 1,032,573                          |
| Interdistrict Sources                                   | 11,179,573           | 0                          | 0                           | 0                                  |
| Total Revenues  | <u>\$169,359,938</u> | <u>\$26,712,108</u>        | <u>\$875,598</u>            | <u>\$3,613,030</u>                 |
| <b>EXPENDITURES</b>                                     |                      |                            |                             |                                    |
| Instruction   | 100,436,799          | 0                          | 0                           | 0                                  |
| Student Services  | 14,491,527           | 0                          | 0                           | 0                                  |
| Instructional Support                                   | 6,623,223            | 0                          | 0                           | 0                                  |
| General Administration                                  | 978,210              | 0                          | 0                           | 0                                  |
| School Administration                                   | 8,167,452            | 0                          | 0                           | 0                                  |
| Business Administration                                 | 1,668,441            | 0                          | 0                           | 0                                  |
| Operation & Maintenance of Plant                        | 11,591,193           | 0                          | 0                           | 0                                  |
| Transportation  | 6,749,191            | 0                          | 0                           | 0                                  |
| Central Support Services                                | 6,496,179            | 0                          | 0                           | 0                                  |
| Athletics   | 2,334,358            | 0                          | 0                           | 0                                  |
| Other Support Services                                  | 104,349              | 0                          | 0                           | 0                                  |
| Community Services                                      | 3,149,409            | 0                          | 0                           | 57,378                             |
| Outgoing Transfers and Other Uses                       | 81,501               | 0                          | 0                           | 0                                  |
| Food Service  | 0                    | 0                          | 0                           | 2,744,727                          |
| Debt Service  |                      |                            |                             |                                    |
| Principal   | 0                    | 18,065,000                 | 0                           | 0                                  |
| Interest  | 0                    | 8,959,320                  | 0                           | 0                                  |
| Other   | 0                    | 44,058                     | 0                           | 0                                  |
| Capital Outlay  | 49,700               | 0                          | 33,562,362                  | 0                                  |
| Total Expenditures                                      | <u>\$162,921,532</u> | <u>\$27,068,378</u>        | <u>\$33,562,362</u>         | <u>\$2,802,105</u>                 |
| Excess (Deficiency) of Revenues<br>(Under) Expenditures | \$6,438,406          | (\$356,270)                | (\$32,686,764)              | \$810,925                          |
| <b>OTHER FINANCING SOURCES (USES)</b>                   |                      |                            |                             |                                    |
| Transfers In  | 0                    | 0                          | 0                           | 4,344                              |
| Transfers (Out)   | (4,344)              | 0                          | 0                           | 0                                  |
| Other Reimbursements                                    | 7,306                | 0                          | 0                           | 0                                  |
| Total Other Financing Sources (Uses)                    | <u>\$2,962</u>       | <u>\$0</u>                 | <u>\$0</u>                  | <u>\$4,344</u>                     |
| Net Change in Fund Balance                              | \$6,441,368          | (\$356,270)                | (\$32,686,764)              | \$815,269                          |
| <b>FUND BALANCE - BEGINNING OF YEAR</b>                 | <u>22,461,046</u>    | <u>2,841,549</u>           | <u>123,965,355</u>          | <u>863,146</u>                     |
| <b>FUND BALANCE - END OF YEAR</b>                       | <u>\$28,902,414</u>  | <u>\$2,485,279</u>         | <u>\$91,278,591</u>         | <u>\$1,678,415</u>                 |

See notes to the financial statements.

ROCHESTER COMMUNITY SCHOOLS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017

|                      |  |                   |                     |
|----------------------|--|-------------------|---------------------|
| <u>Total</u>         | Total net change in fund balances - governmental funds   |                   | (\$25,786,397)      |
| Governmental         | Amounts reported for governmental activities in the statement of activities are different because: |                   |                     |
| <u>Funds</u>         |  |                   |                     |
| \$56,415,778         |  |                   |                     |
| 127,387,852          | Governmental funds report capital outlays as expenditures.   |                   |                     |
| 5,577,471            | However, in the statement of activities, the cost of those   |                   |                     |
| 11,179,573           | assets is allocated over their estimated useful lives as   |                   |                     |
| <u>\$200,560,674</u> | depreciation expense.  |                   |                     |
|                      | Construction in Progress   | 30,400,929        |                     |
|                      | Capital Outlay   | 2,893,489         |                     |
| 100,436,799          | Depreciation Expense   | (8,379,040)       |                     |
| 14,491,527           | Loss on Sale of Assets   | (134)             |                     |
| 6,623,223            | Total  | <u>24,915,244</u> |                     |
| 978,210              |  |                   |                     |
| 8,167,452            | Repayment of bond principal is an expenditure in   |                   |                     |
| 1,668,441            | the governmental funds, but the repayment reduces  |                   |                     |
| 11,591,193           | long-term liabilities in the statement of net position.  |                   |                     |
| 6,749,191            | This is the amount of repayments reported as   |                   |                     |
| 6,496,179            | expenditures in the governmental funds.  |                   | 18,065,000          |
| 2,334,358            |  |                   |                     |
| 104,349              | Payment on Capital Lease   |                   | 77,500              |
| 3,206,787            |  |                   |                     |
| 81,501               | Amortization of:   |                   |                     |
| 2,744,727            | Bond Refunding   |                   | (376,257)           |
|                      | Unamortized Premiums   |                   | 2,207,572           |
| 18,065,000           |  |                   |                     |
| 8,959,320            | Net Change in Compensated Absences, Early Retirement   |                   |                     |
| 44,058               | and Termination Incentives   |                   | 753,677             |
| 33,612,062           |  |                   |                     |
| <u>\$226,354,377</u> | Net Change in Medical Claims Payable   |                   | 29,033              |
|                      |  |                   |                     |
| (\$25,793,703)       | Change in accrued interest on long-term liabilities  |                   | 495,152             |
|                      |  |                   |                     |
| 4,344                | Some expenses reported in the statement of activities do not                                       |                   |                     |
| (4,344)              | require the use of current financial resources and, therefore,                                     |                   |                     |
| 7,306                | are not reported as expenditures in the governmental Funds.  |                   |                     |
| <u>\$7,306</u>       | Pension Related Items  |                   | <u>9,030,359</u>    |
|                      |  |                   |                     |
| (\$25,786,397)       | <u>CHANGE IN NET POSITION OF</u>   |                   |                     |
|                      | <u>GOVERNMENTAL ACTIVITIES</u>   |                   | <u>\$29,410,883</u> |
|                      |  |                   |                     |
| <u>150,131,096</u>   |  |                   |                     |
|                      |  |                   |                     |
| <u>\$124,344,699</u> |  |                   |                     |

ROCHESTER COMMUNITY SCHOOLS  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
JUNE 30, 2017

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|                                    | <u>Agency<br/>Fund</u>    |
|------------------------------------|---------------------------|
| <u>ASSETS</u>                      |                           |
| Cash and Cash Equivalents          | <u>\$1,215,431</u>        |
| <u>TOTAL ASSETS</u>                | <u><u>\$1,215,431</u></u> |
| <u>LIABILITIES</u>                 |                           |
| Accounts Payable                   | \$31,380                  |
| Due to Student Groups              | 1,135,459                 |
| Due to Other Support Organizations | <u>48,592</u>             |
| <u>TOTAL LIABILITIES</u>           | <u><u>\$1,215,431</u></u> |

See notes to the financial statements.

ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

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1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) REPORTING ENTITY

Rochester Community Schools (the "District") has followed the guidelines of the Governmental Accounting Standards Board and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B) GOVERNMENT-WIDE FUND 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 non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the year ended June 30, 2017.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

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

C) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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, except for agency funds, which do not have a measurement focus. 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 grantor have been met.

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 government considers revenues to be available, if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

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1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

The School District reports the following major governmental funds:

**General Fund** - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for and reported in another fund.

**Debt Retirement Funds** - The Debt Retirement Fund are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

**Building and Site Capital Projects Funds** - The Building and Site Capital Projects Funds are used to record bond proceeds or other revenue and the disbursement of funds specifically designated for acquiring new school sites, buildings, equipment, and for remodeling and repairs. The funds operate until the purpose for which they were created is accomplished. The District has complied with the applicable provision of §1351a of the Revised School Code.

The School District reports the following fund types:

**Special Revenue Funds** - Special revenue funds are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

**Student Activities Agency Fund** - The Agency Fund accounts for assets held for other groups and organizations and is custodial in nature.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, except those levied to repay bonded debt.

The effect of interfund activity has been eliminated from the government-wide financial statements.

D) DEPOSITS AND INVESTMENTS

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

Investments are reported at fair value.

E) RECEIVABLES AND PAYABLES

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

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1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F) INVENTORY AND PREPAID ITEMS

Inventory is valued at the lower of cost (first in, first out) or market. Inventory in the general fund, bookstore fund and school service funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure 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 government-wide and fund financial statements.

G) CAPITAL ASSETS

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

| <u>Description</u>         | <u>Governmental Activities</u><br><u>Estimated Lives</u> |
|----------------------------|--|
| Buildings and Improvements | 25 – 45 years  |
| Site Improvements          | 25 – 45 Years  |
| Furniture and Equipment    | 5 – 50 years   |
| Buses and Other Vehicles   | 6 years  |

H) DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred Outflows

In addition to assets, the statement of financial 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 deferred loss on refunding and pension contributions reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow is recognized for pension contributions made after the plans measurement date, but before the fiscal year end. The amount is amortized in the plan year in which it applies.

ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

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1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H) DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (Continued)

Deferred Inflows

In addition to liabilities, the statement of financial 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 two items that qualify for reporting in this category. The first item is a deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is the future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary.

I) COMPENSATED ABSENCES

The District records a liability at fiscal year end for vacation pay earned but not taken as of that date. Employees are also compensated for unused sick days; accordingly, a liability is recorded at fiscal year end for such unused time. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

J) LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed during the year of issuance.

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.

K) FUND EQUITY

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. As applicable, the District reports *assigned fund balance* for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund.

When the District incurs an expenditure for purposes for which various fund balance classifications can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

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1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K) PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

2) BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The general and special revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the general and special revenue funds are adopted on a functional basis.

3) DEPOSITS AND INVESTMENTS

A reconciliation of cash and cash equivalents as shown on the Statement of Net Position and Statement of Fiduciary Assets and Liabilities follows:

|   |                             |
|---|-----------------------------|
| Statement of Net Position - Cash and Cash Equivalents                     | \$ 25,912,862               |
| Statement of Fiduciary Assets and Liabilities - Cash and Cash Equivalents | 1,215,431                   |
| <b>TOTAL</b>  | <u><u>\$ 27,128,293</u></u> |
| <br>  |                             |
| Bank Deposits (Checking and Savings Accounts)                             | \$ 27,127,540               |
| Cash On Hand  | 753                         |
| <b>TOTAL</b>  | <u><u>\$ 27,128,293</u></u> |

Statutory Authority

State statutes authorize the District to invest in:

Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.



ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

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3) DEPOSITS AND INVESTMENTS (Continued)

Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

Deposit and investment risk

**Custodial Credit Risk - Deposits.** Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, \$26,310,428 of the District's bank balance of \$29,295,707 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk – investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

At year end, the maturities of investment and the credit quality ratings of debt securities, (other than the U.S. government) are as follows:

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.

| <u>Investment Type</u>  | <u>Fair Value</u>    | <u>Rating</u> | <u>Organization</u> |
|-------------------------|----------------------|---------------|---------------------|
| Fannie Mae              | \$ 28,961,966        | AA+           | Standard & Poor's   |
| Federal Home Loan Banks | 16,822,625           | AA+           | Standard & Poor's   |
| Freddie Mac             | 7,657,705            | AA+           | Standard & Poor's   |
| MILAF Cash Management   | 1,553,428            | AAAm          | Standard & Poor's   |
| MILAF Max               | 4,943                | AAAm          | Standard & Poor's   |
| MILAF Term              | 40,000,000           |               |                     |
| Total                   | <u>\$ 95,000,667</u> |               |                     |

**Credit Risk.** State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk.

**Concentration of Credit Risk.** State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk.

**Interest Rate Risk.** State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

3) DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

The District's fair value measurements as of June 30, 2017 consisted of the following:

|                      | Amount        | Fair Value<br>Measurement |
|----------------------|---------------|---------------------------|
| Federal Agency bonds | \$ 53,336,587 | Level 2                   |

4) PROPERTY TAXES

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 of the following year. Taxes are levied on December 1 by the municipalities within the District, and are due on February 14. Delinquent real taxes are advanced to the District by the Revolving Tax Fund of the applicable County.

5) RECEIVABLES

Receivables at June 30, 2017, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

| <u>GOVERNMENTAL ACTIVITIES</u>       | <u>AMOUNT</u>       |
|--------------------------------------|---------------------|
| State Aid                            | \$22,993,059        |
| Federal Grants                       | 1,152,307           |
| Other Grant Programs and Fees        | 238,106             |
| <b>TOTAL GOVERNMENTAL ACTIVITIES</b> | <b>\$24,383,472</b> |

ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

6) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

|  | Beginning<br>Balance | Additions         | Disposals  | Ending<br>Balance  |
|--|----------------------|-------------------|------------|--------------------|
| <u>Assets Not Being Depreciated:</u>           |                      |                   |            |                    |
| Land   | \$ 9,144,814         | \$ -              | \$ -       | \$ 9,144,814       |
| Construction in progress                       | 1,453,547            | 30,400,929        | -          | 31,854,476         |
| Total Assets Not Being Depreciated             | 10,598,361           | 30,400,929        | -          | 40,999,290         |
| <br><u>Capital Assets Being Depreciated:</u>   |                      |                   |            |                    |
| Buildings and improvements                     | 303,180,312          | -                 | 87,000     | 303,093,312        |
| Site improvements                              | 14,684,921           | 47,900            | -          | 14,732,821         |
| Buses and other vehicles                       | 8,572,624            | 2,635,952         | 543,419    | 10,665,157         |
| Furniture and equipment                        | 7,512,549            | 209,637           | 16,568     | 7,705,618          |
| Total Capital Assets Being Depreciated         | 333,950,406          | 2,893,489         | 646,987    | 336,196,908        |
| <br><u>Less accumulated depreciation for:</u>  |                      |                   |            |                    |
| Buildings and improvements                     | (107,262,557)        | (6,484,603)       | (87,000)   | (113,660,160)      |
| Site improvements                              | (9,695,076)          | (470,495)         | -          | (10,165,571)       |
| Buses and other vehicles                       | (7,806,758)          | (698,580)         | (543,419)  | (7,961,919)        |
| Furniture and equipment                        | (3,935,989)          | (725,362)         | (16,434)   | (4,644,917)        |
| Total Accumulated Depreciation                 | (128,700,380)        | (8,379,040)       | (646,853)  | (136,432,567)      |
| Total capital assets<br>being depreciated, net | 205,250,026          | (5,485,551)       | 134        | 199,764,341        |
| <br>NET CAPITAL ASSETS                         | <br>\$ 215,848,387   | <br>\$ 24,915,378 | <br>\$ 134 | <br>\$ 240,763,631 |

Depreciation for fiscal year ended June 30, 2017 amounted to \$8,379,040. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

7) INTERFUND ACTIVITY

Interfund transfers for the year ended June 30, 2017, consisted of the following:

|                     |                       |
|---------------------|-----------------------|
| <b>TRANSFERS TO</b> | <b>TRANSFERS FROM</b> |
|                     | General<br>Fund       |
| Food Service        | \$ 4,344              |

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

8) GENERAL LONG-TERM DEBT

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2017:

|                                      | Beginning<br>Balance  | Additions         | Deletions              | Ending<br>Balance     | Due within<br>One Year |
|--------------------------------------|-----------------------|-------------------|------------------------|-----------------------|------------------------|
| Governmental activities:             |                       |                   |                        |                       |                        |
| Bonds Payable                        | \$ 165,995,000        | \$ -              | \$ (18,065,000)        | \$ 147,930,000        | \$ 21,160,000          |
| Capital Lease                        | 150,540               | -                 | (77,500)               | 73,040                | 36,520                 |
| Bond Premium:                        | 24,159,931            | -                 | (2,207,572)            | 21,952,359            | 2,207,572              |
| Early Retirement Incentives          | 1,880,040             | 110,500           | (794,300)              | 1,196,240             | 462,400                |
| Compensated Absenses                 | 1,368,254             | 228,031           | (194,681)              | 1,401,604             | -                      |
| Termination Incentives               | 824,987               | 7,210             | (110,437)              | 721,760               | 37,124                 |
| <b>Total governmental activities</b> | <b>\$ 194,378,752</b> | <b>\$ 345,741</b> | <b>\$ (21,449,490)</b> | <b>\$ 173,275,003</b> | <b>\$ 23,903,616</b>   |

Bonds payable at June 30, 2017 is comprised of the following issues:

|  |                             |
|--|-----------------------------|
| \$100,575,000 1997 School Building and Site Bonds, due in annual installments ranging from \$3,000,000 to \$7,500,000 through May 2019; interest from 4.55% to 5.00% | \$ 15,000,000               |
| \$26,980,000 2012 Refunding Bonds due in annual installments ranging from \$430,000 to \$4,625,000 through May 2020; interest from 3.00% to 4.50%.                   | 12,975,000                  |
| \$47,465,000 2014 Refunding Bonds due in annual installments ranging from \$4,585,000 to \$15,235,000 through May 2020; interest rate is 4.00%.                      | 9,630,000                   |
| \$11,435,000 2015 Refunding Bonds due in annual installments ranging from \$900,000 to \$7,785,000 through May 2020; interest rate is 5.00%.                         | 2,750,000                   |
| \$108,725,000 2015 Building and Site Bonds, due in annual installments ranging from \$1,150,000 to \$14,600,000 through May 2036; interest from 4.00% to 5.00%.      | 107,575,000                 |
| <b><u>TOTAL BONDS PAYABLE</u></b>  | <b><u>\$147,930,000</u></b> |

Annual debt service requirements to maturity for general obligations bonds are as follows:

| Year Ended<br>June 30, | Principal             | Interest             | Total                 |
|------------------------|-----------------------|----------------------|-----------------------|
| 2018                   | \$ 21,160,000         | \$ 7,102,325         | \$ 28,262,325         |
| 2019                   | 21,970,000            | 6,133,925            | 28,103,925            |
| 2020                   | 19,825,000            | 5,129,125            | 24,954,125            |
| 2021                   | 11,300,000            | 4,159,250            | 15,459,250            |
| 2022                   | 3,425,000             | 3,594,250            | 7,019,250             |
| 2022-2027              | 19,825,000            | 15,231,250           | 35,056,250            |
| 2027-2032              | 25,325,000            | 10,151,750           | 35,476,750            |
| 2032-2036              | 25,100,000            | 3,205,000            | 28,305,000            |
|                        | <u>\$ 147,930,000</u> | <u>\$ 54,706,875</u> | <u>\$ 202,636,875</u> |

ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

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8) GENERAL LONG-TERM DEBT (Continued)

Capital Leases

The District has entered into several lease agreements to finance the purchase of copiers. These lease agreements qualify as capital leases for accounting purposes, and therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. Original cost and total accumulated depreciation on these leased assets at year end was \$895,869 and \$ 840,205, respectively.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017, are as follows:

Future minimum payments are as follows:

| Year Ending     |                  |
|-----------------|------------------|
| <u>June 30,</u> | <u>Amount</u>    |
| 2018            | \$ 36,520        |
| 2019            | 36,520           |
| TOTAL           | <u>\$ 73,040</u> |

The other long-term obligations are comprised of early retirement incentives, employee compensated absences, termination benefits and claims payable which are generally liquidated by the general fund. Management has determined that the potential effect of discounting the early retirement incentives was not significant.

9) NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2017, was as follows:

|                                 |                       |
|---------------------------------|-----------------------|
| Capital Assets, Net             | \$ 240,763,631        |
| Bonds Payable                   | (147,930,000)         |
| Premium on Bonds Payable        | (21,952,359)          |
| Loss on Refunding               | 934,469               |
| Gain on Refunding               | (241,872)             |
| Capital Leases Payable          | (73,040)              |
| Fund Balance - Capital Projects | 91,278,591            |
| TOTAL                           | <u>\$ 162,779,420</u> |

ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

10) TAX ABATEMENTS

Effective for the year ended June 30, 2017 the District is required to disclose significant tax abatements as required by GASB statement 77 (Tax abatements).

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

The property taxes abated for all funds by municipality under these programs are as follows:

| <u>Municipality</u> | <u>Taxes Abated</u> |
|---------------------|---------------------|
| Rochester Hills     | \$28,304            |

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

There are no significant abatements made by the District.

11) RESTRICTED NET POSITION

Restricted net position consists of the following:

|                 |                           |
|-----------------|---------------------------|
| Debt Retirement | \$1,301,557               |
| Food Service    | <u>1,609,933</u>          |
| <u>TOTAL</u>    | <u><u>\$2,911,490</u></u> |

12) RISK MANAGEMENT

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District participates in the Metropolitan Association for Improved School Legislation (MAISL) for claims relating to property loss, torts, and errors and omissions. The District is self-insured for medical claims and workers' compensation. In all cases, the District carries stop-loss coverage. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

For risk retention situations, the District estimates the liability for medical claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in long-term debt until considered due, whereas the obligations then become governmental fund liabilities. Changes in the estimated liability are as follows:

|  | <u>Current Year</u>   | <u>Prior Year</u>     |
|--|-----------------------|-----------------------|
| Estimated Liability - Beginning of Year                  | \$ 837,553            | \$ 877,276            |
| Estimated Claims Incurred, Included Changes in Estimates | \$ 15,803,804         | \$ 14,326,442         |
| Claim Payments   | \$ (15,832,837)       | \$ (14,366,165)       |
| <br>ESTIMATED LIABILITY - END OF YEAR                    | <br><u>\$ 808,520</u> | <br><u>\$ 837,553</u> |

ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

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13) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) 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 <http://michigan.gov/mpsers-cafr>.

Benefits Provided

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A Summary of the pension 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               | Open               |
| Defined Contribution         | Defined Contribution | Open               |

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

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

Pension Reform 2010

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

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. Members who elected under Option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

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13) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Regular Retirement (no reduction factor for age)

Eligibility - Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, any age 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 (PPP) members, age 60 with 10 years of credited service.

Annual Amount - Total credited service as of the Transition Date times 1.5% of final average compensation (FAC).

Pension Plus

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

Option 1 – Credited Service after the Transition Date times 1.5% times FAC.

Option 2 – Credited Service after the Transition Date (until total service reaches 30 years) times 1.5% times FAC, PLUS Credited Service after the Transition Date and over 30 years times 1.25% times FAC.

Option 3 – Credited Service after the Transition Date times 1.25% times FAC.

Option 4 – None (Member will receive benefit through a Defined Contribution plan).

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

Final Average Compensation - 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.

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7%. Plan members electing the defined contributions 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 Post-Employment 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. The unfunded (overfunded) actuarial accrued liability as of September 30, 2016 valuation will be amortized over a 20 year period for fiscal year 2016.



ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

13) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Employer Contributions (Continued)

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:

|                                      |                 |
|--------------------------------------|-----------------|
| October 1, 2015 – September 30, 2016 | 14.56% - 18.95% |
| October 1, 2016 – September 30, 2017 | 15.27% - 19.03% |

The District's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. The District's recognized pension expense of approximately \$23,128,000 with \$22,747,000 specifically for the Defined Benefit Plan. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (72.88% for pension and 27.12 for OPEB).

At June 30, 2017, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred (Inflows) of<br/>Resources</u> |
|---|---|--|
| Differences Between Expected and Actual Experience  | \$ 3,019,050                              | \$ (574,134)                               |
| Changes of Assumptions  | 3,787,359                                 | -  |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments                              | 4,026,161                                 | -  |
| Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions | 2,466,833                                 | (4,680,308)                                |
| Employer Contributions Subsequent to the Measurement Date   | <u>21,498,470</u>                         | <u>-</u>                                   |
| <b>TOTAL</b>  | <u>\$ 34,797,873</u>                      | <u>\$ (5,254,442)</u>                      |

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

**Pension Liabilities**

At June 30, 2017, the District reported a liability of \$242,248,042 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2016 and 2015, the District's proportion was 0.97096588 percent and 0.99526249 percent respectively.

ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

13) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

**Pension Liabilities** (Continued)

Measurement of the MPSERS Net Pension Liability

The plan's net pension liability is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement).

**MPSERS (Plan) Net Pension Liability - Non-University**

| <b>Employers</b>                       | <u>9-30-16</u>           | <u>9-30-15</u>           |
|--|--------------------------|--------------------------|
| Total Pension Liability                | \$ 67,917,445,078        | \$ 66,312,041,902        |
| Plan Fiduciary Net Position            | (42,968,263,308)         | (41,887,015,147)         |
| Net Pension Liability                  | <u>\$ 24,949,181,770</u> | <u>\$ 24,425,026,755</u> |
| Proportionate Share                    | 0.97096588%              | 0.99526249%              |
| Net Pension Liability for the District | 242,248,042              | 243,093,129              |

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

For the year ended June 30, 2017, the District recognized pension expense of approximately \$20,737,000. This excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. These amounts have been recorded as a deferred outflow as of June 30, 2017.

\$21,498,470 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:

| <u>Year Ending</u><br><u>September 30,</u> | <u>Amount</u>       |
|--|---------------------|
| 2017                                       | \$ 1,525,967        |
| 2018                                       | 1,209,351           |
| 2019                                       | 5,186,785           |
| 2020                                       | <u>122,858</u>      |
| TOTAL                                      | <u>\$ 8,044,961</u> |

Actuarial Assumptions

**Investment rate of return** - 8.0% 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).

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

**Inflation** - 3.5%

ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

13) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions (Continued)

**Mortality assumptions** - The healthy life post-retirement mortality table used in this valuation of the System was the RP-2000 Male and Female Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB.

**Experience study** - The annual actuarial valuation report of the System used for these statements is dated September 30, 2015. Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

**The long-term expected rate of return on pension plan investments** - The rate was 8% (7% Pension Plus Plan) net of investment and administrative expenses was determined using a 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.

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

| <b>Investment Category</b>           | <b>Target<br/>Allocation*</b> | <b>Long-term<br/>Expected Real<br/>Rate of Return*</b> |
|--------------------------------------|-------------------------------|--|
| Domestic Equity Pools                | 28.0%                         | 5.9%   |
| Alternate Investment Pools           | 18.0%                         | 9.2%   |
| International Equity                 | 16.0%                         | 7.2%   |
| Fixed Income Pools                   | 10.5%                         | 0.9%   |
| Real Estate and Infrastructure Pools | 10.0%                         | 4.3%   |
| Absolute Return Pools                | 15.5%                         | 6.0%   |
| Short Term Investment Pools          | 2.0%                          | 0.0%   |
| <b>Total</b>                         | <b>100.0%</b>                 |  |

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

**Discount rate** - The discount rate used to measure the total pension liability was 8% (7% for Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. 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 active and inactive employees. 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.

ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

13) DEFINED BENEFIT PLAN 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 8.0 percent (7% for Pension Plus), 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 1 percentage point lower (7.0 percent) or 1 percentage point higher than the current rate:

|   | <b>1% Decrease<br/>Non-Hybrid/<br/>Hybrid)*<br/>6.0% - 7.0%</b> | <b>Current Single<br/>Discount Rate<br/>Assumption<br/>Non-Hybrid/<br/>Hybrid)*<br/>7.0% - 8.0%</b> | <b>1% Increase<br/>Non-Hybrid/<br/>Hybrid)*<br/>8.0% - 9.0%</b> |
|---|---|---|---|
| Reporting Unit's proportionate share of the net pension liability | \$311,954,503   | \$242,248,042   | \$183,478,794   |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2016 Comprehensive Annual Financial Report.

Payables to the Pension Plan

At year end the School District is current on all required pension 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 funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

Other Information

Discount Rate – Assumed Rate of Return

On February 23, 2017, in accordance with PA 300 of 1980, as amended, the Michigan Public Schools Employees' Retirement System's Board approved a decrease in the assumed investment rate of return (discount rate) used in the System's annual actuarial valuation for the non-hybrid defined benefit plan from 8% to 7.5% effective for the fiscal year 2016 valuation and following.

The September 30, 2016 Annual Actuarial Valuation Report will be used to establish the employer contribution for the fiscal year beginning October 1, 2018 and will be based upon the 7.5% investment rate of return assumption. The actuarial computed employer contributions and the net pension liability will increase as a result of lowering the assumed investment rate of return.

Pension Reform 2017

Senate Bill 401, to amend the Public School Employees Retirement Act (PA 300 of 1980, as amended), was presented to the Governor on June 29, 2017, and is awaiting his signature as of the date of this report.

The bill would close the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and create a new optional revised hybrid plan with similar benefit plan calculations but contains 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 would equal 6%. Further, the bill provides, under certain conditions, that the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The bill includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

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13) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Benefit Provisions - Other Postemployment

*Introduction*

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. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, hearing, 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.

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees.

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.

Employer Contributions

The District postemployment healthcare contributions to MPSERS for the year ended June 30, 2017 were approximately \$7,747,000.

The employer contribution rate ranged from 5.52% to 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015; 2.2% to 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015 and from 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through September 30, 2016; and 5.69% to 5.91% of covered payroll for the period from October 1, 2016 through September 30, 2017 dependent upon the employees date of hire and plan election.

ROCHESTER COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

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14) UPCOMING ACCOUNTING PRONOUNCEMENT

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued by the GASB in June 2015 and will be effective for the District's 2018 fiscal year. The Statement requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 75 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.

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.

REQUIRED SUPPLEMENTARY  
INFORMATION

ROCHESTER COMMUNITY SCHOOLS  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2017

|  | <u>Budgeted Amounts</u> |                      | <u>Actual</u>        | <u>Variance With<br/>Final Budget</u> |
|--|-------------------------|----------------------|----------------------|---------------------------------------|
|  | <u>Original</u>         | <u>Final</u>         |                      |                                       |
| <b><u>REVENUES</u></b>                         |                         |                      |                      |                                       |
| Local Sources                                  | \$24,848,798            | \$26,538,827         | \$26,500,048         | (\$38,779)                            |
| State Sources                                  | 125,509,166             | 126,826,760          | 127,135,419          | 308,659                               |
| Federal Sources                                | 4,404,015               | 4,813,481            | 4,544,898            | (268,583)                             |
| Total Revenues                                 | <u>\$154,761,979</u>    | <u>\$158,179,068</u> | <u>\$158,180,365</u> | <u>\$1,297</u>                        |
| <b><u>EXPENDITURES</u></b>                     |                         |                      |                      |                                       |
| Instruction                                    |                         |                      |                      |                                       |
| Basic  | 82,793,895              | 82,415,880           | 80,969,642           | 1,446,238                             |
| Added Needs                                    | 20,890,436              | 20,428,324           | 19,344,177           | 1,084,147                             |
| Adult and Continuing Education                 | 211,051                 | 161,140              | 122,980              | 38,160                                |
| Total Instruction                              | <u>\$103,895,382</u>    | <u>\$103,005,344</u> | <u>\$100,436,799</u> | <u>\$2,568,545</u>                    |
| Student Services                               | 15,137,434              | 14,516,003           | 14,491,527           | 24,476                                |
| Instructional Support                          | 4,253,674               | 6,794,547            | 6,623,223            | 171,324                               |
| General Administration                         | 1,032,304               | 1,158,255            | 978,210              | 180,045                               |
| School Administration                          | 8,563,731               | 8,121,442            | 8,167,452            | (46,010)                              |
| Business Administration                        | 1,962,009               | 2,083,726            | 1,668,441            | 415,285                               |
| Operation & Maintenance of Plant               | 11,057,394              | 11,974,650           | 11,591,193           | 383,457                               |
| Transportation                                 | 7,333,209               | 7,495,508            | 6,749,191            | 746,317                               |
| Central Support Services                       | 6,127,308               | 7,209,609            | 6,496,179            | 713,430                               |
| Other Support                                  | 2,644,129               | 2,662,640            | 2,438,707            | 223,933                               |
| Community Services                             | 3,141,721               | 3,190,951            | 3,149,409            | 41,542                                |
| Capital Outlay                                 | 6,543                   | 53,900               | 49,700               | 4,200                                 |
| Total Expenditures                             | <u>\$165,154,838</u>    | <u>\$168,266,575</u> | <u>\$162,840,031</u> | <u>\$5,426,544</u>                    |
| Excess of Revenues Over Expenditures           | (\$10,392,859)          | (\$10,087,507)       | (\$4,659,666)        | \$5,427,841                           |
| <b><u>OTHER FINANCING SOURCES (USES)</u></b>   |                         |                      |                      |                                       |
| Net Change in Fund Balance                     | <u>\$596,897</u>        | <u>\$1,208,081</u>   | <u>\$6,441,368</u>   | <u>\$5,233,287</u>                    |
| <b><u>FUND BALANCE - BEGINNING OF YEAR</u></b> |                         |                      | <u>22,461,046</u>    |                                       |
| <b><u>FUND BALANCE - END OF YEAR</u></b>       |                         |                      | <u>\$28,902,414</u>  |                                       |



ROCHESTER COMMUNITY SCHOOLS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN  
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH FISCAL YEAR)

|   | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016          | 2015          | 2014          |
|---|------|------|------|------|------|------|------|---------------|---------------|---------------|
| Reporting unit's proportion of net pension liability (%)  |      |      |      |      |      |      |      | 0.97097%      | 0.99526%      | 0.97968%      |
| Reporting unit's proportionate share of net pension liability   |      |      |      |      |      |      |      | \$242,248,042 | \$243,093,129 | \$215,789,986 |
| Reporting unit's covered-employee payroll   |      |      |      |      |      |      |      | \$81,004,312  | \$82,966,730  | \$83,141,855  |
| Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll |      |      |      |      |      |      |      | 299.06%       | 293.00%       | 259.54%       |
| Plan fiduciary net position as a percentage of total pension liability  |      |      |      |      |      |      |      | 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.

ROCHESTER COMMUNITY SCHOOLS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS  
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN  
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)

|  | <u>2024</u> | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u>       | <u>2016</u>       | <u>2015</u>       |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------------|-------------------|-------------------|
| Statutorily required contributions                                 |             |             |             |             |             |             |             | \$22,745,187      | \$19,199,906      | \$25,763,366      |
| Contributions in relation to<br>statutorily required contributions |             |             |             |             |             |             |             | <u>22,745,187</u> | <u>19,199,906</u> | <u>25,763,366</u> |
| Contribution deficiency (excess)                                   |             |             |             |             |             |             |             | <u>\$0</u>        | <u>\$0</u>        | <u>\$0</u>        |
| Reporting unit's covered-employee<br>payroll                       |             |             |             |             |             |             |             | \$84,817,697      | \$81,307,377      | \$82,959,226      |
| Contributions as a percentage of<br>covered-employee payroll       |             |             |             |             |             |             |             | 26.82%            | 23.61%            | 31.06%            |

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.

ROCHESTER COMMUNITY SCHOOLS  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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**BUDGETARY INFORMATION**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Special Revenue Fund (Food Service). All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The School District increased/decreased budgeted amounts during the year in response to changes in funding and related expenditures.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

During the year, Rochester Community Schools had the following expenditure budget variances.

|                       | <u>Final<br/>Budget</u> | <u>Actual</u> | <u>Variance With<br/>Final Budget</u> |
|-----------------------|-------------------------|---------------|---------------------------------------|
| School Administration | \$8,121,442             | \$8,167,452   | (\$46,010)                            |

**PENSION RELATED**

**Changes of benefit terms:** There were no changes of benefit terms for the plan year ended September 30, 2016.

**Changes of assumptions:** There were no changes of benefit assumptions for the plan year ended September 30, 2016.

ADDITIONAL SUPPLEMENTARY  
INFORMATION

ROCHESTER COMMUNITY SCHOOLS  
COMBINING BALANCE SHEET  
SPECIAL REVENUE FUNDS  
JUNE 30, 2017

|  | Food<br>Services<br>Fund | Bookstores<br>Fund | Total              |
|--|--------------------------|--------------------|--------------------|
| <u>ASSETS</u>                              |                          |                    |                    |
| Cash and Cash Equivalents                  | \$2,096,389              | \$36,913           | \$2,133,302        |
| Accounts Receivable                        | 300                      | 0                  | 300                |
| Due from Other Governmental Units          | 73,598                   | 0                  | 73,598             |
| Inventory                                  | 62,018                   | 31,658             | 93,676             |
| <u>TOTAL ASSETS</u>                        | <u>\$2,232,305</u>       | <u>\$68,571</u>    | <u>\$2,300,876</u> |
| <u>LIABILITIES</u>                         |                          |                    |                    |
| Accounts Payable                           | \$463,807                | \$0                | \$463,807          |
| Due to Other Governmental Units            | 76                       | 89                 | 165                |
| Unearned Revenue                           | 158,489                  | 0                  | 158,489            |
| Total Liabilities                          | \$622,372                | \$89               | \$622,461          |
| <u>FUND BALANCES</u>                       |                          |                    |                    |
| Non-Spendable                              |                          |                    |                    |
| Inventory                                  | 62,018                   | 31,658             | 93,676             |
| Restricted                                 |                          |                    |                    |
| Food Service                               | 1,547,915                | 0                  | 1,547,915          |
| Committed                                  |                          |                    |                    |
| Bookstores                                 | 0                        | 36,824             | 36,824             |
| Total Fund Balance                         | \$1,609,933              | \$68,482           | \$1,678,415        |
| <u>TOTAL LIABILITIES AND FUND BALANCES</u> | <u>\$2,232,305</u>       | <u>\$68,571</u>    | <u>\$2,300,876</u> |

ROCHESTER COMMUNITY SCHOOLS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
SPECIAL REVENUE FUNDS  
YEAR ENDED JUNE 30, 2017

|  | Food<br>Services<br>Fund | Bookstores<br>Fund | Total              |
|--|--------------------------|--------------------|--------------------|
| <u>REVENUES</u>                            |                          |                    |                    |
| <u>Local Sources</u>                       |                          |                    |                    |
| Cafeteria Sales                            | \$2,255,273              | \$0                | \$2,255,273        |
| Other Local Revenues                       | 8,745                    | 64,006             | 72,751             |
| Total Local Sources                        | <u>\$2,264,018</u>       | <u>\$64,006</u>    | <u>\$2,328,024</u> |
| <u>State Sources</u>                       |                          |                    |                    |
| State Reimbursements                       | 252,433                  | 0                  | 252,433            |
| <u>Federal Sources</u>                     |                          |                    |                    |
| Federal Reimbursements                     | 808,485                  | 0                  | 808,485            |
| Commodities                                | 224,088                  | 0                  | 224,088            |
| Total Federal Sources                      | <u>\$1,032,573</u>       | <u>\$0</u>         | <u>\$1,032,573</u> |
| Total Revenues                             | <u>\$3,549,024</u>       | <u>\$64,006</u>    | <u>\$3,613,030</u> |
| <u>OTHER FINANCING SOURCES</u>             |                          |                    |                    |
| Transfers from General Fund                | 4,344                    | 0                  | 4,344              |
| Total Revenues & Other Financing Sources   | <u>\$3,553,368</u>       | <u>\$64,006</u>    | <u>\$3,617,374</u> |
| <u>EXPENDITURES</u>                        |                          |                    |                    |
| Purchased Services                         | 1,464,372                | 993                | 1,465,365          |
| Supplies and Materials                     | 1,257,393                | 56,385             | 1,313,778          |
| Capital Outlay                             | 15,442                   | 0                  | 15,442             |
| Other                                      | 7,520                    | 0                  | 7,520              |
| Total Expenditures                         | <u>\$2,744,727</u>       | <u>\$57,378</u>    | <u>\$2,802,105</u> |
| <u>EXCESS REVENUES AND OTHER FINANCING</u> |                          |                    |                    |
| <u>SOURCES OVER (UNDER) EXPENDITURES</u>   |                          |                    |                    |
|  | \$808,641                | \$6,628            | \$815,269          |
| <u>FUND BALANCE - BEGINNING OF YEAR</u>    |                          |                    |                    |
|  | 801,292                  | 61,854             | 863,146            |
| <u>FUND BALANCE - END OF YEAR</u>          |                          |                    |                    |
|  | <u>\$1,609,933</u>       | <u>\$68,482</u>    | <u>\$1,678,415</u> |

ROCHESTER COMMUNITY SCHOOLS  
DEBT SERVICE REQUIREMENTS  
JUNE 30, 2017

| Years Ending<br>June 30 | 1997<br>Principal           | 2012<br>Principal          | 2014<br>Principal          | 2015<br>Principal          | 2016<br>Principal           |
|-------------------------|-----------------------------|----------------------------|----------------------------|----------------------------|-----------------------------|
| 2018                    | \$7,500,000                 | \$4,375,000                | \$4,585,000                | \$900,000                  | \$3,800,000                 |
| 2019                    | 7,500,000                   | 4,325,000                  | 5,045,000                  | 900,000                    | 4,200,000                   |
| 2020                    | 0                           | 4,275,000                  | 0                          | 950,000                    | 14,600,000                  |
| 2021                    | 0                           | 0                          | 0                          | 0                          | 11,300,000                  |
| 2022                    | 0                           | 0                          | 0                          | 0                          | 3,425,000                   |
| 2023                    | 0                           | 0                          | 0                          | 0                          | 3,575,000                   |
| 2024                    | 0                           | 0                          | 0                          | 0                          | 3,775,000                   |
| 2025                    | 0                           | 0                          | 0                          | 0                          | 3,950,000                   |
| 2026                    | 0                           | 0                          | 0                          | 0                          | 4,150,000                   |
| 2027                    | 0                           | 0                          | 0                          | 0                          | 4,375,000                   |
| 2028                    | 0                           | 0                          | 0                          | 0                          | 4,575,000                   |
| 2029                    | 0                           | 0                          | 0                          | 0                          | 4,825,000                   |
| 2030                    | 0                           | 0                          | 0                          | 0                          | 5,050,000                   |
| 2031                    | 0                           | 0                          | 0                          | 0                          | 5,300,000                   |
| 2032                    | 0                           | 0                          | 0                          | 0                          | 5,575,000                   |
| 2033                    | 0                           | 0                          | 0                          | 0                          | 5,850,000                   |
| 2034                    | 0                           | 0                          | 0                          | 0                          | 6,150,000                   |
| 2035                    | 0                           | 0                          | 0                          | 0                          | 6,450,000                   |
| 2036                    | 0                           | 0                          | 0                          | 0                          | 6,650,000                   |
| <b><u>TOTAL</u></b>     | <b><u>\$15,000,000</u></b>  | <b><u>\$12,975,000</u></b> | <b><u>\$9,630,000</u></b>  | <b><u>\$2,750,000</u></b>  | <b><u>\$107,575,000</u></b> |
| Principal Payment Dues  | May 1                       | May 1                      | May 1                      | May 1                      | May 1                       |
| Interest Payments Due   | May 1, Nov 1                | May 1, Nov 1               | May 1, Nov 1               | May 1, Nov 1               | May 1, Nov 1                |
| Interest Rate           | 4.55% to 5%                 | 3% to 4.5%                 | 4%                         | 5%                         | 4% to 5%                    |
| Original Issue          | <b><u>\$100,575,000</u></b> | <b><u>\$26,980,000</u></b> | <b><u>\$47,465,000</u></b> | <b><u>\$11,435,000</u></b> | <b><u>\$108,725,000</u></b> |

**ROCHESTER COMMUNITY SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2017**

| Federal Grantor/Pass-Through Grantor/<br>Program Title | Federal<br>CFDA<br>Number | Pass-<br>Through<br>Project<br>Number | Approved<br>Grant<br>Award<br>Amount | Accrued<br>(Deferred)<br>Revenue<br>July 1, 2016 | Prior<br>Year<br>Expenditures | Current<br>Year<br>Expenditures | Adjustments | Current<br>Year Cash<br>Receipts | Accrued<br>(Deferred)<br>Revenue<br>June 30, 2017 |
|--|---------------------------|---------------------------------------|--------------------------------------|--|-------------------------------|---------------------------------|-------------|----------------------------------|---|
| <b>U.S. DEPARTMENT OF EDUCATION</b>                    |                           |                                       |                                      |  |                               |                                 |             |                                  |   |
| Passed Through Michigan Department of Education:       |                           |                                       |                                      |  |                               |                                 |             |                                  |   |
| Federal Adult Ed English Literacy Civics: 84.002       |                           |                                       |                                      |  |                               |                                 |             |                                  |   |
| Federal Adult Ed English Literacy Civics (15-16)       |                           | 161130-161537                         | \$150,000                            | \$8,335  | \$150,000                     | \$0                             | \$0         | \$8,335                          | \$0   |
| Federal Adult Ed English Literacy Civics (16-17)       |                           | 171130-171537                         | 139,943                              | 0  | 0                             | 139,943                         | 0           | 139,943                          | 0   |
| Federal Adult Ed English Literacy Civics (16-17)       |                           | 171120-175337                         | 37,000                               | 0  | 0                             | 37,000                          | 0           | 37,000                           | 0   |
| Total Federal Adult Ed English Literacy Civics         |                           |                                       | \$326,943                            | \$8,335  | \$150,000                     | \$176,943                       | \$0         | \$185,278                        | \$0   |
| Title I Grants to Local Educational Agencies: 84.010   |                           |                                       |                                      |  |                               |                                 |             |                                  |   |
| Title I (15-16)  |                           | 161530-1516                           | 772,272                              | 202,319  | 710,196                       | 32,194                          | 0           | 234,513                          | 0   |
| Title I (16-17)  |                           | 171520-1617                           | 700,683                              | 0  | 0                             | 627,475                         | 0           | 547,166                          | 80,309  |
| Total Title I Grants to Local Educational Agencies     |                           |                                       | \$1,472,955                          | \$202,319  | \$710,196                     | \$659,669                       | \$0         | \$781,679                        | \$80,309  |
| Title III Limited English: 84.365                      |                           |                                       |                                      |  |                               |                                 |             |                                  |   |
| Title III (15-16)                                      |                           | 160570-1516                           | 38,232                               | 1,923  | 2,170                         | 3,074                           | 0           | 4,997                            | 0   |
| Title III (15-16)                                      |                           | 160580-1516                           | 134,388                              | 10,236   | 61,083                        | 21,492                          | 0           | 31,728                           | 0   |
| Title III (15-16)                                      |                           | 160590-1516                           | 1,167                                | 0  | 555                           | 24                              | 0           | 24                               | 0   |
| Title III (16-17)                                      |                           | 170570-1617                           | 75,872                               | 0  | 0                             | 20,954                          | 0           | 20,954                           | 0   |
| Title III (16-17)                                      |                           | 170580-1617                           | 149,630                              | 0  | 0                             | 91,310                          | 0           | 83,627                           | 7,683   |
| Total Title III Limited English                        |                           |                                       | \$399,289                            | \$12,159   | \$63,808                      | \$136,854                       | \$0         | \$141,330                        | \$7,683   |
| Improving Teacher Quality: 84.367                      |                           |                                       |                                      |  |                               |                                 |             |                                  |   |
| Title IIA (15-16)                                      |                           | 160520-1516                           | 277,653                              | 87,624   | 222,087                       | 14,225                          | 0           | 101,849                          | 0   |
| Title IIA (16-17)                                      |                           | 170520-1617                           | 265,264                              | 0  | 0                             | 190,004                         | 0           | 181,160                          | 8,844   |
| Total Improving Teacher Quality                        |                           |                                       | \$542,917                            | \$87,624   | \$222,087                     | \$204,229                       | \$0         | \$283,009                        | \$8,844   |
| Total Passed Through Michigan Department of Education  |                           |                                       | \$2,742,104                          | \$310,437  | \$1,146,091                   | \$1,177,695                     | \$0         | \$1,391,296                      | \$96,836  |
| Passed Through Oakland County ISD                      |                           |                                       |                                      |  |                               |                                 |             |                                  |   |
| Special Education - Grants to States: 84.027           |                           |                                       |                                      |  |                               |                                 |             |                                  |   |
| IDEA (15-16)   |                           | 160450-1516                           | 3,043,304                            | 2,701,373  | 3,043,304                     | 0                               | 0           | 2,701,373                        | 0   |
| IDEA (16-17)   |                           | 170450-1617                           | 3,198,166                            | 0  | 0                             | 3,198,166                       | 0           | 2,227,991                        | 970,175   |
| Total Special Education - Grants to States             |                           |                                       | \$6,241,470                          | \$2,701,373                                      | \$3,043,304                   | \$3,198,166                     | \$0         | \$4,929,364                      | \$970,175   |
| Special Education - Preschool: 84.173                  |                           |                                       |                                      |  |                               |                                 |             |                                  |   |
| Special Education Preschool (15-16)                    |                           | 160460-1516                           | 127,723                              | 31,640   | 124,103                       | 3,620                           | 0           | 35,260                           | 0   |
| Special Education Preschool (16-17)                    |                           | 170460-1617                           | 129,725                              | 0  | 0                             | 129,725                         | 0           | 92,115                           | 37,610  |
| Total Special Education - Preschool                    |                           |                                       | \$257,448                            | \$31,640   | \$124,103                     | \$133,345                       | \$0         | \$127,375                        | \$37,610  |
| Total Special Education Cluster                        |                           |                                       | \$6,498,918                          | \$2,733,013                                      | \$3,167,407                   | \$3,331,511                     | \$0         | \$5,056,739                      | \$1,007,785                                       |
| <b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>              |                           |                                       | \$9,241,022                          | \$3,043,450                                      | \$4,313,498                   | \$4,509,206                     | \$0         | \$6,448,035                      | \$1,104,621                                       |



ROCHESTER COMMUNITY SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2017

| Federal Grantor/Pass-Through Grantor/<br>Program Title          | Federal<br>CFDA<br>Number | Pass-<br>Through<br>Project<br>Number | Approved<br>Grant<br>Award<br>Amount | Accrued<br>(Deferred)<br>Revenue<br>July 1, 2016 | Prior<br>Year<br>Expenditures | Current<br>Year<br>Expenditures | Adjustments | Current<br>Year Cash<br>Receipts | Accrued<br>(Deferred)<br>Revenue<br>June 30, 2017 |
|---|---------------------------|---------------------------------------|--------------------------------------|--|-------------------------------|---------------------------------|-------------|----------------------------------|---|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u>                           |                           |                                       |                                      |  |                               |                                 |             |                                  |   |
| Passed Through Michigan Department of Education:                |                           |                                       |                                      |  |                               |                                 |             |                                  |   |
| School Breakfast Program  | 10.553                    | N/A                                   | \$98,954                             | \$7,599  | \$0                           | \$98,954                        | \$0         | \$100,356                        | \$6,197   |
| National School Lunch Program                                   | 10.555                    | N/A                                   | 709,531                              | 48,150   | 0                             | 709,531                         | 0           | 716,192                          | 41,489  |
| National School Lunch Program - Entitlement Commodities         |                           | N/A                                   | 224,088                              | 0  | 0                             | 224,088                         | 0           | 224,088                          | 0   |
| Total National School Lunch Program                             |                           |                                       | <u>\$933,619</u>                     | <u>\$48,150</u>                                  | <u>\$0</u>                    | <u>\$933,619</u>                | <u>\$0</u>  | <u>\$940,280</u>                 | <u>\$41,489</u>                                   |
| <u>TOTAL U.S. DEPARTMENT OF AGRICULTURE (NUTRITION CLUSTER)</u> |                           |                                       | \$1,032,573                          | \$55,749   | \$0                           | \$1,032,573                     | \$0         | \$1,040,636                      | \$47,686  |
| <u>U.S. DEPARTMENT OF HEALTH &amp; HUMAN SERVICES</u>           |                           |                                       |                                      |  |                               |                                 |             |                                  |   |
| Passed Through Oakland County ISD                               |                           |                                       |                                      |  |                               |                                 |             |                                  |   |
| Medicaid Outreach Program (15-16)                               | 93.778                    | N/A                                   | 35,692                               | 0  | 0                             | 35,692                          | 0           | 35,692                           | 0   |
| <u>TOTAL FEDERAL AWARDS</u>                                     |                           |                                       | <u>\$10,309,287</u>                  | <u>\$3,099,199</u>                               | <u>\$4,313,498</u>            | <u>\$5,577,471</u>              | <u>\$0</u>  | <u>\$7,524,363</u>               | <u>\$1,152,307</u>                                |

ROCHESTER COMMUNITY SCHOOLS  
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2017

FEDERAL REVENUE RECOGNIZED FOR THE SCHEDULE  
OF EXPENDITURES OF FEDERAL AWARDS

\$5,577,471

FEDERAL REVENUE RECOGNIZED PER THE GENERAL  
PURPOSE FINANCIAL STATEMENTS

|                       |                           |
|-----------------------|---------------------------|
| General Fund          | \$4,544,898               |
| Special Revenue Funds | <u>1,032,573</u>          |
| <b><u>TOTAL</u></b>   | <b><u>\$5,577,471</u></b> |

- 1) Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of Rochester Community Schools for the year ended June 30, 2017.

The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (the "Uniform Guidance"). Because the schedule presents only a selected portion of the operations of Rochester Community Schools, it is not intended to and does not present the financial position or changes in net position of Rochester Community Schools.

- 2) Summary of Significant Accounting Policies - Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Expenditures are recognized following the cost principles in OMB Circular A-87 or the Uniform Guidance, as applicable, 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.

The District has elected not to use the 10 percent de minimus indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

- 3) Management has utilized the Cash Management System (CMS) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Grant Auditor's Report have been reconciled in the attached reconciliation on page 35 of this report.
- 4) Noncash Assistance - The value of noncash assistance received was determined in accordance with the provisions of the Uniform Guidance. The grantee received no noncash assistance during the year ended June 30, 2017 that is not included on the schedule of expenditures of federal awards.
- 5) The District did not pass-through any federal awards to subrecipients.

ROCHESTER COMMUNITY SCHOOLS  
RECONCILIATION OF "GRANT AUDITOR'S REPORT"  
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2017

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|  |             |             |
|--|-------------|-------------|
| Current Payments Per the Grant Auditor's Report  |             | \$1,923,912 |
| Cash Management System   |             |             |
| <u>Add:</u> Amounts recorded on the Cash Management System in the prior year but received<br>by the District in the Current Year |             |             |
| Federal Adult Ed English Literacy Civics (CFDA 84.002)   | \$8,335     |             |
| Title I (CFDA 84.010)  | 180,629     |             |
| Title III Limited English (CFDA 84.365)  | 8,938       |             |
| Improving Teacher Quality (CFDA 84.367)  | 86,030      |             |
| Total  | 283,932     | 283,932     |
| <u>Add:</u> Passed Through Oakland County ISD  |             |             |
| Special Education - State Grants (CFDA 84.027)   | \$4,929,364 |             |
| Special Education - Preschool (CFDA 84.173)  | 127,375     |             |
| Medicaid Outreach (CFDA 93.778)  | 35,692      |             |
| Total Passed Through Oakland County ISD  | 5,092,431   | 5,092,431   |
| Entitlement and Bonus Commodities  |             | 224,088     |
| <u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF</u><br><u>EXPENDITURES OF FEDERAL AWARDS</u>                                      |             | \$7,524,363 |



October 31, 2017

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

Independent Auditor's Report

To the Board of Education of  
Rochester Community Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Rochester Community Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Rochester Community Schools' basic financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control Over Financial Reporting

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

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

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

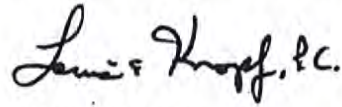
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rochester Community Schools'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*.

Rochester Community Schools  
Page 2  
October 31, 2017

**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.



LEWIS & KNOPF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS



October 31, 2017

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; and REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditor's Report

To the Board of Education of  
Rochester Community Schools

**Report on Compliance for Each Major Federal Program**

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

**Management's Responsibility**

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

**Auditor's Responsibility**

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Rochester Community Schools' compliance.

**Opinion on Each Major Federal Program**

In our opinion, Rochester Community Schools, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

Rochester Community Schools' response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rochester Community Schools' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response and corrective action plan.

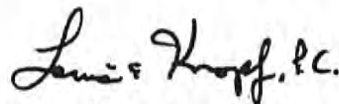
### Report on Internal Control over Compliance

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

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

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



LEWIS & KNOPF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS



Lewis  
& Knopf  
CPAs, PC

ROCHESTER COMMUNITY SCHOOLS  
SUMMARY OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2017

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**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency (ies) identified?  Yes  No

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency (ies) identified?  Yes  None reported

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

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

Identification of major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|----------------|------------------------------------|
| 84.010         | Title I                            |
| 10.553/10.555  | Nutrition Cluster                  |

Dollar threshold use to distinguish between type A and type B programs: \$ 750,000.00

Auditee qualified as low-risk auditee?  Yes  No

**SECTION II – FINANCIAL STATEMENT FINDINGS**

There were no findings for the current year.



ROCHESTER COMMUNITY SCHOOLS  
SUMMARY OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2017

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 2017-001**

Program Name – (Nutrition Cluster) National School Breakfast and National School Lunch, U.S. Department of Agriculture, passed through Michigan Department of Education. CFDA #10.553/ 10.555.

Pass-through Entity – Michigan Department of Education

Finding Type - Noncompliance

Criteria – Federal register section 7 CFR Part 210.14b requires school districts to limit its School Breakfast and Lunch Fund net resources to an amount that does not exceed three months average expenditures.

Condition – The District’s net cash resources exceeded three months average expenditures at June 30, 2017.

Questioned Costs – None

Context – The District did not meet the three months average expenditure test at June 30, 2017.

Cause/Effect – Management did not monitor net cash resources to ensure they did not exceed three months average expenditures.

Recommendation: We recommend that the District review the Food Service Fund net cash resources periodically to ensure that the fund will not have an excess of three months average expenditures at the fiscal year end. The District should take this requirement into consideration when preparing the annual budget, and any subsequent adjustments to the budget.

**STATUS OF PRIOR YEAR FINDINGS**

There were no findings for the prior year.



501 W. University Drive, Rochester, Michigan 48307. Phone: 248.726.3000. Fax: 248.726.3105.

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October 31, 2017

The District anticipated the excess fund balance in the Food Service Fund at June 30, 2017 and plans to use the excess to improve its food service operations. The planned improvements include equipping a new kitchen in a building currently under renovation and expansion, the renovation of kitchen and dining areas in several school buildings, and the replacement of outdated kitchen equipment in buildings across the district including walk-in coolers and ovens.

Sincerely,

Dana J. Taylor, CPA, CFF  
Assistant Superintendent for Business Services



October 31, 2017

To the Board of Education of  
Rochester Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Rochester Community Schools for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 5, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Rochester Community Schools are described in Note 1 to the financial statements. As described in Note 10, the Rochester Community Schools adopted Statement of Governmental Accounting Standards (GASB Statement) No. 77, *Tax Abatement Disclosures* in 2017. The adoption of this accounting pronouncement had no impact on the financial statements of the District, but did require a footnote to be added to the financial statements. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Estimates have been used to calculate the unfunded pension liability.

Management's estimate in calculating the liability for employee compensated absences.

We evaluated the key factors and assumptions used to develop the balance of employee compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's determination of the estimated life span of the capital assets.

We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

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

*Corrected and Uncorrected Misstatements*

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

*Disagreements with Management*

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

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 31, 2017.

*Management Consultations with Other Independent Accountants*

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

*Other Audit Findings or Issues*

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

Other Matters

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

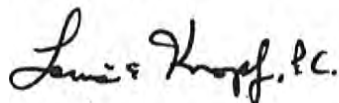
Rochester Community Schools  
Page 3  
October 31, 2017

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

Restriction on Use

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

Very truly yours,



LEWIS & KNOPF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS