ROCHESTER COMMUNITY SCHOOLS

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

JUNE 30, 2018

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October 22, 2018

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, 2018, 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, 2018, 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.

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Emphasis of Matter – Change in Accounting Principle

As discussed in Note 14 to the financial statements, Rochester Community Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of funding progress and employer contributions for the pension plan, the schedules of funding progress and employer contributions for OPEB, 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 22, 2018, 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.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Lewis & Knopf CPAs, PC

The Management Discussion and Analysis provides an overview of the Rochester Community Schools' financial activities for the fiscal year ended June 30, 2018.

Financial Highlights

- The liabilities and deferred inflows of the District exceeded its assets and deferred outflows at June 30, 2018 by $98,305,719 (net position).

The District's total net position increased by $10,860,463, after restatement of net position at July 1, 2017. This restatement is due to the implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* More detailed information on this can be seen at Note 14 in the Notes to Financial Statements.

- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $83,551,957, a decrease of $40,792,742 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 $31,250,094.

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 g*overnment-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, 2018.

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.

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 $ 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 $178,109,280 at June 30, 2018. 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.

Net Position
Governmental Activities
June 30,

	2018	2017
Assets		
Current assets	$ 105,108,978	$ 146,219,857
Capital assets net of depreciation	276,286,932	240,763,631
Total assets	381,395,910	386,983,488
Deferred Outflows of Resources	63,834,131	35,732,342
Liabilities		
Current liabilities	47,902,474	48,579,536
Long-term liabilities	463,692,571	390,810,909
Total liabilities	511,595,045	439,390,445
Deferred inflows of resources	31,940,715	5,496,314
Net position (deficit)		
Net Investment in capital assets	178,109,280	162,779,420
Restricted for debt service	3,147,098	2,911,490
Unrestricted	(279,562,097)	(274,857,092) *
Total net position (deficit)	$ (98,305,719)	$ (109,166,182)

*Restated - see note 14 in the Notes to Financial Statements

An amount of $3,147,098 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 ($98,305,719) 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*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* More detailed information on this can be seen at Note 13 in the Notes to Financial Statements.

Changes in Net Position
Governmental Activities

	June 30, 2018	June 30, 2017
General revenue		
Property taxes	$ 45,412,084	$ 43,833,696
State of Michigan aid, unrestricted	106,216,519	103,458,205
Other – federal, state and local	15,500,371	15,321,436
Program revenue		
Charges for services – local	7,697,913	7,398,428
Operating grants – federal and state	31,133,542	30,556,215
Total revenues	205,960,429	200,567,980
Expenses		
Instruction	104,705,428	90,623,730
Support services	65,699,674	54,902,471
Community services	3,143,048	3,206,787
Food services	3,116,701	2,744,727
Athletics	2,435,549	2,334,358
Outgoing transfers and other uses	3,821	81,501
Interest on long-term debt	7,389,547	8,884,483
Depreciation (unallocated)	8,606,198	8,379,040
Total expenses	195,099,966	171,157,097
Change in net position	10,860,463	29,410,883
Net position – July 1 (Restated)	(109,166,182)	(51,581,812)
Restatement for implementation of GASB 75	-	(86,995,253)
Net position – June 30	$ (98,305,719)	$ (109,166,182)

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.

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 $83,551,957, a decrease of $40,792,742 in comparison with the prior year. Unassigned fund balance totaled $30,647,711 at June 30, 2018. 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 $30,647,711, while total fund balance was $83,551,957.

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, 2018 amounted to $276,286,932 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, site improvements, vehicles and equipment.

Depreciation expense totaled $8,606,198 for the year ended June 30, 2018.

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, 2018 and 2016 follows:

CAPITAL ASSETS AT YEAR END

(NET OF DEPRECIATION)

	2018	2017
Land and improvements	$ 9,144,814	$ 9,144,814
Construction in progress	42,859,139	31,854,476
Buildings and additions	209,490,008	189,433,152
Site improvements	9,540,758	4,567,250
Furniture and equipment	2,188,193	3,060,701
Vehicles and buses	3,064,020	2,703,238
Total	$ 276,286,932	$240,763,631

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.

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 $126,770,000. The District’s total debt principal payments were $21,160,000 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 2018-19 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, 2018.

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 Deputy Superintendent for Business Affairs, 501 W. University Drive, Rochester, Michigan 48307.

BASIC FINANCIAL STATEMENTS

ROCHESTER COMMUNITY SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	$27,548,383
Investments	51,265,086
Accounts Receivable	607,389
Due from Other Governmental Units	24,970,589
Inventory	216,874
Prepaid Expenditures	500,657
Capital Assets, Not Being Depreciated - Construction in Progress	42,859,139
Capital Assets, Not Being Depreciated - Land	9,144,814
Capital Assets, Net of Accumulated Depreciation	224,282,979
Total Assets	$381,395,910
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Loss on Refunding	531,337
Related to Pensions	57,281,330
Related to Postemployment Benefits	6,021,464
Total Deferred Outflows of Resources	$63,834,131
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$445,230,041
LIABILITIES	
Accounts Payable	5,835,800
Due to Other Governmental Units	1,839,505
Accrued Expenditures	4,636,621
Salaries Payable	9,304,720
Unearned Revenue	962,696
Claims Payable	741,338
Non-Current Liabilities - Due in One Year	24,581,794
Non-Current Liabilities - Due in More than One Year	124,524,655
Net Pension Liability	252,905,785
Net Other Postemployment Benefits Liability	86,262,131
Total Liabilities	$511,595,045
DEFERRED INFLOWS OF RESOURCES	
Related to State Aid Funding for Pension and Other Postemployment Benefits	12,033,138
Related to Pensions	16,776,291
Related to Other Postemployment Benefit	2,916,289
Deferred Gain on Refunding	214,997
Total Deferred Inflows of Resources	$31,940,715
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	$543,535,760
NET POSITION	
Net Investment in Capital Assets	178,109,280
Restricted	3,147,098
Unrestricted	(279,562,097)
TOTAL NET POSITION	($98,305,719)

See notes to the financial statements

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

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges For Services	Program Revenues: Program Specific Operating Grants and Contributions	Governmental Activities: Net (Expense) Revenue and Change in Net Position
Governmental Activities:				
Instruction	$104,705,428	$4,526,499	$28,988,582	($71,190,347)
Support Services	65,699,674	910,520	994,691	(63,794,463)
Community Services	3,143,048	0	0	(3,143,048)
Athletics	2,435,549	0	0	(2,435,549)
Outgoing Transfers and Other Uses	3,821	0	0	(3,821)
Food Service	3,116,701	2,260,894	1,150,269	294,462
Interest - Long-Term Obligations	7,389,547	0	0	(7,389,547)
Depreciation - Unallocated	8,606,198	0	0	(8,606,198)
Total Governmental Activities	$195,099,966	$7,697,913	$31,133,542	($156,268,511)

General Revenues:	
Taxes:	
Property Taxes, Levied for General Purposes	17,332,500
Property Taxes, Levied for Debt Retirement	28,079,584
State Sources - Unrestricted	106,216,519
Interdistrict Sources	11,677,700
Investment Earnings	1,005,467
Miscellaneous	2,817,204
Total General Revenues and Transfers	$167,128,974
Change in Net Position	$10,860,463
Net Position - Beginning of Year - As Restated	(109,166,182)
Net Position - End of Year	($98,305,719)

See notes to the financial statements.

ROCHESTER COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General Fund	Debt Retirement Fund	Capital Projects Fund	Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	$22,506,866	$2,252,647	$446,586	$2,342,284
Investments	0	0	51,265,086	0
Accounts Receivable	440,945	0	166,444	0
Due from Other Governmental Units	24,787,406	0	0	183,183
Inventory	119,456	0	0	97,418
Prepaid Expenditures	482,927	0	17,730	0
TOTAL ASSETS	$48,337,600	$2,252,647	$51,895,846	$2,622,885
LIABILITIES				
Accounts Payable	$1,553,594	$2,089	$3,838,531	$441,586
Due to Other Governmental Units	1,839,380	0	0	125
Accrued Expenditures	3,614,300	0	0	0
Salaries Payable	9,304,720	0	0	0
Unearned Revenue	775,512	0	0	187,184
Total Liabilities	$17,087,506	$2,089	$3,838,531	$628,895
FUND BALANCES				
Non-Spendable				
Inventory	119,456	0	0	97,418
Prepaid Expenditures	482,927	0	17,730	0
Restricted				
Debt Retirement	0	2,250,558	0	0
Food Service	0	0	0	1,856,899
Capital Projects				
Committed	0	0	48,039,585	39,673
Unassigned	30,647,711	0	0	0
Total Fund Balances	$31,250,094	$2,250,558	$48,057,315	$1,993,990
TOTAL LIABILITIES AND FUND BALANCES	$48,337,600	$2,252,647	$51,895,846	$2,622,885

See notes to the financial statements.

ROCHESTER COMMUNITY SCHOOLS
RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCES TO NET POSITION OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2018

Total Governmental Funds	Total Governmental Fund Balances:		$83,551,957
	Amounts reported for governmental activities in the statement of net position are different because:		
$27,548,383	Deferred Outflows:		
51,265,086	Deferred Loss on Refunding	$531,337	
607,389	Related to Pensions	57,281,330	
24,970,589	Related to Postemployment Benefits	6,021,464	
216,874	Total		63,834,131
500,657	Deferred Inflows		
	State Aid Funding - Pension & Other Postemployment Benefits	($12,033,138)	
$105,108,978	Related to Pensions	(16,776,291)	
	Related to Other Postemployment Benefits	(2,916,289)	
	Deferred Gain on Refunding	(214,997)	
$5,835,800	Total		(31,940,715)
1,839,505			
3,614,300	Capital assets used in governmental activities are not financial		
9,304,720	resources and therefore are not reported as assets in governmental funds.		
962,696	Cost of Assets	$378,182,983	
$21,557,021	Accumulated Depreciation	(144,755,190)	
	Capital Assets - Net of Accumulated Depreciation		$233,427,793
	Construction in Progress		42,859,139
216,874			
500,657	Accrued Interest on Long-Term Debt		(1,022,321)
2,250,558	Claims Payable		(741,338)
1,856,899			
	Long-term liabilities, including bonds payable, are not due and		
48,079,258	payable in the current period and therefore are not reported as		
30,647,711	liabilities in the funds. Long-term liabilities at year end consist of:		
$83,551,957			
	Bonds Payable	$126,770,000	
	Capital Lease	36,520	
$105,108,978	Unamortized Premium	19,744,787	
	Compensated Absences Payable/Retirement/Termination	2,555,142	
	Total Long-Term Liabilities		(149,106,449)
	Net Pension Liability		(252,905,785)
	Net Other Postemployment Benefits Liability		(86,262,131)
	TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		($98,305,719)

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

	General Fund	Debt Retirement Fund	Capital Projects Fund	Non-Major Governmental Funds
REVENUES				
Local Sources	$26,438,162	$28,099,970	$1,026,735	$2,356,143
State Sources	131,113,691	0	0	108,192
Federal Sources	4,091,410	0	0	1,042,077
Interdistrict Sources	11,677,700	0	0	0
Total Revenues	$173,320,963	$28,099,970	$1,026,735	$3,506,412
EXPENDITURES				
Instruction	100,191,725	0	0	0
Student Services	14,693,611	0	0	0
Instructional Support	7,265,688	0	0	0
General Administration	1,114,586	0	0	0
School Administration	8,511,989	0	0	0
Business Administration	1,914,071	0	0	0
Operation & Maintenance of Plant	13,963,173	0	0	0
Transportation	7,298,214	0	0	0
Central Support Services	7,528,254	0	0	0
Athletics	2,435,549	0	0	0
Other Support Services	190,775	0	0	0
Community Services	2,920,806	0	0	77,048
Outgoing Transfers and Other Uses	40,341	0	0	0
Food Service	0	0	0	3,116,701
Debt Service				
Principal	0	21,160,000	0	0
Interest	0	7,101,952	0	0
Other	0	72,739	0	0
Capital Outlay	2,907,938	0	44,248,011	0
Total Expenditures	$170,976,720	$28,334,691	$44,248,011	$3,193,749
Excess (Deficiency) of Revenues (Under) Expenditures	$2,344,243	($234,721)	($43,221,276)	$312,663
OTHER FINANCING SOURCES (USES)				
Transfers In	0	0	0	2,912
Transfers (Out)	(2,912)	0	0	0
Other Reimbursements	6,349	0	0	0
Total Other Financing Sources (Uses)	$3,437	$0	$0	$2,912
Net Change in Fund Balance	$2,347,680	($234,721)	($43,221,276)	$315,575
FUND BALANCE - BEGINNING OF YEAR	28,902,414	2,485,279	91,278,591	1,678,415
FUND BALANCE - END OF YEAR	$31,250,094	$2,250,558	$48,057,315	$1,993,990

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, 2018

Total Governmental Funds
$57,921,010
131,221,883
5,133,487
11,677,700
$205,954,080
100,191,725
14,693,611
7,265,688
1,114,586
8,511,989
1,914,071
13,963,173
7,298,214
7,528,254
2,435,549
190,775
2,997,854
40,341
3,116,701
21,160,000
7,101,952
72,739
47,155,949
$246,753,171
($40,799,091)
2,912
(2,912)
6,349
$6,349
($40,792,742)
124,344,699
$83,551,957

Total net change in fund balances - governmental funds		($40,792,742)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Construction in Progress	11,004,663	
Capital Outlay	33,154,357	
Depreciation Expense	(8,606,198)	
Loss on Sale of Assets	(29,521)	
Total		35,523,301
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of repayments reported as expenditures in the governmental funds.		21,160,000
Payment on Capital Lease		36,520
Amortization of:		
Bond Refunding		(376,257)
Unamortized Premiums		2,207,572
Net Change in Compensated Absences, Early Retirement and Termination Incentives		764,462
Net Change in Medical Claims Payable		67,182
Change in accrued interest on long-term liabilities		161,401
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental Funds.		
State Aid Funding for Pension and Other Postemployment Benefits		(12,033,138)
Pension Related Items		303,865
OPEB Related Items		3,838,297
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$10,860,463

ROCHESTER COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2018

	Agency Fund
ASSETS	
Cash and Cash Equivalents	$1,272,832
TOTAL ASSETS	$1,272,832
LIABILITIES	
Accounts Payable	$1,158
Due to Student Groups	1,225,525
Due to Other Support Organizations	46,149
TOTAL LIABILITIES	$1,272,832

See notes to the financial statements.

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, 2018.

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.

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).

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:

Description	Governmental Activities Estimated Lives
Buildings and Improvements	25 – 45 years
Site Improvements	25 – 45 Years
Buses and Other Vehicles	6 years
Furniture and Equipment	5 – 50 years

H) DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred Outflows

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

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H) DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (Continued)

Deferred Inflows
In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has four items that qualifies for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement period. The second and third items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. The fourth item is the deferred charge on refunding. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L) DEFINED BENEFIT PLAN

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

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	$ 27,548,383
Statement of Fiduciary Assets and Liabilities - Cash and Cash Equivalents	1,272,832
TOTAL	$ 28,821,215
Bank Deposits (Checking and Savings Accounts)	$ 28,820,170
Cash on Hand	1,045
TOTAL	$ 28,821,215

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.

3) DEPOSITS AND INVESTMENTS (Continued)

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.

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, $31,251,768 of the District's bank balance of $31,515,927 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.

Investment Type	Fair Value	Rating	Rating Organization
Fannie Mae	$ 28,916,618	AA+	Standard & Poor’s
Federal Home Loan Banks	4,969,060	AA+	Standard & Poor’s
Freddie Mac	7,577,584	AA+	Standard & Poor’s
MILAF Cash Management	9,796,812	AAAm	Standard & Poor’s
MILAF Max	5,012	AAAm	Standard & Poor’s
Total	$ 51,265,086		

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.

3) DEPOSITS AND INVESTMENTS (Continued)

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.

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, 2018 consisted of the following:

	Amount	Fair Value Measurement
Federal Agency Bonds	$ 41,284,566	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, 2018, 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:

GOVERNMENTAL ACTIVITIES	AMOUNT
State Aid	$ 23,645,454
Federal Grants	1,242,362
Other Grant Programs and Fees	82,773
TOTAL GOVERNMENTAL ACTIVITIES	$ 24,970,589

6) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated:				
Land	$ 9,144,814	$	$ -	$ 9,144,814
Construction in progress	31,854,476	11,004,663	-	42,859,139
	40,999,290	11,004,663	-	52,003,953
Capital assets being depreciated:				
Buildings and improvements	303,093,312	26,810,676		329,903,988
Site improvements	14,732,821	5,498,213		20,231,034
Buses and other vehicles	10,665,157	120,563	186,257	10,599,463
Furniture and equipment	7,705,618	724,905	126,839	8,303,684
	336,196,908	33,154,357	313,096	369,038,169
Less accumulated depreciation for:				
Buildings and improvements	(113,660,160)	(6,753,820)		(120,413,980)
Site improvements	(10,165,571)	(524,705)		(10,690,276)
Buses and other vehicles	(7,961,919)	(635,608)	(186,257)	(8,411,270)
Furniture and equipment	(4,644,917)	(692,065)	(97,318)	(5,239,664)
	(136,432,567)	(8,606,198)	(283,575)	(144,755,190)
Total capital assets being depreciated, net	199,764,341	24,548,159	29,521	224,282,979
Governmental activities capital assets, net	$ 240,763,631	$ 35,552,822	$ 29,521	$ 276,286,932

Depreciation for fiscal year ended June 30, 2018 amounted to $8,606,198. 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, 2018, consisted of the following:

		TRANSFERS FROM
		General Fund
TRANSFERS TO	Food Service	$ 2,912

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.

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, 2018:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within One Year
Governmental activities:					
Bonds Payable	$ 147,930,000	$ -	$ (21,160,000)	$ 126,770,000	$ 21,970,000
Capital Lease	73,040	-	(36,520)	36,520	36,520
Bond Premium:	21,952,359	-	(2,207,572)	19,744,787	2,207,572
Early Retirement Incentives	1,196,240	1,921,099	(2,360,259)	757,080	333,950
Compensated Absenses	1,401,604	-	(353,597)	1,048,007	-
Termination Incentives	721,760	126,693	(98,398)	750,055	33,752
Total governmental activities	$ 173,275,003	$2,047,792	$ (26,216,346)	$ 149,106,449	$ 24,581,794

Bonds payable at June 30, 2018 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%	$ 7,500,000
$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%.	8,600,000
$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%.	5,045,000
$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%.	1,850,000
$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%.	103,775,000
TOTAL BONDS PAYABLE	$ 126,770,000

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

Year Ended June 30,	Principal	Interest	Total
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
2023	3,575,000	3,423,000	6,998,000
2023-2028	20,825,000	14,283,750	35,108,750
2028-2033	26,600,000	8,931,250	35,531,250
2033-2036	19,250,000	1,950,000	21,200,000
	$ 126,770,000	$ 47,604,550	$ 174,374,550

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 $1,015,161 and $ 946,041, respectively.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018, are as follows:

Future minimum payments are as follows:

Year Ending June 30,	Amount
2019	$ 36,520

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, 2018, was as follows:

Capital Assets Net	$ 276,286,932
Bonds Payable	(126,770,000)
Premium on Bonds Payable	(19,744,787)
Loss on Refunding	531,337
Gain on Refunding	(214,997)
Capital Leases Payable	(36,520)
Fund Balance - Capital Projects	48,057,315
Total	$ 178,109,280

10) 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:

Municipality	Taxes Abated
Rochester Hills	$65,670

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	$	1,228,237
Food Service		1,918,861
TOTAL	$	3,147,098

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:

	Current Year		Prior Year	
Estimated Liability - Beginning of Year	$	808,520	$	837,553
Estimated Claims Incurred, Including Changes in Estimates		15,584,401		15,803,804
Claim Payments		15,651,583		(15,832,837)
ESTIMATED LIABILITY - END OF YEAR	$	741,338	$	808,520

13) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS

Plan Description

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

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

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

Benefits Provided - Overall

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

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

Benefits Provided – Pension

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by the 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.

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

Pension Reform 2012

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

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

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

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

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

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

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

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

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

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

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

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

Pension Reform of 2017

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

Benefits Provided – Other postemployment benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

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

Regular Retirement (no reduction factor for age)

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

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

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7% for pension and 0% - 3% for other postemployment benefits. Plan members electing the defined contribution plan option 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.

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

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

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

The District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately $26,509,000, with $26,256,000 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately $6,871,000, with $6,609,000 specifically for the Defined Benefit Plan.

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

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

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

Pension Liabilities

At June 30, 2018, the District reported a liability of $252,905,785 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the District's proportion was 0.97593322 and 0.97096588 percent.

MPSERS (Plan) Non-University Employers	September 30, 2017	September 30, 2016
Total Pension Liability	$72,407,218,688	$67,917,445,078
Plan Fiduciary Net Position	46,492,967,573	42,968,263,308
Net Pension Liability	25,914,251,115	24,949,181,763
Proportionate Share	0.97593322%	0.97096588
Net Pension Liability for the District	252,905,785	242,248,042

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

For the year ended September 30, 2017, the District recognized pension expense of $25,974,178.

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

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences Between Expected and Actual Experience	$ 2,197,924	$ (1,240,956)
Changes of Assumptions	27,707,838	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	(12,090,560)
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	2,482,693	(3,444,775)
Employer Contributions Subsequent to the Measurement Date	24,892,875	
TOTAL	$ 57,281,330	$ (16,776,291)

$24,892,875 is 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.

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

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

Year Ending September 30,	Amount
2018	$ 4,367,505
2019	8,366,608
2020	3,277,640
2021	(399,589)
TOTAL	$ 15,612,164

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

OPEB Liabilities

At June 30, 2018, the District reported a liability of $86,262,131 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the District's proportion was 0.97411115 percent.

MPSERS (Plan) Non-University Employers	September 30, 2017
Total Other Postemployment Benefits Liability	$13,920,945,991
Plan Fiduciary Net Position	5,065,474,948
Net Other Postemployment Benefits Liability	8,855,471,043
Proportionate Share	0.97411115%
Net Other Postemployment Benefits Liability for the District	86,262,131

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

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

For the year ended September 30, 2017, the District recognized OPEB expense of $5,770,440.

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

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences Between Expected and Actual Experience	$ -	$ (918,438)
Changes of Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	(1,997,851)
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	2,574	-
Reporting Unit's Contributions Subsequent to the Measurement Date	6,018,890	
TOTAL	$ 6,021,464	$ (2,916,289)

$6,018,890 is reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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

Year Ending September 30,	Amount
2018	$ (704,153)
2019	(704,153)
2020	(704,153)
2021	(704,153)
2022	(97,103)

Actuarial Assumptions

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

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

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

Inflation – 3.0%

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

Actuarial Assumptions (Continued)

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

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

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

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

Healthcare cost trend rate for other postemployment benefit – 7.5% for year one and graded to 3.5% to year twelve.

Additional assumptions for other postemployment benefit only – Applies to individuals hired before September 4, 2012:

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

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

Coverage Election at Retirement – 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

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

Investment Category	**Target Allocation***	**Long-term Expected Real Rate of Return***
Domestic Equity Pools	28.0%	5.6%
Private Equity Pools	18.0%	8.7%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	(0.1)%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short Term Investment Pools	2.0%	(0.9)%
Total	**100.0%**	

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

Actuarial Assumptions (Continued)

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

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

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

Sensitivity of the net pension liability to changes in the discount rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for Pension Plus Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Pension		
	1% Decrease (6.5% / 6.0%)	**Discount Rate (7.5% / 7.0%)**	**1% Increase (8.5% / 8.0%)**
Reporting Unit's proportionate share of the net pension liability	$329,452,119	$252,905,785	$188,458,647

Sensitivity of the net OPEB liability to changes in the discount rate - The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the Reporting Unit's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other Postemployment Benefit		
	1% Decrease (6.5%)	**Discount Rate (7.5%)**	**1% Increase (8.5%)**
Reporting Unit's proportionate share of the net other postemployment benefit liability	$101,037,887	$86,262,131	$73,722,140

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

Actuarial Assumptions (Continued)

Sensitivity to the net OPEB liability to changes in the healthcare cost trend rates – The following presents the Reporting Unit's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.5%), as well as what the Reporting Unit's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other Postemployment Benefit		
	1% Decrease (6.5% decreasing to 2.5%)	**Healthcare cost trend rates (7.5% decreasing to 3.5%**	**1% Increase (8.5% decreasing to 4.5%)**
Reporting Unit's proportionate share of the net other postemployment benefit liability	$73,052,429	$86,262,131	$101,260,826

Pension and OPEB Plan Fiduciary Net Position

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

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

Other Information

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

14) NEW ACCOUNTING STANDARDS

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

Summary:

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

	Governmental Activities
Net Position as previously stated July 1, 2017	$ (22,170,929)
Adoption of GASB statement No. 75	
Net Other Postemployment Benefits Liability	(90,987,437)
Deferred Outflows	6,741,499
Deferred Inflows	(2,749,315)
NET POSITION AS RESTATED JULY 1, 2017	$ (109,166,182)

15) UPCOMING ACCOUNTING PRONOUNCEMENTS

A) 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.

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

REQUIRED SUPPLEMENTARY

INFORMATION

ROCHESTER COMMUNITY SCHOOLS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts			
	Original	Final	Actual	Variance With Final Budget
REVENUES				
Local Sources	$26,082,283	$26,788,053	$26,438,162	($349,891)
State Sources	128,022,063	130,910,092	131,113,691	203,599
Federal Sources	4,605,336	4,263,820	4,091,410	(172,410)
Total Revenues	$158,709,682	$161,961,965	$161,643,263	($318,702)
EXPENDITURES				
Instruction				
Basic	82,487,991	80,846,900	80,141,949	704,951
Added Needs	20,527,473	20,132,606	19,909,667	222,939
Adult and Continuing Education	133,084	171,041	140,109	30,932
Total Instruction	$103,148,548	$101,150,547	$100,191,725	$958,822
Student Services	14,638,646	14,547,319	14,693,611	(146,292)
Instructional Support	6,751,075	7,632,523	7,265,688	366,835
General Administration	1,275,693	1,181,852	1,114,586	67,266
School Administration	8,030,126	8,545,223	8,511,989	33,234
Business Administration	2,238,182	2,020,820	1,914,071	106,749
Operation & Maintenance of Plant	12,386,745	13,553,994	13,963,173	(409,179)
Transportation	7,540,807	7,429,617	7,298,214	131,403
Central Support Services	6,672,559	8,170,572	7,528,254	642,318
Other Support	2,657,160	2,669,318	2,626,324	42,994
Community Services	3,152,703	3,105,207	2,920,806	184,401
Capital Outlay	56,443	2,913,238	2,907,938	5,300
Total Expenditures	$168,548,687	$172,920,230	$170,936,379	$1,983,851
Excess of Revenues Over Expenditures	($9,839,005)	($10,958,265)	($9,293,116)	$1,665,149
OTHER FINANCING SOURCES (USES)	11,291,169	11,586,071	11,640,796	54,725
Net Change in Fund Balance	$1,452,164	$627,806	$2,347,680	$1,719,874
FUND BALANCE - BEGINNING OF YEAR			28,902,414	
FUND BALANCE - END OF YEAR			$31,250,094	

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 DETERMINTED 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 (%)							0.97593%	0.97097%	0.99526%	0.97968%
Reporting unit's proportionate share of net pension liability							$252,905,785	$242,248,042	$243,093,129	$215,789,986
Reporting unit's covered-employee payroll							$82,218,893	$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							307.60%	299.06%	293.00%	259.54%
Plan fiduciary net position as a percentage of total pension liability							64.21%	63.27%	63.17%	66.20%

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

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

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contributions							$22,890,815	$22,745,187	$19,199,906	$25,763,366
Contributions in relation to statutorily required contributions							22,890,815	22,745,187	19,199,906	25,763,366
Contribution deficiency (excess)							$0	$0	$0	$0
Reporting unit's covered-employee payroll							$82,570,054	$84,817,697	$81,307,377	$82,959,226
Contributions as a percentage of covered-employee payroll							27.72%	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
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINTED AS OF 9/30 OF EACH FISCAL YEAR)

	2025	2024	2023	2022	2021	2020	2019	2018	2017
Reporting unit's proportion of net OPEB liability (%)									0.97411%
Reporting unit's proportionate share of net OPEB liability									$86,262,131
Reporting unit's covered-employee payroll									$82,218,893
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll									104.92%
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)									36.39%

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

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

	2027	2026	2025	2024	2023	2022	2021	2020	2019	2018
Statutorily required contributions										$7,583,864
Contributions in relation to statutorily required contributions										7,583,864
Contribution deficiency (excess)										$0
Reporting unit's covered-employee payroll										$82,570,054
Contributions as a percentage of covered-employee payroll										9.18%

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.

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 did not have any significant expenditure budget variances.

PENSION AND OPEB RELATED

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

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

ADDITIONAL SUPPLEMENTARY

INFORMATION

ROCHESTER COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
JUNE 30, 2018

	Food Services Fund	Bookstores Fund	Total
ASSETS			
Cash and Cash Equivalents	$2,302,554	$39,730	$2,342,284
Due from Other Governmental Units	183,183	0	183,183
Inventory	61,962	35,456	97,418
TOTAL ASSETS	$2,547,699	$75,186	$2,622,885
LIABILITIES			
Accounts Payable	$441,586	$0	$441,586
Due to Other Governmental Units	68	57	125
Unearned Revenue	187,184	0	187,184
Total Liabilities	$628,838	$57	$628,895
FUND BALANCES			
Non-Spendable			
Inventory	61,962	35,456	97,418
Restricted			
Food Service	1,856,899	0	1,856,899
Committed			
Bookstores	0	39,673	39,673
Total Fund Balance	$1,918,861	$75,129	$1,993,990
TOTAL LIABILITIES AND FUND BALANCES	$2,547,699	$75,186	$2,622,885

ROCHESTER COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2018

	Food Services Fund	Bookstores Fund	Total
REVENUES			
Local Sources			
Cafeteria Sales	$2,260,894	$0	$2,260,894
Other Local Revenues	11,554	83,695	95,249
Total Local Sources	$2,272,448	$83,695	$2,356,143
State Sources			
State Reimbursements	108,192	0	108,192
Federal Sources			
Federal Reimbursements	845,332	0	845,332
Commodities	196,745	0	196,745
Total Federal Sources	$1,042,077	$0	$1,042,077
Total Revenues	$3,422,717	$83,695	$3,506,412
OTHER FINANCING SOURCES			
Transfers from General Fund	2,912	0	2,912
Total Revenues & Other Financing Sources	$3,425,629	$83,695	$3,509,324
EXPENDITURES			
Purchased Services	1,520,522	1,339	1,521,861
Supplies and Materials	1,326,734	71,634	1,398,368
Capital Outlay	262,823	4,075	266,898
Other	6,622	0	6,622
Total Expenditures	$3,116,701	$77,048	$3,193,749
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	$308,928	$6,647	$315,575
FUND BALANCE - BEGINNING OF YEAR	1,609,933	68,482	1,678,415
FUND BALANCE - END OF YEAR	$1,918,861	$75,129	$1,993,990

ROCHESTER COMMUNITY SCHOOLS
DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

Years Ending June 30	1997 Principal	2012 Principal	2014 Principal	2015 Principal	2016 Principal
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
TOTAL	$7,500,000	$8,600,000	$5,045,000	$1,850,000	$103,775,000
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	$100,575,000	$26,980,000	$47,465,000	$11,435,000	$108,725,000

ROCHESTER COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Project Number	Approved Grant Award Amount	Accrued (Unearned) Revenue July 1, 2017	Prior Year Expenditures	Current Year Expenditures	Adjustments	Current Year Cash Receipts	Accrued (Unearned) Revenue June 30, 2018
U.S. DEPARTMENT OF EDUCATION									
Passed Through Michigan Department of Education:									
Federal Adult Ed English Literacy Civics:	84.002								
Federal Adult Ed English Literacy Civics (15-16)		181130-181537	$171,514	$0	$0	$150,456	$0	$146,304	$4,152
Title I Grants to Local Educational Agencies:	84.010								
Title I (16-17)		171520-1617	700,683	80,309	627,475	19,697	0	100,006	0
Title I (17-18)		181530-1718	409,413	0	0	384,129	0	339,091	45,038
Total Title I Grants to Local Educational Agencies			$1,110,096	$80,309	$627,475	$403,826	$0	$439,097	$45,038
Title III Limited English:	84.365								
Title III (16-17)		170570-1617	75,872	0	20,954	28,398	0	28,398	0
Title III (16-17)		170580-1617	149,630	7,683	91,310	21,014	0	28,697	0
Title III (17-18)		180570-1718	95,493	0	0	47,430	0	43,052	4,378
Title III (17-18)		180580-1718	147,568	0	0	103,189	0	99,588	3,601
Total Title III Limited English			$468,563	$7,683	$112,264	$200,031	$0	$199,735	$7,979
Improving Teacher Quality:	84.367								
Title IIA (16-17)		170520-1617	265,264	8,844	190,004	6,664	0	15,508	0
Title IIA (17-18)		180520-1718	320,613	0	0	154,924	0	97,736	57,188
Total Improving Teacher Quality			$585,877	$8,844	$190,004	$161,588	$0	$113,244	$57,188
Total Passed Through Michigan Department of Education			$2,336,050	$96,836	$929,743	$915,901	$0	$898,380	$114,357
Passed Through Oakland County ISD									
Special Education - Grants to States:	84.027								
IDEA (16-17)		170450-1617	3,198,166	970,175	3,198,166	0	0	970,175	0
IDEA (17-18)		180450-1718	3,113,922	0	0	3,020,069	0	2,095,598	924,471
Total Special Education - Grants to States			$6,312,088	$970,175	$3,198,166	$3,020,069	$0	$3,065,773	$924,471
Special Education - Preschool:	84.173								
Special Education Preschool (15-16)		160460-1516	129,547	0	127,723	1,824	0	1,824	0
Special Education Preschool (16-17)		170460-1617	130,980	37,610	129,725	1,255	0	38,865	0
Special Education Preschool (17-18)		180460-1718	131,272	0	0	131,272	0	88,125	43,147
Total Special Education - Preschool			$391,799	$37,610	$257,448	$134,351	$0	$128,814	$43,147
Total Special Education Cluster			$6,703,887	$1,007,785	$3,455,614	$3,154,420	$0	$3,194,587	$967,618
TOTAL U.S. DEPARTMENT OF EDUCATION			$9,039,937	$1,104,621	$4,385,357	$4,070,321	$0	$4,092,967	$1,081,975

ROCHESTER COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Project Number	Approved Grant Award Amount	Accrued (Unearned) Revenue July 1, 2017	Prior Year Expenditures	Current Year Expenditures	Adjustments	Current Year Cash Receipts	Accrued (Unearned) Revenue June 30, 2018
U.S. DEPARTMENT OF AGRICULTURE									
Passed Through Michigan Department of Education:									
Non-Cash Assistance									
Entitlement Commodities	10.555	N/A	$196,745	$0	$0	$196,745	$0	$196,745	$0
Cash Assistance									
National School Lunch Program	10.555	N/A	742,514	41,489	0	742,514	0	643,272	140,731
Total			$939,259	$41,489	$0	$939,259	$0	$840,017	$140,731
School Breakfast Program	10.553	N/A	102,818	6,197	0	102,818	0	89,359	19,656
TOTAL U.S. DEPARTMENT OF AGRICULTURE (NUTRITION CLUSTER)			$1,042,077	$47,686	$0	$1,042,077	$0	$929,376	$160,387
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES									
Passed Through Oakland County ISD									
Medicaid Outreach Program (15-16)	93.778	N/A	20,189	0	0	21,089	0	21,089	0
TOTAL FEDERAL AWARDS			$10,102,203	$1,152,307	$4,385,357	$5,133,487	$0	$5,043,432	$1,242,362

ROCHESTER COMMUNITY SCHOOLS
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

FEDERAL REVENUE RECOGNIZED FOR THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	$5,133,487
FEDERAL REVENUE RECOGNIZED PER THE GENERAL PURPOSE FINANCIAL STATEMENTS	
General Fund	$4,091,410
Special Revenue Funds	1,042,077
TOTAL	$5,133,487

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, 2018.

   The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (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 40 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, 2018 that is not included on the schedule of expeditures 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, 2018

Current Payments Per the Grant Auditor's Report		
Cash Management System		$1,631,011
Add: Passed Through Oakland County ISD		
Special Education - State Grants (CFDA 84.027)	$3,065,773	
Special Education - Preschool (CFDA 84.173)	128,814	
Medicaid Outreach (CFDA 93.778)	21,089	
Total Passed Through Oakland County ISD		3,215,676
Entitlement and Bonus Commodities		196,745
TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS		$5,043,432

October 22, 2018

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

To the Board of Education 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, 2018, 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 22, 2018.

Internal Control Over Financial Reporting

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

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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.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Lewis & Knopf CPAs, PC

Lewis & Knopf CPAs, PC

October 22, 2018

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

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, 2018. 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 the 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 the 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 the 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, 2018.

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Report on Internal Control over Compliance

Management of the 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 the 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 the 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.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Lewis & Knopf CPAs, PC

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 ☒ None reported

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
84.027/84.173	Special Education 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.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings for the current year.

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 though 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

The District received a waiver from the state to carry the excess fund balance into the 2018-2019 school year. See pages 47-48.

fletcherp9@michigan.gov
Subject: Excess Fund Balance-Carryover Extension-Greater than $5,000

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

SHEILA A. ALL
INTERIM STATE SUPERI

06/29/2018

Dr. Robert Shaner, Superintendent
Rochester Community School District
501 WEST UNIVERSITY DR
ROCHESTER MI 48307

Dear Dr. Robert Shaner:

The Michigan Department of Education (MDE) recently requested a written plan of action from your school district regarding the excess fund balance in your non-profit school food service account from the 2016-2017 school year.

The submitted plan has been reviewed and found to be within the federal guidelines for expending these excess funds and has been approved by MDE. MDE grants your request for an extension which will allow your district to carry over an excess fund balance into the 2018-2019 school year. The funds must be spent by June 30, 2019.

Supporting documentation for purchases from your approved plan are no longer required to be submitted to MDE, but it is subject to review and must be kept on file at the School Food Authority for three years plus the current school year. Supporting documentation should include copies of purchase orders, invoices/receipts, check vouchers, and other business office documents as deemed necessary.

If this plan should change during the course of the 2016-17 school year, please upload your amended plan for review and approval to GEMS/MARS. In order to access the Submit Documents page, click on the Task on the home screen.

Questions regarding this correspondence may be directed to Peggy Fletcher at 517-335-6617 or email at Fletcherp9@michigan.gov. Questions regarding the GEMS/MARS site, may be directed to the GEMS/MARS Support Team at 517-241-6270 or email at MDE-GEMS@michigan.gov.

Sincerely,

Alyssa Sagolla

Alyssa Sagolla

Financial Manager
Fiscal and Administrative Services
Office of Health and Nutrition Services

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Lewis & Knopf CPAs, PC

October 22, 2018

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, 2018. 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 28, 2018. 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. During 2017, Rochester Community Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The application of existing policies was not changed during the 2017-2018 year. 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 net pension and net OPEB liabilities.

Estimates have been used 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.

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1100 Torrey Road | Suite 400 | Fenton, MI 48430 | 810-629-1500 | 810-629-7441 fax
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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 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 22, 2018.

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.

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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.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Lewis & Knopf
CPAs, PC