

# **Mendon Community Schools**

Financial Report  
With Supplemental Information

Year Ended June 30, 2016

**Independent Auditors’ Report**.....i-iii

**Management’s Discussion and Analysis** .....iv-ix

**Basic Financial Statements**

District-Wide Financial Statements:

    Statement of Net Position.....1

    Statement of Activities.....2

Fund Financial Statements:

    Governmental Funds:

        Balance Sheet .....3

        Reconciliation of the Balance Sheet of Governmental Funds to  
        the Statement of Net Position.....4

        Statement of Revenues, Expenditures, and Changes in Fund Balances.....5

        Reconciliation of the Statement of Revenues, Expenditures and Changes in  
        Fund Balances of Governmental Funds to the Statement of Activities.....6

    Fiduciary Fund – Statement of Fiduciary Net Position.....7

    Notes to Financial Statements..... 8-23

**Required Supplemental Information**

Budgetary Comparison Schedule - General Fund.....24

Schedule of the District’s Proportionate Share of the Net Pension Liability of the MPSERS Plan ..25

Schedule of the District’s Contributions to the MPSERS Plan.....26

Notes to Required Supplementary Information Pension Schedules.....27

**Other Supplemental Information**

Schedule of Bonded Indebtedness..... 28-29

**Independent Auditors’ 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***..... 30-31



**WILLIS & JURASEK**

CPAS AND CONSULTANTS

## **Independent Auditors' Report**

Board of Education  
Mendon Community Schools  
Mendon, Michigan

### **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 Mendon Community Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' 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 auditors' 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 Mendon Community Schools as of June 30, 2016, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and certain pension information as listed 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, which 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 Mendon Community Schools' basic financial statements. The schedule of bonded indebtedness is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of bonded indebtedness is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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, the schedule of bonded indebtedness is fairly stated in all material respects, in relation to the financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2016, on our consideration of Mendon 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 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 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 Mendon Community Schools' internal control over financial reporting and compliance.

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

October 11, 2016

**Mendon Community Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2016

This section of Mendon Community Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the years ended June 30, 2016 and 2015. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Mendon Community Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds – the General Fund, the Debt Service Fund, 2014 Capital Projects Fund, and the Food Service Fund. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

*Management's Discussion and Analysis (MD&A)*  
*(Required Supplemental Information)*

Basic Financial Statements

District-wide Financial Statements      Fund Financial Statements

*Notes to the Basic Financial Statements*

*(Required Supplemental Information)*

*Budgetary Information for the General Fund and Major Special Revenue Funds*

*Pension Information*

*Other Supplemental Information*

**Reporting the School District as a Whole – District-wide Financial Statements**

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net position – the difference between assets and liabilities, as reported in the statement of net position – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net position and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

**Mendon Community Schools**  
Management's Discussion and Analysis (Continued)  
Year Ended June 30, 2016

**Reporting the School District's Most Significant Funds – Fund Financial Statements**

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliation.

**The School District as Trustee – Reporting the School District's Fiduciary Responsibilities**

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**The School District as a Whole**

Recall that the statement of net position provides the perspective of the School District as a whole. Table I provides a summary of the School District's net position as of June 30, 2016 and 2015.

**Table I**

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Current and other assets	\$ 2,829,596	\$ 5,468,375
Capital assets – net of accumulated depreciation	<u>15,601,164</u>	<u>14,043,174</u>
Total assets	<u>18,430,760</u>	<u>19,511,549</u>
<b>Deferred Outflows</b>	<u>1,425,890</u>	<u>1,386,358</u>
<b>Liabilities</b>		
Current liabilities	1,814,975	2,173,314
Long-term liabilities	<u>24,977,238</u>	<u>24,895,618</u>
Total liabilities	<u>26,792,213</u>	<u>27,068,932</u>
<b>Deferred Inflows</b>	<u>473,009</u>	<u>1,045,898</u>
<b>Net Position</b>		
Invested in property and equipment - net of related debt	(922,051)	(789,442)
Restricted for capital projects	151,758	-
Restricted for debt/food service	193,426	215,025
Unrestricted	<u>(6,831,705)</u>	<u>(6,642,506)</u>
Total net position	<u>\$ (7,408,572)</u>	<u>\$ (7,216,923)</u>

**Mendon Community Schools**  
Management's Discussion and Analysis (Continued)  
Year Ended June 30, 2016

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, was implemented during the prior fiscal year. The purpose of this standard is to improve accounting and financial reporting for pensions. It established standards for measuring and recognizing pension liabilities, pension expenses, and the related deferred inflows and deferred outflows of resources. Implementation of this standard required recording of the full unfunded portion of the District's pension plan administered through the Michigan Public School Employees' Retirement Systems (MPERS). The unfunded pension liability has been established through actuarial valuations and will be amortized over a 22 year period beginning with the plan's fiscal year-end of September 30, 2014. With the recording of this pension liability, the liabilities of the District exceeded its assets. The balance of the net position at the close of the most recent fiscal year was \$(7,408,572) (negative net position).

The School District's net position for the years ended June 30, 2016 and 2015 was \$(7,408,572) and \$(7,216,923), respectively. Net position invested in capital assets, net of related debt totaling \$(922,051), compares the original cost, less depreciation of the School District's capital assets to long-term debt. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use net position for day-to-day operations. The remaining amount of net position \$(6,831,705) was unrestricted.

The \$(6,831,705) in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table II below), which shows the changes in net position for fiscal years ended June 30, 2016 and 2015.

**Table II**

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 177,130	\$ 158,164
Grants and categoricals	696,356	1,006,191
General revenue:		
Property taxes	2,278,053	2,035,203
State foundation allowance	3,478,901	3,557,300
Interest and other	83,024	208,593
Total revenue	<u>6,713,464</u>	<u>6,965,451</u>
<b>Function/Program Expenses</b>		
Instruction	3,216,105	3,242,525
Support services, incl. athletics	2,194,114	2,327,332
Food services	263,336	252,682
Community service and other	1,757	46,912
Interest on long-term debt	583,441	523,076
Capital outlay	83,957	66,144
Depreciation (unallocated)	562,403	538,955
Total expenses	<u>6,905,113</u>	<u>6,997,626</u>
Increase/(Decrease) in net position	(191,649)	(32,175)
Net position beginning of year	<u>(7,216,923)</u>	<u>(7,184,748)</u>
Ending net position	<u>\$(7,408,572)</u>	<u>\$(7,216,923)</u>

**Mendon Community Schools**  
Management's Discussion and Analysis (Continued)  
Year Ended June 30, 2016

As reported in the statement of activities, the cost of all governmental activities for the years ended June 30, 2016 and 2015 was \$6,905,113 and \$6,997,626, respectively. Certain activities were partially funded from those who benefited from the programs (\$177,130) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$696,356). We paid for the remaining "public benefit" portion of our governmental activities with \$2,278,053 in taxes, \$3,478,901 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced a decrease in net position. Key reasons for the change in net position were the decrease in general fund balance, depreciation, the repayment of bond principal and interest. The decrease in net position differs from the change in fund balance - reconciliation appears on page 6.

**The School District's Funds**

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$1,014,621, which is a decrease of \$2,280,440 from last year. In the General Fund, our principal operating fund, the fund balance decreased from \$643,495 to \$571,015. Our Debt Service Fund reflected a fund balance increase of \$6,083 and the fund balance ended the year at \$274,426. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. The District currently levies 8 mills. That levy falls short of current requirements, and the School must borrow from the School Bond Loan Fund to cover the shortfall. Debt Service Fund's fund balance is restricted since it can only be used to pay debt service obligations.

**General Fund Original vs. Final Budget**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

As a matter of practice, Mendon Community Schools amends its budget two times during the school year. For fiscal year 2015-2016, the budget was amended in March and June. The June 2016 budget was the final budget for the fiscal year.

**Change from Original Budget to Final Actual Results**

Total Revenues Original Budget	\$ 5,392,001	100.0%
Total Revenues Final Results	5,436,030	108.2%
Increase in Revenues	\$44,029	8.2%

**General Fund Expenditures:**

Total Expenditures Original Budget	\$ 5,539,914	100.0%
Total Expenditures Final Results	5,508,510	94.4%
Decrease in Expenditures	\$ 31,404	5.6%

**Mendon Community Schools**  
Management's Discussion and Analysis (Continued)  
Year Ended June 30, 2016

**Capital Asset and Debt Administration**

**Capital Assets**

At June 30, 2016, the School District had \$24,684,920 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. Capital assets purchased during the year consisted primarily of technology related equipment.

	<u>2016</u>	<u>2015</u>
Land	\$ 102,000	\$ 102,000
Buildings and improvements	17,457,193	17,457,193
Site improvements	905,603	905,603
Buses and other vehicles	614,241	614,241
Furniture and equipment	2,524,883	2,375,490
Construction in progress	<u>3,081,000</u>	<u>1,110,000</u>
Total capital assets	24,684,920	22,564,527
Less accumulated depreciation	<u>9,083,756</u>	<u>8,521,353</u>
Net capital assets	<u>\$ 15,601,164</u>	<u>\$ 14,043,174</u>

**Debt**

At the end of this year, the School District had long-term debt obligations totaling \$16,818,989 outstanding versus \$17,488,661 in the previous year. The debt obligations consisted of the following:

	<u>2016</u>	<u>2015</u>
General obligation bonds	\$ 14,355,000	\$ 14,840,000
Notes payable	66,331	90,335
School bond loan	<u>2,397,658</u>	<u>2,558,326</u>
	<u>\$ 16,818,989</u>	<u>\$ 17,488,661</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt is significantly below the statutorily imposed limit.

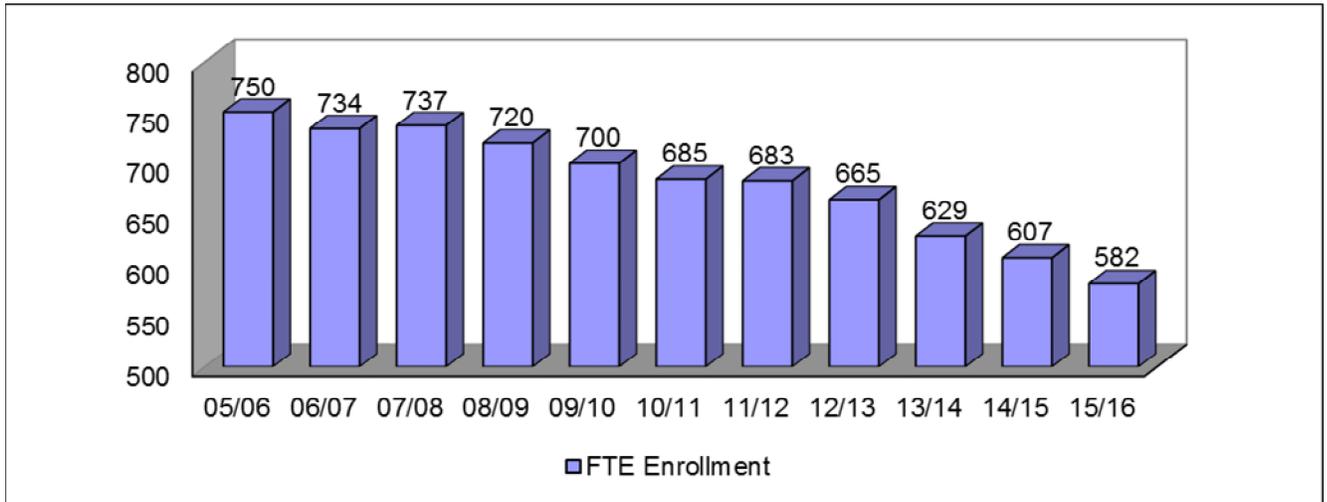
**Mendon Community Schools**  
Management's Discussion and Analysis (Continued)  
Year Ended June 30, 2016

**Factors Bearing on the District's Future**

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

**Enrollment decrease trend**

As the chart of FTE (full-time equivalent) enrollment below shows, the school has had a steady decrease in enrollment –creating a situation where we are consuming fund balance and reducing our cost structure until enrollment stabilizes. Preliminary count information for 16/17 shows flat, marking the ninth year in a row of year over year FTE decreases.



**Foundation Allowance**

The State Aid is distributed per FTE in the form of a per pupil allowance. The allowance in 16-17 will be increased for the fifth straight year; however, at \$7,511 per student, it is just barely above the last highest peak of \$7,316 from 08/09.

The combination of declining enrollment and stagnant State Aid has made it difficult to balance fiscal health with educational focus. Reforms in retirement funding and insurance benefit limits have assisted districts in meeting these challenges, but the challenges remain.

**Contacting the School District's Financial Management**

This financial management report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Department, 148 Kirby Road, Mendon, Michigan, 49072.

**Mendon Community Schools**  
Statement of Net Position  
June 30, 2016

	<b>Governmental Activities</b>
<b>Assets:</b>	
Cash and investments	\$ 2,011,440
Receivables	5,699
Due from other governmental units	773,597
Inventories	4,469
Prepaid expenses	34,391
Capital assets:	
Cost of capital assets	24,684,920
Less: accumulated depreciation	(9,083,756)
Net capital assets	15,601,164
Total assets	18,430,760
 <b>Deferred Outflows of Resources:</b>	
Bond discount	486,927
Pension related	938,963
Total deferred outflows of resources	1,425,890
 <b>Liabilities:</b>	
Accounts payable and accrued expenses	400,149
State aid anticipation notes	1,300,000
Unearned revenue	114,826
Long-term liabilities:	
Due within one year:	
Bonds, capital leases and contracts	533,161
Accrued interest	81,000
Due in more than one year:	
Bonds, capital leases and contracts	16,285,828
Net pension liability	8,077,249
Total liabilities	26,792,213
 <b>Deferred Inflows of Resources:</b>	
Bond premium	191,153
Pension related	281,856
Total deferred inflows of resources	473,009
 <b>Net Position:</b>	
Net investment in capital assets	(922,051)
Restricted for:	
Capital projects	151,758
Debt service	193,426
Unrestricted	(6,831,705)
Total net position	\$ (7,408,572)

**Mendon Community Schools**  
Statement of Activities  
Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Program Revenue</u>			<u>Governmental</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
		<u>Services</u>	<u>Grants and</u>	<u>Net (Expenses)</u>
			<u>Contributions</u>	<u>Revenues and</u>
				<u>Change in</u>
				<u>Net Position</u>
<b>Primary Government</b>				
Governmental activities:				
Instruction	\$ 3,216,105	\$ 55,333	\$ 468,662	\$ (2,692,110)
Support services	2,194,114	36,272	48,157	(2,109,685)
Food service activities	263,336	85,525	179,537	1,726
Community services	1,757	-	-	(1,757)
Interest on long-term debt	583,441	-	-	(583,441)
Capital outlay	83,957	-	-	(83,957)
Depreciation (unallocated)	562,403	-	-	(562,403)
Total governmental activities	<u>\$ 6,905,113</u>	<u>\$ 177,130</u>	<u>\$ 696,356</u>	<u>(6,031,627)</u>
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				1,048,185
Property taxes, levied for debt service				1,229,868
State aid not restricted to specific purposes				3,478,901
Unrestricted investment earnings				5,160
Other				77,864
Total general revenues				<u>5,839,978</u>
<b>Change in Net Position</b>				(191,649)
<b>Net Position - Beginning of Year</b>				(7,216,923)
<b>Net Position - End of Year</b>				<u>\$ (7,408,572)</u>

**Mendon Community Schools**

Balance Sheet  
Governmental Funds  
June 30, 2016

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>2014 Capital Projects</b>	<b>Nonmajor Food Service Fund</b>	<b>Total Governmental Funds</b>
<b><u>Assets</u></b>					
Cash and investments	\$ 1,599,396	\$ 209,426	\$ 201,576	\$ 1,042	\$ 2,011,440
Due from other funds	-	65,000	-	13,199	78,199
Receivable from other governments	773,597	-	-	-	773,597
Other receivables	-	-	-	5,699	5,699
Inventories	-	-	-	4,469	4,469
Prepaid expenditures	34,391	-	-	-	34,391
Total assets	<u>\$ 2,407,384</u>	<u>\$ 274,426</u>	<u>201,576</u>	<u>\$ 24,409</u>	<u>\$ 2,907,795</u>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities:</b>					
Accounts payable	\$ 67,874	\$ -	\$ 49,818	\$ 6,987	\$ 124,679
Due to other funds	78,199	-	-	-	78,199
Revenue anticipation notes	1,300,000	-	-	-	1,300,000
Unearned revenue	114,826	-	-	-	114,826
Salaries payable and related	267,520	-	-	-	267,520
Accrued expenditures	7,950	-	-	-	7,950
Total liabilities	<u>1,836,369</u>	<u>-</u>	<u>49,818</u>	<u>6,987</u>	<u>1,893,174</u>
<b>Fund Balances:</b>					
Nonspendable:					
Inventories	-	-	-	4,469	4,469
Prepaid expenditures	34,391	-	-	-	34,391
Restricted:					
Food services	-	-	-	12,953	12,953
Debt service	-	274,426	-	-	274,426
Capital projects	-	-	151,758	-	151,758
Assigned for subsequent year expenditures	50,681	-	-	-	50,681
Unassigned	485,943	-	-	-	485,943
Total fund balances	<u>571,015</u>	<u>274,426</u>	<u>151,758</u>	<u>17,422</u>	<u>1,014,621</u>
Total liabilities and fund balances	<u>\$ 2,407,384</u>	<u>\$ 274,426</u>	<u>\$ 201,576</u>	<u>\$ 24,409</u>	<u>\$ 2,907,795</u>

**Mendon Community Schools**

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position  
June 30, 2016

<b>Total Fund Balances - Governmental Funds</b>		<b>\$ 1,014,621</b>
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.</p>		
The cost of the capital assets is	\$ 24,684,920	
Accumulated depreciation is	<u>(9,083,756)</u>	15,601,164
<p>Long-term liabilities (bonds payable, compensated absences, accrued interest) are not due and payable in the current period and not reported in the funds.</p>		
Bonds payable	(14,355,000)	
School bond loan	(2,397,658)	
Installment purchase agreements	(66,331)	
Deferred amount on refunding	486,927	
Unamortized premium	(191,153)	
Accrued interest payable	<u>(81,000)</u>	(16,604,215)
<p>The pension liability and related deferred inflows and outflows are not due and payable in the current period and therefore are not reported in the funds.</p>		
Net pension liability	(8,077,249)	
Deferred outflows related to net pension liability	938,963	
Deferred inflows related to net pension liability	<u>(281,856)</u>	<u>(7,420,142)</u>
<b>Total Net Position - Governmental Activities</b>		<b><u><u>\$ (7,408,572)</u></u></b>

**Mendon Community Schools**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>2014 Capital Projects</u>	<u>Nonmajor Food Service Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
Local sources	\$ 1,138,191	\$ 1,230,462	\$ 1,544	\$ 85,862	\$ 2,456,059
State sources	4,053,442	-	-	10,633	4,064,075
Federal sources	162,249	-	-	168,904	331,153
Interdistrict and other	82,148	-	-	-	82,148
Total revenues	<u>5,436,030</u>	<u>1,230,462</u>	<u>1,544</u>	<u>265,399</u>	<u>6,933,435</u>
<b>Expenditures:</b>					
Instruction	3,287,639	-	-	-	3,287,639
Support services	2,219,114	-	-	-	2,219,114
Community services	1,757	-	-	-	1,757
Food service activities	-	-	-	276,636	276,636
Debt service:					
Principal	-	732,516	-	-	732,516
Interest and other charges	-	491,863	27,671	-	519,534
Capital outlay	-	-	2,176,679	-	2,176,679
Total expenditures	<u>5,508,510</u>	<u>1,224,379</u>	<u>2,204,350</u>	<u>276,636</u>	<u>9,213,875</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(72,480)</u>	<u>6,083</u>	<u>(2,202,806)</u>	<u>(11,237)</u>	<u>(2,280,440)</u>
<b>Net Change in Fund Balances</b>	(72,480)	6,083	(2,202,806)	(11,237)	(2,280,440)
<b>Fund Balances - Beginning of Year</b>	<u>643,495</u>	<u>268,343</u>	<u>2,354,564</u>	<u>28,659</u>	<u>3,295,061</u>
<b>Fund Balances - End of Year</b>	<u>\$ 571,015</u>	<u>\$ 274,426</u>	<u>\$ 151,758</u>	<u>\$ 17,422</u>	<u>\$ 1,014,621</u>

**Mendon 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, 2016

**Net Change in Fund Balances - Total Governmental Funds** \$ (2,280,440)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

The amount by which net capital expenditures of \$2,120,393 were exceeded by depreciation of \$562,403 in the current period. 1,557,990

Accrued interest is recorded in the Statement of Activities when incurred; it is not reported in governmental funds until paid. (84,996)

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds.

Repayments:

Amortization of bond premium/discount	\$ 42,882	
Amortization of deferred amount on refunding	(48,589)	
To bond holders	485,000	
Principal on school bond loan fund	246,641	
Principal on installment purchase agreements	<u>24,004</u>	
		749,938

Governmental funds report the required pension contributions for the fiscal year June 30, 2016 as an expenditure. The Statement of Activities reports the fully accrued pension expense based upon a September year-end to coincide with the State of Michigan's fiscal year. These differences are reported as follows:

Changes in pension related liabilities and deferrals (134,141)

**Change in Net Position of Governmental Activities** \$ (191,649)

**Mendon Community Schools**  
Statement of Fiduciary Net Position  
Fiduciary Fund  
June 30, 2016

	<u>Student Activities</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 123,233
	<u>\$ 123,233</u>
<b>Liabilities:</b>	
Due to others	\$ 123,233
	<u>\$ 123,233</u>

**Mendon Community Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies**

The basic financial statements of Mendon Community Schools (the “School District” or “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District’s reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**District-Wide and Fund Financial Statements**

The district-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. 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. All of the School District’s government-wide activities are considered governmental activities.

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. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other unrestricted items are not included as program revenues but instead as general revenues.

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

**District-Wide Statements** – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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 revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

It is the District’s policy to allocate resource outlays first to restricted net position with the remainder allocated to unrestricted net position.

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

**Mendon Community Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

**Fund-Based Statements** – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected 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, severance pay, claims, and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Expenditure reimbursing grants are recognized when the qualifying expenditures have been incurred, eligibility requirements have been met, and receipt of monies is expected within the current availability period (60 days post year-end). All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

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 District, except those required to be accounted for in another fund.

**Debt Service Fund** – The Debt Service Fund is used to record tax, interest, and other revenue for payment of principal and other expenditures on particular bond issues.

**Capital Projects Fund** – Capital Project Funds are used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The District maintains one capital projects fund.

The 2014 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351a of the Revised School Code.

Additionally, the government reports the following fund types:

**Special Revenue Fund** – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes (not including expendable trusts or major capital projects). The Special Revenue Fund maintained by the District is the Food Service Fund.

**Fiduciary Funds** – Fiduciary Funds are used to account for assets held by the District in a trustee capacity (trust funds) or as an agent (agency funds). Fiduciary Fund net position and results of operations are not included in the district-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held for the students and parents.

**Mendon Community Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Revenues, Assets, Liabilities, and Net Position or Equity**

**State Revenue** – The State of Michigan utilizes a foundation allowance approach which provides for a specific annual amount of revenue per pupil based on a State-wide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2016, the foundation allowance was based on pupil membership counts taken in February 2015 and October 2015.

The State portion of the foundation is provided primarily by a State education property tax millage of six mills on Principal Residence Exemption (PRE) property and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by non-PRE property (non-homestead) taxes which may be levied at a rate of up to 18 mills plus 6 mills on Commercial Personal Property. The State revenue is recognized during the foundation period and is funded through payments from October to August of each year. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

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

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

For the year ended June 30, 2016, the District levied the following mills per \$1,000 of assessed valuation:

General Fund – Non-primary residence	18.0
General Fund – Commercial personal property	6.0
Debt Service	8.0

**Cash and Investments** – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The District reports its investments in accordance with GASB professional standards. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

**Mendon Community Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Revenues, Assets, Liabilities, and Net Position or Equity (Continued)**

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

**Receivables and Payables** – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

**Inventories and Prepaid Items** – Inventories are valued at cost on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The District defines capital assets as assets with an initial individual cost of \$5,000 or greater and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repairs and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20 - 50 years
Site improvements	15 – 20 years
Buses and other vehicles	7 - 10 years
Furniture and equipment	5 - 20 years

**Compensated Absences** – The District does not report a liability for compensated absences. Vacation leave may be accumulated up to 180 days, but at retirement or termination, accumulated leave is forfeited.

**Long-Term Obligations** – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are reported as a deferred inflow or outflow, separate from liabilities, and amortized over the life of the bonds using the straight-line method. 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 are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Mendon Community Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Revenues, Assets, Liabilities, and Net Position or Equity (Continued)**

**Deferred Outflows/Inflows of Resources** – 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 represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District currently reports deferred outflows of resources related to debt refunding and those related to deferred pension plan expenses. Deferred pension plan expenses are recognized in the plan years to which it applies. The District also currently reports deferred outflows of resources from pension payments made subsequent to the measurement date to be recognized as the corresponding time lags are met.

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 represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District currently reports deferred inflows of resources related to debt refunding and those related to its pension plan. These future resources will be amortized and recognized over a time period established by the actuary and relate to differences between actuarial estimates and actual results.

**Defined Benefit Pension Plan** – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value. See Note 10 for detailed information.

**Fund Balance** – The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of *nonspendable* amounts which are not in spendable form or are legally or contractually required to be maintained intact; *restricted* amounts that are constrained for specific purposes set by external parties or law; *committed* amounts that are constraints set by the highest decision making authority (the School Board) through adoption of a resolution and may only be removed by the School Board through a rescindment resolution; *assigned* amounts that have an intended purpose but require no formal specific action; and *unassigned* amounts which are the residual of the other categories and have no specific purpose.

It is the District's policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

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

**Note 2 – Stewardship, Compliance, and Accountability**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end.

**Mendon Community Schools**  
Notes to Financial Statements

**Note 2 – Stewardship, Compliance, and Accountability (Continued)**

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplemental information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplemental information section.
4. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to fiscal year-end.

**Excess of Expenditures over Appropriations** – For the year ended June 30, 2016, expenditures that exceeded appropriations in the General Fund are disclosed in the Required Supplemental Information on page 24.

**Note 3 – Cash and Investments**

At year-end, the School District's cash and investments were reported in the basic financial statements in the following categories:

	<b>Governmental Activities</b>	<b>Fiduciary Funds</b>	<b>Total Primary Government</b>
Cash and investments	\$ 2,011,440	\$ 123,233	\$ 2,134,673

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts)	\$ 1,037,421
Investments in pooled investments	1,097,152
Petty cash and cash on hand	100
	\$ 2,134,673

There are no limitations or restrictions on participant withdrawals for investment pools that are recorded at amortized cost, except for a one-day minimum investment period on MILAF cash management funds and a fourteen-day redemption limitation on MILAF MAX class funds.

**Investment and Deposit Risk** – The District's cash and investments are subject to several types of risk, as noted below.

**Mendon Community Schools**  
Notes to Financial Statements

**Note 3 – Deposits and Investments (Continued)**

**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. The District has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, approximately \$1,964,664 of the District's bank balance of \$2,214,664 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial Credit Risk – Investments** – Custodial credit risk of investments 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.

Investments under the interlocal agreement (MILAF) in the amount of \$1,097,152 are regulated by the Urban Cooperation Act. The fair value of the position in the interlocal agreement pools is the same as the value of the pool shares. The interlocal agreement (MILAF) is rated at AAAM according to Standard and Poor's.

**Interest Rate Risk** – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The District's investment policy does not restrict investment maturities beyond State law.

**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. The District's investment policy does not have specific limits in excess of State law on investment credit risk.

**Concentration of Credit Risk** – The District's investment policy does not limit investments with individual issuers.

**Foreign Currency Risk** – The District does not invest in foreign currency and does not maintain a policy regarding foreign currency risk.

**Note 4 – Receivables**

Receivables at June 30, 2016, consist of the following:

Other governmental units (primarily Michigan Department of Education)	\$ 773,597
Other receivables	<u>5,699</u>
	<u><u>\$ 779,296</u></u>

**Mendon Community Schools**  
Notes to Financial Statements

**Note 5 – Capital Assets**

Capital asset activity of the School District’s governmental activities was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Year-End Balance</b>
Assets not being depreciated:				
Construction in progress	\$ 1,110,000	\$ 1,971,000	\$ -	\$ 3,081,000
Land	102,000	-	-	102,000
Subtotal	<u>1,212,000</u>	<u>1,971,000</u>	<u>-</u>	<u>3,183,000</u>
Capital assets being depreciated:				
Building and improvements	17,457,193	-	-	17,457,193
Site improvements	905,603	-	-	905,603
Buses and other vehicles	614,241	-	-	614,241
Furniture and equipment	2,375,490	149,393	-	2,524,883
Subtotal	<u>21,352,527</u>	<u>149,393</u>	<u>-</u>	<u>21,501,920</u>
Accumulated depreciation:				
Buildings and improvements	5,529,697	322,337	-	5,852,034
Site improvements	513,175	60,374	-	573,549
Buses and other vehicles	392,964	26,010	-	418,974
Furniture and equipment	2,085,517	153,682	-	2,239,199
Subtotal	<u>8,521,353</u>	<u>562,403</u>	<u>-</u>	<u>9,083,756</u>
Net capital assets being depreciated	<u>12,831,174</u>	<u>(413,010)</u>	<u>-</u>	<u>12,418,164</u>
Net capital assets	<u>\$ 14,043,174</u>	<u>\$ 1,557,990</u>	<u>\$ -</u>	<u>\$ 15,601,164</u>

Depreciation for the fiscal year ended June 30, 2016 totaled \$562,403. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

**Note 6 – Interfund Balances**

As of the end of the fiscal year, there were interfund balances between the funds. The General Fund owed the Food Service Fund \$13,199 and the General Fund owed the Debt Service Fund \$65,000. These interfund balances resulted primarily from the time lag between when transactions were recorded in the accounting system and when payments between funds were made.

**Mendon Community Schools**  
Notes to Financial Statements

**Note 7 – State Aid Anticipation Note Payable**

At June 30, 2016, the District had State Aid anticipation notes outstanding that totaled \$1,300,000, maturing July 31, 2016, with an interest rate of .68%. The notes are secured by the full faith and credit of the District as well as pledged State Aid.

<b>Balance June 30, 2015</b>	<b>Additions</b>	<b>Payments</b>	<b>Balance June 30, 2016</b>
\$ 999,700	\$ 1,300,000	\$ 999,700	\$ 1,300,000

The District has approved, and borrowed \$900,000 bearing an interest rate of .75%, for the fiscal year 2016-17.

**Note 8 – Long-Term Debt**

The School District issues bonds, notes, and other contractual commitments 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 School District. Activity is summarized as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>
Governmental Activities:					
General obligation bonds	\$ 14,840,000	\$ -	\$ 485,000	\$ 14,355,000	\$ 510,000
Notes payable	90,335	-	24,004	66,331	23,161
School bond loan	2,558,326	85,973	246,641	2,397,658	-
Total governmental activities	\$ 17,488,661	\$ 85,973	\$ 755,645	\$ 16,818,989	\$ 533,161

Annual debt service requirements to maturity on the above governmental bond and loan obligations are as follows:

	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 533,161	\$ 486,000	\$ 1,019,161
2018	723,161	470,500	1,193,661
2019	1,110,008	446,350	1,556,358
2020	2,070,000	409,350	2,479,350
2021	600,000	376,300	976,300
2022-2026	3,140,000	1,585,100	4,725,100
2027-2031	3,120,000	994,812	4,114,812
2032-2036	2,235,000	396,464	2,631,464
2037-2041	890,000	98,400	988,400
	\$ 14,421,330	\$ 5,263,276	\$ 19,684,606

**Mendon Community Schools**  
Notes to Financial Statements

**Note 8 – Long-Term Debt (Continued)**

**General obligation bonds consist of:**

\$5,955,000 2007 refunding bonds due in annual installments of \$20,000 to \$530,000 through May 1, 2034; interest at 4.00% to 4.25%	\$ 5,875,000
\$4,390,000 2012 refunding bonds due in annual installments of \$475,000 to \$495,000 through May 1, 2023; interest at 3.00%	3,395,000
\$2,235,000 2014 building & site and refunding bonds due in annual installments of \$190,000 to \$1,465,000 through May 1, 2020; interest at 2.00%	2,235,000
\$2,850,000 2015 building & site bonds due in annual installments of \$100,000 to \$200,000 through May 1, 2041; interest at 3.00% to 4.00%	<u>2,850,000</u>
Total bonded debt	<u>\$14,355,000</u>

Notes payable consist of:

Note payable to Richo USA, Inc., monthly payments of \$843, through June 30, 2019; 0% interest rate, secured by equipment	\$ 29,502
Note payable to John Deere Financial, annual payments of \$7,502, through October 1, 2018; 0% interest rate, secured by equipment	22,507
Note payable to Team Fiancaill Group, Inc., monthly payments of \$462, through February 17, 2019; 0% interest rate, secured by equipment	<u>14,322</u>
Total notes payable	<u>\$ 66,331</u>

**School Bond Loan** – The school bond loan payable of \$2,397,658 represents notes payable to the State of Michigan for loans made to the District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates were 3.340% to 3.436% from July 1, 2015 to June 30, 2016. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below seven mills. The District is required to levy seven mills and repay to the State any excess of the amount levied over the bonded debt service requirement. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the District, no provision for repayment of the note has been included in the above annual debt service requirements. Repayment of \$246,641 was made in this year.

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future payments on the old bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2016, \$5,560,000 of bonds outstanding are considered defeased.

**Mendon Community Schools**  
Notes to Financial Statements

**Note 9 – Risk Management**

The School District is exposed to various risks of loss-related torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries; and natural disasters. The District participates in a distinct pool of educational institutions with the State of Michigan for self-insuring workers' disability compensation and property and casualty. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said year, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000. The District has not been informed of any special assessments being required. The District continues to carry commercial insurance for other needs including health insurance. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits**

**Organization**

**Plan Description** – The School District participates in the Michigan Public School Employees' Retirement System ("MPERS" or "the System"), a State-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees and their beneficiaries, and covers substantially all employees of the School District. In addition, the System's health plan provides postemployment healthcare benefits to all retirees and beneficiaries as an elective option including health, dental, and vision coverage. There are currently approximately 700 participating employers in the System which meets the definition of a qualified pension trust fund under Section 401(a) of the Internal Revenue Code.

The System was originally created under Public Act 136 of 1945, recodified, and currently operates under the provisions of Public Act 300 of 1980, as amended. Section 25 of this Act establishes a governing board and its authority to promulgate or amend the provisions of the System. The board consists of twelve members – eleven appointed by the Governor plus the State Superintendent of Instruction, who serves as an ex-officio member.

The System is administered by the Office of Retirement Services 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 for the System.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report and are available at [www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr). Information provided in this report includes financial data, actuarial assumptions data, and detailed information about the pension plan's fiduciary net position.

**Benefits Provided** - 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. Depending on the plan option selected, member retirement benefits for DB plan members are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. 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.

**Mendon Community Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Organization (Continued)**

**Contributions** – Public Act 300 of 1980, as amended, requires contributions from both the participating employers and the plan members. The School District, as a participating employer, is required to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees (plan members) during the year, with an additional amount paid in to finance a portion of the unfunded accrued liability.

The System is set up with seven different benefit options which are available to plan members (employees) based on date of hire. Depending on the plan selected, plan member contributions range from 0% up to 7% of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The School District's contributions are determined based on employee elections. Contribution rates are adjusted annually by ORS. For the reported year, the rates ranged from 18.76% to 23.07% for the period of July 1, 2015 through September 30, 2015 and 14.56% to 18.95% for the period of October 1, 2015 through June 30, 2016.

The District's required and actual contributions to the plan for the year ended June 30, 2016 were \$742,887. The District's required and actual contributions include an allocation of \$219,971 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial liability (UAAL) stabilization rate for the year ended June 30, 2016.

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

**Proportionate Share of School District's Net Pension Liability** - At June 30, 2016, the District reported a liability of \$8,077,249 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. The District's proportionate share of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the System during the measurement period by the percent of statutorily required pension contributions from all applicable employers during the measurement period. At September 30, 2015, the District's proportionate share percent was .03306956 percent, an increase of .0001904 percent from its proportion measured as of September 30, 2014.

**Pension Expense** - For the year ended June 30, 2016, the School District recognized pension expense of \$679,759, exclusive of payments to fund the MPSERS UAAL stabilization rate.

**Mendon Community Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

**Deferred Outflows and Deferred Inflows** - At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 26,754
Changes of assumptions	198,879	-
Net difference between projected and actual earnings on pension plan investments	41,228	-
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	24,355	35,131
School District's contributions subsequent to the measurement date	<u>674,501</u>	<u>219,971</u>
Total	<u>\$ 938,963</u>	<u>\$ 281,856</u>

\$674,501 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 year ended June 30, 2017. The remaining other amounts reported as deferred outflows of resources and deferred (inflows) of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2017	\$ 19,724
2018	19,724
2019	8,969
2020	154,160

**Payables to the Pension Plan** - The District reported an accrued pension plan payable at June 30, 2016 of \$48,360. This amount represents employee withholdings and the employer amount payable for wages earned at June 30, 2016 but not yet paid.

**Actuarial Assumptions**

**Actuarial Valuations and Assumptions** - Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**Mendon Community Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Actuarial Assumptions (Continued)**

**Actuarial Valuations and Assumptions (Continued)** - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

A summary of actuarial assumptions as of the latest actuarial valuation follows:

Valuation date	September 30, 2014
Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	8.0%
Pension Plus Plan (hybrid)	7.0%
Projected salary increases	3.5 – 12.3%, including wage inflation at 3.5%
Cost of living pension adjustments	3.0% annual non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- 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 total pension liability as of September 30, 2015 is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years – 4.7158.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report ([www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr)).

**Long-Term Expected Rate of Return on Plan Assets** – The long-term expected rate of return on pension plan investments 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.

**Mendon Community Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Actuarial Assumptions (Continued)**

**Long-Term Expected Rate of Return on Plan Assets (Continued)**– Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of September 30, 2015, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic equity pools	28.0%	5.9%
Alternative investment pools	18.0%	9.2%
International equity	16.0%	7.2%
Fixed income pools	10.5%	0.9%
Real estate & infrastructure pools	10.0%	4.3%
Absolute return pools	15.5%	6.0%
Short-term investment pools	<u>2.0%</u>	0.0%
Total	<u>100.0%</u>	

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

**Discount Rate** - A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). 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 employer contributions 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 benefits payments to determine the total pension liability.

**Sensitivity of the Net Position Liability to Changes in the Discount Rate** - The following presents the School District’s proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the Reporting Unit’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher:

<u>Current Single Discount Rate</u>		
<u>1% Decrease (Non-Hybrid/Hybrid)* 7.0%/6.0%</u>	<u>Assumption (Non-Hybrid/Hybrid)* 8.0%/7.0%</u>	<u>1% Increase (Non-Hybrid/Hybrid)* 9.0%/8.0%</u>
<u>\$10,413,644</u>	<u>\$8,077,249</u>	<u>\$6,107,572</u>

\*The Basic Plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.

**Mendon Community Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Post-Employment Benefits Other than Pensions (OPEB)**

Under the MPSERS act, all participating retirees have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the various coverages at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rates to fund the benefits on a pay-as-you-go basis. The employer contribution rate on covered payroll for the period of July 1, 2015 through September 30, 2015 was 2.20% to 2.71% and for the period of October 1, 2015 through June 30, 2016 was 6.04% to 6.83%, dependent upon the employee's date of hire and plan election.

Members can choose to contribute 3.0% of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3.0% contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a plan with 2.0% employee contributions into their 457 account as of their transition date and with a 2.0% employer match into the employee's 401(k) account.

The District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2016 and 2015 were approximately \$240,642 and \$96,447, respectively. In addition, a portion ranging from 35-100 percent of the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate is considered a contribution to the retiree healthcare plan.

**Note 11 – Tax Deferred Annuity Plan**

The District maintains a 403(b) tax deferred annuity plan for eligible administrative employees. Total employer contributions to the plan for the fiscal year were approximately \$5,441.

**Note 12 – Federal and State Grants**

The District has received federal and State grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

**Note 13 – Upcoming Accounting and Reporting Changes**

The Government Accounting Standards Board has issued Statement No. 77, *Tax Abatement Disclosures*. Statement No. 77 requires new government disclosures about tax abatement agreements with entities and individuals including the purpose of the program, the tax being abated, the dollar amount and provisions for recapturing abated taxes as well as the types of commitments made by tax abatement recipients. It also requires disclosures about other commitments made by a government in tax abatement agreements, such as to build infrastructure assets. The new standard also requires disclosures about tax abatements that are entered into by other governments that reduce the reporting government's tax revenues. Statement No. 77 is effective for the year ended June 30, 2017 with earlier application encouraged.

Another upcoming reporting change comes from GASB's issuance of Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 sets standards for governments that provide postemployment benefits other than pensions (OPEB). Similar to the GASB standards set for pension benefits, the Statement requires the District, as a cost-sharing employer participating in MPSERS, to recognize and report its proportionate share of the MPSERS' net OPEB liability as well as the related deferred inflows and outflows of resources, and expenses/expenditures. The Statement also addresses standards for OPEB note disclosures and required supplementary information. Statement No. 75 will be effective for the District's fiscal year ending June 30, 2018.

## **Required Supplemental Information**

**Mendon Community Schools**  
 Budgetary Comparison Schedule - General Fund  
 Year Ended June 30, 2016

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Difference</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Local sources	\$ 1,058,441	\$ 1,063,433	\$ 1,138,191	\$ 74,758
State sources	4,109,631	4,160,715	4,053,442	(107,273)
Federal sources	139,283	221,715	162,249	(59,466)
Interdistrict and other	84,646	98,208	82,148	(16,060)
Total revenues	<u>5,392,001</u>	<u>5,544,071</u>	<u>5,436,030</u>	<u>(108,041)</u>
<b>Expenditures:</b>				
Instruction:				
Basic programs	2,772,349	2,743,816	2,761,921	18,105
Added needs	593,559	604,088	525,718	(78,370)
Support services:				
Pupil	100,313	120,331	117,017	(3,314)
Instructional staff	77,515	141,351	103,524	(37,827)
General administration	189,496	196,164	213,193	17,029
School administration	386,496	374,252	392,460	18,208
Business	151,948	153,280	153,296	16
Operation & maintenance	677,174	697,223	653,048	(44,175)
Pupil transportation	253,834	284,673	248,712	(35,961)
Central services	121,572	99,465	111,517	12,052
Athletic activities	215,658	228,277	226,347	(1,930)
Community services	-	1,008	1,757	749
Total expenditures	<u>5,539,914</u>	<u>5,643,928</u>	<u>5,508,510</u>	<u>(135,418)</u>
<b>Revenues Over (Under)</b>				
<b>Expenditures</b>	<u>(147,913)</u>	<u>(99,857)</u>	<u>(72,480)</u>	<u>\$ 27,377</u>
<b>Net Changes in Fund Balances</b>	(147,913)	(99,857)	(72,480)	
<b>Fund Balances - Beginning of Year</b>	<u>643,495</u>	<u>643,495</u>	<u>643,495</u>	
<b>Fund Balances - End of Year</b>	<u>\$ 495,582</u>	<u>\$ 543,638</u>	<u>\$ 571,015</u>	

**Mendon Community Schools**

Schedule of the District's Proportionate Share of the Net Pension Liability of the MPSERS Plan  
Last Two Fiscal Years (Amounts Determined Each Year as of September 30)

	<u>2015</u>	<u>2014</u>
District's proportion of net pension liability (%)	<u>0.03306956%</u>	<u>0.03326000%</u>
District's proportionate share of net pension liability	<u>\$ 8,077,249</u>	<u>\$ 7,324,980</u>
District's covered-employee payroll	<u>\$ 2,797,329</u>	<u>\$ 2,855,635</u>
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	<u>288.75%</u>	<u>256.51%</u>
Plan fiduciary net position as a percentage of total pension liability	<u>63.17%</u>	<u>66.20%</u>

**Mendon Community Schools**

Schedule of the District's Contributions to the MPSERS Plan  
Last Two Fiscal Years (Amounts Determined Each Year as of June 30)

	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 742,887	\$ 516,475
Contributions in relation to statutorily required contributions	<u>742,887</u>	<u>516,475</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 2,702,854</u>	<u>\$ 2,822,768</u>
Contributions as a percentage of covered-employee payroll	<u>27.49%</u>	<u>18.30%</u>

**Mendon Community Schools**

Notes to Required Supplementary Information Pension Schedules  
Year Ended June 30, 2016

**Changes of Benefit Terms:** There were no changes of benefit terms in 2015.

**Changes of Assumptions:** There were no changes of benefit assumptions in 2015.

## **Other Supplemental Information**

**Mendon Community Schools**  
Schedule of Bonded Indebtedness  
June 30, 2016

	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Fiscal Year Interest Requirements</u>	<u>Fiscal Year Principal Requirements</u>	<u>Bonds Outstanding June 30, 2016</u>
<b>2014 Building &amp; Site and Refunding Bonds</b>	\$2,235,000	2.000%	05/01/17	\$ 44,700	\$ -	\$ -
		2.000%	05/01/18	44,700	190,000	190,000
		2.000%	05/01/19	36,100	580,000	580,000
		2.000%	05/01/20	14,650	1,465,000	1,465,000
						<u>\$ 2,235,000</u>

	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Fiscal Year Interest Requirements</u>	<u>Fiscal Year Principal Requirements</u>	<u>Bonds Outstanding June 30, 2016</u>
<b>2007 Refunding Bonds</b>	\$5,955,000	4.000%	05/01/17	\$ 239,475	\$ 20,000	\$ 20,000
		4.000%	05/01/18	238,675	25,000	25,000
		4.000%	05/01/19	237,675	25,000	25,000
		4.000%	05/01/20	236,675	25,000	25,000
		4.000%	05/01/21	235,675	25,000	25,000
		4.000%	05/01/22	234,675	25,000	25,000
		4.000%	05/01/23	233,675	30,000	30,000
		4.000%	05/01/24	232,475	530,000	530,000
		4.000%	05/01/25	211,275	530,000	530,000
		4.000%	05/01/26	190,075	525,000	525,000
		4.000%	05/01/27	169,075	525,000	525,000
		4.000%	05/01/28	148,075	520,000	520,000
		4.000%	05/01/29	127,275	520,000	520,000
		4.125%	05/01/30	105,825	515,000	515,000
		4.125%	05/01/31	84,581	515,000	515,000
		4.125%	05/01/32	63,338	510,000	510,000
		4.250%	05/01/33	41,663	505,000	505,000
	4.250%	05/01/34	20,200	505,000	505,000	
					<u>\$ 5,875,000</u>	

**Mendon Community Schools**  
Schedule of Bonded Indebtedness (Continued)  
June 30, 2016

	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Fiscal Year Interest Requirements</u>	<u>Fiscal Year Principal Requirements</u>	<u>Bonds Outstanding June 30, 2016</u>
<b>2012 Refunding Bonds</b>	\$ 4,390,000	3.000%	05/01/17	\$ 101,850	\$ 490,000	\$ 490,000
		3.000%	05/01/18	87,150	485,000	485,000
		3.000%	05/01/19	72,600	485,000	485,000
		3.000%	05/01/20	58,050	480,000	480,000
		3.000%	05/01/21	43,650	475,000	475,000
		3.000%	05/01/22	29,400	495,000	495,000
		3.000%	05/01/23	14,550	485,000	485,000
						<u>\$ 3,395,000</u>
	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Fiscal Year Interest Requirements</u>	<u>Fiscal Year Principal Requirements</u>	<u>Bonds Outstanding June 30, 2016</u>
<b>2015 Building &amp; Site Bonds</b>	\$ 2,850,000	3.000%	05/01/17	\$ 99,975	\$ -	\$ -
		3.000%	05/01/18	99,975	-	-
		3.000%	05/01/19	99,975	-	-
		3.000%	05/01/20	99,975	100,000	100,000
		3.000%	05/01/21	96,975	100,000	100,000
		3.000%	05/01/22	93,975	100,000	100,000
		3.000%	05/01/23	90,975	105,000	105,000
		3.000%	05/01/24	87,825	105,000	105,000
		3.000%	05/01/25	84,675	105,000	105,000
		3.000%	05/01/26	81,525	105,000	105,000
		3.000%	05/01/27	78,375	105,000	105,000
		3.000%	05/01/28	75,225	105,000	105,000
		3.000%	05/01/29	72,075	105,000	105,000
		3.000%	05/01/30	68,794	105,000	105,000
		3.125%	05/01/31	65,513	105,000	105,000
		3.125%	05/01/32	62,231	105,000	105,000
		3.125%	05/01/33	58,688	105,000	105,000
		3.375%	05/01/34	55,144	105,000	105,000
		3.375%	05/01/35	51,600	200,000	200,000
		3.375%	05/01/36	43,600	200,000	200,000
		4.000%	05/01/37	35,600	200,000	200,000
		4.000%	05/01/38	27,600	200,000	200,000
		4.000%	05/01/39	19,600	200,000	200,000
		4.000%	05/01/40	11,600	190,000	190,000
		4.000%	05/01/41	4,000	100,000	100,000
						<u>\$ 2,850,000</u>



**WILLIS & JURASEK**

CPAS AND CONSULTANTS

**Independent Auditors' 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***

Board of Education  
Mendon Community Schools  
Mendon, Michigan

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 Mendon Community Schools as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 11, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Mendon 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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. We did identify a certain deficiency in internal control, described below, that we consider to be a significant deficiency.

Board of Education  
Mendon Community Schools  
Mendon, Michigan

### **2016-1 – Budget Overage**

Criteria or Specific Requirement: It is management's responsibility to ensure that the District does not expend more than the budget adopted by the board.

Condition: As noted in the required supplemental budget information, expenditures for certain functions exceeded the final adopted budget.

Recommendation: We recommend the District consider reviewing the procedures for budget amendments to ensure expenditures do not exceed approved budget.

Views of Responsible Officials and Planned Corrective Action: We recognize that expenditures at the function level were over the budgeted amounts. During the reforecast activities that go into developing a new budget, we will carefully review and monitor actual and forecasted spending so that the actual results do not exceed the final adopted budget.

### **Mendon Public Schools' Response to Findings**

Mendon Public Schools' response to the findings identified in our audit and referred to as 2016-1 is described previously. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

October 11, 2016



**WILLIS & JURASEK**

CPAS AND CONSULTANTS

October 11, 2016

To the Board of Education  
Mendon Community Schools  
Mendon, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mendon Community Schools for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *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 May 31, 2016. Professional standards also require that we communicate to you the following information related to our audit.

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Mendon Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. We noted no transactions entered into by the School 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 government-wide financial statements were:

Management's estimate of the capitalized assets and the estimate of related accumulated depreciation. The bulk of the capitalized cost is based upon an asset appraisal done in a prior year. Related depreciation is based upon estimated lives and methods to formulate net book value. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements contain estimates for net pension liability and related deferred inflows and deferred outflows of resources. This information has been provided by ORS to all school districts participating in the MPERS pension system. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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

*Difficulties Encountered in Performing the Audit*

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

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are 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, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated as per the auditors' report.

*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 governmental unit'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 the Budgetary Comparison Schedules, the Schedule of Reporting Unit's Contributions, and the Schedule of Reporting Unit's Proportionate Share of the Net Pension Liability and related notes which are required supplementary information (RSI) that supplements 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.

Restriction on Use

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

Very truly yours,

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.