



**MENDON COMMUNITY SCHOOLS
ST. JOSEPH COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2022**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Mendon Community Schools
Mendon, Michigan

Report on the Audit of the Financial Statements***Opinions***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mendon Community Schools (the "School") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

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 the School, as of June 30, 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 the schedules of proportionate share of net pension and OPEB liabilities and contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required

by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The accompanying combining and individual nonmajor fund financial are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2022, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Gabridge & Company, PLC
Sturgis, MI
October 25, 2022

Management's Discussion and Analysis

**Mendon Community Schools
Management's Discussion and Analysis
June 30, 2022**

This section of Mendon Community Schools (the "School District"), Mendon, Michigan's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2022. It is to be read in conjunction with the School District's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and is intended to provide the financial results for the fiscal year ending June 30, 2022.

Financial Highlights

- The liabilities and deferred inflows of the School District exceeded its assets and deferred outflows at the close of this fiscal year by \$(5,183,992) (shown as a deficit net position). The School District had a deficit unrestricted net position of \$(6,753,749).
- Revenues of \$7,379,283 exceeded expenses of \$5,418,856 leading to an increase in net position of \$1,960,427 during the year.
- During the year, the School District's fund balances decreased by \$1,419,396, for an ending fund balance of \$2,911,147.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,848,480, or 35.7% of the general fund's total expenditures. Fund balance of the general fund increased by \$194,291 during the year.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the School District:

- The first two statements, the statement of net position and the statement of activities, are *district-wide financial statements* that provide both short-term and long-term information about the School District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the School District, reporting the School District's operations in more detail than the district-wide statements.
 - *Governmental funds statements* tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

The basic financial statements also include the notes to the financial statements that explain the information in the basic financial statements and provide more detailed data. Supplementary information follows and includes combining and individual fund statements as well as a budgetary comparison schedule for the general fund.

District-wide Financial Statements

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

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

Over time, increases or decreases in the School District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the School District's overall health, one should consider additional non-financial factors such as changes in the School District's property tax-base and the condition of school buildings and other facilities.

In the district-wide financial statements, the School District's activities are presented as governmental activities. *Governmental activities* include the School District's basic services, such as regular and special education, instructional support, transportation, administration, community services, food service, and athletics. State aid and property taxes finance most of these activities.

Financial Analysis of the School District as a Whole

On the following page is a comparative highlight of the current and prior year financial activities.

Mendon Community School's Net Position

ASSETS	2022	2021
<i>Current Assets</i>		
Cash and investments	\$ 3,469,798	\$ 4,930,320
Receivables	707,540	760,572
Inventory and prepaid items	70,836	61,824
<i>Total Current Assets</i>	4,248,174	5,752,716
<i>Noncurrent Assets</i>		
Capital assets, net	17,012,163	15,951,037
<i>Total Assets</i>	21,260,337	21,703,753
DEFERRED OUTFLOWS OF RESOURCES		
Charges from bond refundings	212,120	262,800
OPEB related	448,488	577,005
Pension related	1,220,157	1,805,418
<i>Total Deferred Outflows of Resources</i>	1,880,765	2,645,223
LIABILITIES		
<i>Current Liabilities</i>		
Accounts payable	87,109	248,589
Accrued payroll and related benefits	365,379	357,413
Accrued interest	61,056	65,944
Unearned revenue	101,025	62,421
Due to other governmental units	73,486	-
Short-term note payable	710,028	753,750
Current portion of long-term debt	1,225,000	1,196,871
<i>Total Current Liabilities</i>	2,623,083	2,684,988
<i>Noncurrent Liabilities</i>		
Net OPEB liability	354,632	1,286,432
Net pension liability	5,630,775	8,679,067
Long-term debt	15,329,641	16,564,981
<i>Total Liabilities</i>	23,938,131	29,215,468
DEFERRED INFLOWS OF RESOURCES		
OPEB related	1,667,188	1,364,334
Pension related	2,719,775	913,593
<i>Total Deferred Inflows of Resources</i>	4,386,963	2,277,927
NET POSITION		
Net investment in capital assets	1,213,228	468,007
Restricted	356,529	509,515
Unrestricted	(6,753,749)	(8,121,941)
<i>Total Net Position</i>	\$ (5,183,992)	\$ (7,144,419)

Cash and investments decreased by \$1,460,522 being similar to the decrease in governmental fund balances of \$1,419,396. As a result of better market conditions, pension assets and OPEB assets each earned 27% during the most recent actuarial valuation. This resulted in a decrease in net pension liability of \$3,048,292, a decrease in deferred outflows related to the pension of \$585,261, and an increase in deferred inflows related to the pension of \$1,806,182. Similarly, this resulted in a decrease in net OPEB liability of \$931,800, a decrease in deferred outflows related to the OPEB of \$128,517, and an increase in deferred inflows related to the OPEB of \$302,854.

The results of operations for the School District as a whole are reported in the Change in Net Position table below. This statement shows the changes in net position for the fiscal years ended June 30, 2022 and 2021.

Mendon Community School's Changes in Net Position

Revenues	2022	2021
Program Revenues		
Charges for services	\$ 173,552	\$ 187,486
Operating grants and contributions	1,637,643	1,678,165
<i>Total Program Revenues</i>	1,811,195	1,865,651
General Revenues		
Property taxes	2,911,630	2,883,946
Unrestricted state sources	2,649,208	2,729,998
Interest and investment earnings	7,250	9,547
<i>Total General Revenues</i>	5,568,088	5,623,491
<i>Total Revenues</i>	7,379,283	7,489,142
Expenses		
Instruction	2,109,890	2,662,210
Supporting services	1,691,714	1,470,593
Food services	297,094	234,207
Athletics	181,224	182,403
Community services	3,519	4,045
Interest and fiscal charges on long-term debt	488,777	471,098
Unallocated depreciation	646,638	615,321
<i>Total Expenses</i>	5,418,856	5,639,877
<i>Change in Net Position</i>	1,960,427	1,849,265
<i>Net Position at Beginning of Period (Restated)</i>	(7,144,419)	(8,993,684)
<i>Net Position at End of Period</i>	\$ (5,183,992)	\$ (7,144,419)

The School District had an overall increase in net position of \$1,960,427 for the year ended June 30, 2022. Property taxes increased by \$27,684 as the School District's taxable value increased. Changes within expenses for the School District were largely caused by the changes in net pension

liability, net OPEB liability, and their related deferrals. Additionally, the resumption of operations led to an increase in grant-related expenses.

Fund Financial Statements

The fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "major" funds - not the School District as a whole. Funds are accounting devices the School District uses to keep track of specific sources of funding and spending on particular programs.

The School District utilizes governmental funds:

- *Governmental funds*: Most of the School District's basic services are included in governmental funds, which generally focus on: 1) how cash and other financial assets that can readily be converted to cash flow in and out and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Since the district-wide financial statements and the fund financial statements use different methods of accounting to report the School District's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.

Financial Analysis of the School District's Funds

The School District uses funds to record and analyze financial information. The School District has three major funds, its general, debt service, and capital projects funds.

The ***general fund*** is the School District's primary operating fund. The general fund had revenues of \$5,378,485 and expenditures of \$5,184,194. The general fund ended the year with a \$194,291 increase in fund balance for a total fund balance of \$1,909,322 as of June 30, 2022. The smaller increase was a result of significant increases for expenditures due to increased basic needs and instructional staff expenditures. There was no significant change in revenues for the general fund.

The ***debt service fund***, a major fund, had a decrease in fund balance of \$76,510 for a total fund balance of \$167,730 as of year-end. The decrease was a result of debt service expenditures being greater than property tax revenue received.

The ***capital projects fund***, a major fund, had a decrease in fund balance of \$1,472,436, for a total fund balance of \$543,586 as of year-end. The significant decrease was caused by increased capital outlay during the year.

General Fund Budgetary Highlights

During the year the School District revised its budget to attempt to match changes in the school funding environment and current needs of students and faculty. State law requires that budgets be

amended during the year so actual expenditures do not exceed appropriations. The initial budget for the year ended June 30, 2022, was adopted by the Board of Education in June 2021, with the final amendments made in June 2022.

Original budget compared to final budget. The original budget was amended during the year as actual results needed adjusting from the original budgeted estimates. There were no significant amendments to either the original estimated revenues or original budgeted appropriations during the year ended June 30, 2022.

Final budget compared to actual results. The School District had no expenditures in excess of the amounts appropriated during the year ended June 30, 2022.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2022, the School District had \$17,012,163 invested in capital assets. This included a net decrease during the fiscal year of \$1,061,126 consisting of depreciation charges of \$646,638 against capital asset purchases of \$1,707,764.

More detailed information about the School District's capital assets can be found in the notes to the financial statements section of this document.

Long-term Debt

At year-end, the School District had total long-term debt of \$16,554,641. This was a decrease of \$1,207,211 compared to the prior year and was comprised of principal payments of \$1,197,902, amortization of bond premiums and discounts of \$25,620 and \$(16,311), respectively.

The State limits the amount of general obligation debt that schools can issue. The School District is well under the State limit as of June 30, 2022.

More detailed information about the School District's long-term debt can be found in the notes to the financial statements section of this document.

Economic Factors and Next Year's Budget and Rates

The School District's budget for the 2023 fiscal year projects total revenues of \$5,327,295 and total expenditures of \$5,591,974. The School District continues to work to balance its expenditures while providing an excellent education to the District it serves.

Requests for Information

This financial report is designed to provide our 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:

Mendon Community Schools
Business Department
148 Kirby Road
Mendon, MI 49072

Basic Financial Statements

Mendon Community Schools
Statement of Net Position
June 30, 2022

	<u>Governmental Activities</u>
ASSETS	
<i>Current Assets</i>	
Cash and investments	\$ 3,469,798
Due from governmental units	707,540
Inventory	9,994
Prepaid items	60,842
Total Current Assets	<u>4,248,174</u>
<i>Noncurrent Assets</i>	
Capital assets not being depreciated	1,792,864
Capital assets being depreciated	15,219,299
Total Assets	<u>21,260,337</u>
DEFERRED OUTFLOWS OF RESOURCES	
Charges on refunding	212,120
OPEB related	448,488
Pension related	1,220,157
Total Deferred Outflows of Resources	<u>1,880,765</u>
LIABILITIES	
<i>Current Liabilities</i>	
Accounts payable	87,109
Short-term note payable	710,028
Accrued payroll	269,519
Accrued benefits	95,860
Accrued interest	61,056
Unearned revenue	101,025
Current portion of long-term debt	1,225,000
Due to other governmental units	73,486
Total Current Liabilities	<u>2,623,083</u>
<i>Noncurrent Liabilities</i>	
Net OPEB liability	354,632
Net pension liability	5,630,775
Long-term debt	15,329,641
Total Liabilities	<u>23,938,131</u>
DEFERRED INFLOWS OF RESOURCES	
OPEB related	1,667,188
Pension related	2,719,775
Total Deferred Inflows of Resources	<u>4,386,963</u>
NET POSITION	
Net investment in capital assets	1,213,228
<i>Restricted for:</i>	
Debt service	167,730
Food service	188,799
<i>Unrestricted</i>	(6,753,749)
Total Net Position	<u>\$ (5,183,992)</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Mendon Community Schools
Statement of Activities
For the Year Ended June 30, 2022

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Governmental Activities:					
Instruction	\$ 2,109,890	\$ 20,000	\$ 940,605	\$ --	\$ (1,149,285)
Supporting services	1,691,714	113,069	360,036	--	(1,218,609)
Community services	3,519	--	--	--	(3,519)
Food services	297,094	15,522	335,692	--	54,120
Athletics	181,224	24,961	1,310	--	(154,953)
Debt service - interest and fiscal charges	488,777	--	--	--	(488,777)
Depreciation (unallocated)	646,638	--	--	--	(646,638)
Total Governmental Activities	\$ 5,418,856	\$ 173,552	\$ 1,637,643	\$ --	(3,607,661)

General Purpose Revenues:

Property taxes, levied for general obligations	1,475,862
Property taxes, levied for debt service	1,435,768
State sources	2,649,208
Interest and investment earnings	7,250
Total General Revenues	5,568,088
Change in Net Position	1,960,427
<i>Net Position at Beginning of Period</i>	<i>(7,144,419)</i>
Net Position at End of Period	\$ (5,183,992)

The Notes to the Financial Statements are an integral part of these Financial Statements

**Mendon Community Schools
Balance Sheet
Governmental Funds
June 30, 2022**

		<u>Debt Service</u>	<u>Capital Projects</u>		
	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and investments	\$ 2,504,195	\$ 167,730	\$ 543,586	\$ 254,287	\$ 3,469,798
Due from governmental units	707,099	--	--	441	707,540
Inventory	--	--	--	9,994	9,994
Prepaid items	60,842	--	--	--	60,842
Due from other funds	--	--	--	39,371	39,371
Total Assets	<u>\$ 3,272,136</u>	<u>\$ 167,730</u>	<u>\$ 543,586</u>	<u>\$ 304,093</u>	<u>\$ 4,287,545</u>
LIABILITIES					
Accounts payable	\$ 87,109	\$ --	\$ --	\$ --	\$ 87,109
Short-term note payable	710,028	--	--	--	710,028
Accrued payroll	269,519	--	--	--	269,519
Accrued benefits	95,860	--	--	--	95,860
Unearned revenue	87,441	--	--	13,584	101,025
Due to other governmental units	73,486	--	--	--	73,486
Due to other funds	39,371	--	--	--	39,371
Total Liabilities	<u>1,362,814</u>	<u>--</u>	<u>--</u>	<u>13,584</u>	<u>1,376,398</u>
FUND BALANCE					
Nonspendable	60,842	--	--	9,994	70,836
Restricted	--	167,730	543,586	178,805	890,121
Committed	--	--	--	101,710	101,710
Unassigned	1,848,480	--	--	--	1,848,480
Total Fund Balance	<u>1,909,322</u>	<u>167,730</u>	<u>543,586</u>	<u>290,509</u>	<u>2,911,147</u>
Total Liabilities and Fund Balance	<u>\$ 3,272,136</u>	<u>\$ 167,730</u>	<u>\$ 543,586</u>	<u>\$ 304,093</u>	<u>\$ 4,287,545</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Mendon Community Schools
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2022

Total Fund Balance - Governmental Funds	\$ 2,911,147
Accrued interest is not due and payable in the current period and, therefore, is not reported in the funds.	(61,056)
General government capital assets of \$30,079,949, net of accumulated depreciation of \$13,067,786, are not financial resources and, accordingly, are not reported in the funds.	17,012,163
Net pension liability and related deferred amounts are not due and payable in the current period or do not represent current financial resources and, therefore, are not reported in the funds.	(7,130,393)
Other postemployment benefit liability and related deferred amounts are not due and payable in the current period or do not represent current financial resources and, therefore, are not reported in the funds.	(1,573,332)
Deferred charges on refunding related to the issuance of long-term refunding debt will be amortized over the life of the debt on the statement of net position.	262,800
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. This amount represents the sum of bonds payable (net of bond premiums and discounts) of \$16,554,641.	(16,605,321)
Total Net Position - Governmental Activities	\$ <u>(5,183,992)</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Mendon Community Schools
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2022

		<u>Debt Service</u>	<u>Capital Projects</u>		
	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Local sources	\$ 1,579,590	\$ 1,436,366	\$ 1,699	\$ 91,587	\$ 3,109,242
State sources	3,510,290	135,454	--	6,027	3,651,771
Federal sources	215,342	--	--	329,665	545,007
Interdistrict	73,263	--	--	--	73,263
Total Revenues	5,378,485	1,571,820	1,699	427,279	7,379,283
Expenditures					
Instruction	3,005,192	--	--	--	3,005,192
Supporting services	1,955,859	--	--	64,203	2,020,062
Community services	3,519	--	--	--	3,519
Food services	--	--	--	427,817	427,817
Athletics	217,758	--	--	--	217,758
Capital outlay	--	--	1,474,135	--	1,474,135
Debt service - principal	1,862	1,195,000	--	--	1,196,862
Debt service - interest and fiscal charges	4	453,330	--	--	453,334
Total Expenditures	5,184,194	1,648,330	1,474,135	492,020	8,798,679
Excess of Revenues Over					
(Under) Expenditures	194,291	(76,510)	(1,472,436)	(64,741)	(1,419,396)
Net Change in Fund Balance	194,291	(76,510)	(1,472,436)	(64,741)	(1,419,396)
<i>Fund Balance at Beginning of Period</i>	<i>1,715,031</i>	<i>244,240</i>	<i>2,016,022</i>	<i>355,250</i>	<i>4,330,543</i>
Fund Balance at End of Period	\$ 1,909,322	\$ 167,730	\$ 543,586	\$ 290,509	\$ 2,911,147

The Notes to the Financial Statements are an integral part of these Financial Statements

Mendon Community Schools
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended June 30, 2022

Total Net Change in Fund Balances - Governmental Funds	\$	(1,419,396)
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The statement of activities reports changes to net pension liability and pension related deferrals as pension expense; however, the expenditures recorded on the governmental funds equals actual pension contributions.		656,849
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In the statement of activities, interest and bond discounts and premiums are accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due. This represents the current year change in accrued interest and amortization of bond premiums and discounts. In addition, the amortization of the deferred charge on bond refundings is included.		(36,483)
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Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This represents current year capital outlay of \$1,707,764 less depreciation expense of \$646,638.		1,061,126
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The statement of activities reports changes to net OPEB liability and OPEB related deferrals as OPEB expense; however, the expenditures recorded on the governmental funds equals actual OPEB contributions.		500,429
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Repayments of principal on long-term debt are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position.		1,197,902
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Changes in Net Position - Governmental Activities	\$	<u>1,960,427</u>
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Notes to the Financial Statements

Mendon Community Schools

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Mendon Community Schools (the “School District” or “government”) conform to generally accepted accounting principles as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District’s significant 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 Districts' reporting entity, and which organizations are legally separate, component units of the school district. Based on the application of the criteria, the School District does not contain any component units.

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 nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues.

The *statement of activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported 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 funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are

Mendon Community Schools

Notes to the Financial Statements

recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or one year for reimbursement-based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues susceptible to accrual are property taxes, state aid, federal and inter-district revenues, and interest income and, accordingly, have been recognized as revenues of the current fiscal year. Other revenues are recognized when received.

The School District reports the following major funds:

The ***general fund*** is the general operating fund of the School District. It is used to account for all financial resources, except those required to be accounted for in another fund.

The ***debt service fund*** is used to record tax, interest income, other revenue for the payment of principal, debt service interest, and other expenditures related to bond issues.

The ***capital projects fund*** is used to record school building and site bond proceeds and the ensuing capital project expenditures.

Additionally, the School District reports the following fund type:

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

Budgets and Budgetary Accounting

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

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the functional level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year.

Mendon Community Schools

Notes to the Financial Statements

Property Taxes

Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. Taxes are recognized as current property tax revenue to the extent that they are collected during the year or within 60 days after year-end. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls. Assessed values are established annually by the various governmental units within the School District and are equalized by the State of Michigan.

Assets, Liabilities, Deferred Outflows and Inflows, and Fund Equity

Cash and Cash Equivalents

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

State statutes and School District policy authorize the School District to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by the surplus funds investment pool act, Act. No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

Mendon Community Schools

Notes to the Financial Statements

Investments

Investments are stated at fair market value. Investments are exposed to various risks, such as significant external events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as “due to/from other funds” (i.e., the current portion of interfund loans).

All receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. No amounts have been deemed uncollectable during the current year.

Inventories and Prepaids

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of food commodities and related supplies.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include land, outside site improvements, buildings and additions, furniture and other equipment, and vehicles are reported in the district-wide financial statements. Assets having a useful life in excess of five years and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset’s useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Mendon Community Schools

Notes to the Financial Statements

Site improvements, buildings and additions, furniture and equipment, and buses and other vehicles are depreciated using the straight-line method over the following estimated useful lives:

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

Pension

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 School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions

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

Deferred Outflows 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, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School District has three items that qualify for reporting in this category. The first two are the pension and other postemployment benefits related items reporting in the district-wide statement of net position. Deferred outflows are recognized for pension and other postemployment benefit related items. The third item is a deferred charge associated with a bond refunding. These amounts are expensed in the fiscal year in which they apply.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not*

Mendon Community Schools

Notes to the Financial Statements

be recognized as an inflow of resources (revenue) until that time. The School District has two items that qualify for reporting in this category. These items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

Salaries Payable and Accrued Employee Benefits

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the School District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for the employee health insurance premiums for the months of July and August. The School District pays these insurances for this period as part of the compensation for services rendered in the preceding school year.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bond issuance costs are recorded as a period expense. Bonds payable are reported at the total amount of bonds issued.

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 issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Net Position Flow Assumption

Sometimes the School District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the School District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Mendon Community Schools

Notes to the Financial Statements

Fund Balance Flow Assumptions

Sometimes the School District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The School District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

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

Unassigned fund balance is the residual classification for the School District's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the Board of Education.

Mendon Community Schools

Notes to the Financial Statements

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Capital Projects Fund Compliance

The capital projects fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of Section 1351a of the Michigan Revised School Code.

Michigan law provides that a local unit shall not incur expenditures in excess of the amount appropriated. The School District's actual expenditures and budgeted expenditures for the budgeted funds have been shown at the department level. The approved budgets of the School District for these budgeted funds were also adopted at the department level.

Budgetary Compliance

The School District no expenditures in excess of the amounts appropriated during the year ended June 30, 2022.

District-wide Net Position Deficit

The School District has an unrestricted net position deficit for district-wide activities in the amount of \$(6,753,749) and a deficit total net position of \$(5,183,992) as of June 30, 2022.

Note 3 - Cash and Investments

The School District maintains pooled and individual fund demand deposits, certificates of deposit, and short-term investment accounts. Following is a reconciliation of deposit and investment balances as of June 30, 2022:

Cash and investments	
Checking and savings accounts	\$ 1,554,035
Pooled investments (MILAF)	1,914,363
Cash on hand	<u>1,400</u>
Total cash and investments	<u>\$ 3,469,798</u>

Mendon Community Schools

Notes to the Financial Statements

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits might not be returned. State law does not require, and the School District does not have a policy for deposit custodial credit risk. As of year-end, \$1,461,499 of the School District's bank balance of \$1,785,844 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the School District believes it is impractical to insure all bank deposits. As a result, the School District evaluates each financial institution with which it deposits School District funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In order to minimize this risk, School District policy limits the types of investments and pre-qualifies financial institutions. As of June 30, 2022, none of the School District's investments were exposed to risk since the securities are held in the School District's name by the counterparty.

Credit Risk. State law limits investments to specific government securities, certificates of deposits, and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The School District's investment policy does not have specific limits in excess of state law on investment credit risk. The School District had \$1,914,363 invested with the Michigan Liquid Asset Fund that had an AAAm rating from Standard and Poor's.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The School District's investment policy does not limit investments in a single financial institution of a single security type (with the exception of U.S. treasuries and agencies and authorized pools) to a % of the total investment portfolio. All investments held at year end are reported above.

Fair Value Measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs.

There are three levels of inputs that may be used to measure fair value:

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

Level 2: Prices determined using other significant observable inputs. Observable

Mendon Community Schools

Notes to the Financial Statements

inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

The School District had \$1,914,363, invested with the Michigan Liquid Asset Fund, of level 2 recurring fair value measurements as of June 30, 2022.

Note 4 - Interfund Receivables, Payables, and Transfers

Interfund balances at June 30, 2022 consisted of fund receivables and payables listed below:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Student Activity	General	\$ 49
Food service	General	39,322
		<u>\$ 39,371</u>

Interfund balances resulted primarily from the time lag between the dates that: 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Note 5 - Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue include charges for services payments received prior to meeting all eligibility requirements in the amount of \$101,025.

Note 6 - State of Michigan School Aid

The School District reports State of Michigan school aid in the fiscal year in which the School District is entitled to the revenue as provided by State of Michigan School aid appropriation acts.

Mendon Community Schools

Notes to the Financial Statements

State funding provided approximately 49.5% of the total revenues to the School District during the June 30, 2022 fiscal year.

Note 7 - Capital Assets

Capital asset activity of the School District was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not Being Depreciated:				
Land	\$ 102,000	\$ -	\$ -	\$ 102,000
Construction in progress	426,546	1,264,318	-	1,690,864
Subtotal	528,546	1,264,318	-	1,792,864
Capital Assets Being Depreciated:				
Buildings and improvements	23,300,891	20,295	-	23,321,186
Site improvements	905,603	-	-	905,603
Buses and other vehicles	761,907	156,071	-	917,978
Furniture and equipment	2,875,238	267,080	-	3,142,318
Subtotal	27,843,639	443,446	-	28,287,085
Less Accumulated Depreciation:				
Buildings and improvements	8,262,954	469,447	-	8,732,401
Site improvements	875,418	30,185	-	905,603
Buses and other vehicles	620,455	35,521	-	655,976
Furniture and equipment	2,662,321	111,485	-	2,773,806
Subtotal	12,421,148	646,638	-	13,067,786
Capital Assets Being Depreciated, Net	15,422,491	(203,192)	-	15,219,299
Capital Assets, Net	\$ 15,951,037	\$ 1,061,126	\$ -	\$ 17,012,163

Depreciation expense for the fiscal year amounted to \$646,638. The School District determined that was impractical to allocate depreciation expense to the various government activities as the capital assets serve multiple functions.

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.

Mendon Community Schools

Notes to the Financial Statements

Direct placement bonds consist of:

2015 building and site bonds due in amounts ranging from \$100,000 through \$200,000 plus interest at 3.0%-4.0% through 2041.	\$ 2,550,000
2017 building and site bonds due in amounts ranging from \$100,000 through \$350,000 plus interest at 3.0%-3.55% through 2039.	3,045,000
2020 building and site bonds due in amounts ranging from \$50,000 through \$245,000 plus interest at 2.0%-3.0% through 2040.	1,970,000
2012 refunding bonds due in amounts ranging from \$475,000 through \$495,000 plus interest of 3.0% through 2023.	485,000
2017 refunding bonds due in amounts ranging from \$205,000 through \$1,580,000 plus interest at 2.0%-4.0% through 2030.	3,555,000
2020 refunding bonds due in amounts ranging from \$165,000 through \$770,000 plus interest at 0.9%-2.1% through 2030.	4,790,000
Total direct placement bonds	\$ 16,395,000

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable					
2015 Building and Site Bonds	\$ 2,650,000	\$ -	\$ (100,000)	\$ 2,550,000	\$ 105,000
2017 Building and Site Bonds	3,045,000	-	-	3,045,000	-
2012 Refunding Bonds	980,000	-	(495,000)	485,000	485,000
2017 Refunding Bonds	3,825,000	-	(270,000)	3,555,000	270,000
2020 Building and Site Bonds	2,020,000	-	(50,000)	1,970,000	50,000
2020 Refunding Bonds	5,070,000	-	(280,000)	4,790,000	315,000
Bond premiums	244,380	-	(25,620)	218,760	-
Bond discounts	(75,430)	-	16,311	(59,119)	-
Total Bonds Payable	17,758,950	-	(1,204,309)	16,554,641	1,225,000
Direct Placement Debt					
School Loan Revolving Fund (SLRF)	1,031	-	(1,031)	-	-
2016 Installment Purchase Agreement	1,871	-	(1,871)	-	-
Total Direct Placement Debt	2,902	-	(2,902)	-	-
Total Long-term Debt	\$ 17,761,852	\$ -	\$ (1,207,211)	\$ 16,554,641	\$ 1,225,000

Mendon Community Schools

Notes to the Financial Statements

Annual debt service requirements, exclusive of bond premiums and bond discounts, for long-term debt outstanding as of June 30, 2022 follows:

Year Ending June 30	Principal	Interest	Total
2023	\$ 1,225,000	\$ 423,448	\$ 1,648,448
2024	1,255,000	393,966	1,648,966
2025	1,290,000	372,583	1,662,583
2026	1,320,000	346,389	1,666,389
2027	1,365,000	318,221	1,683,221
2028 - 2032	4,700,000	1,141,997	5,841,997
2033 - 2037	3,360,000	639,626	3,999,626
2038 - 2041	1,880,000	118,532	1,998,532
Totals	\$ 16,395,000	\$ 3,754,762	\$ 20,149,762

2020 Refunding Bonds

On June 3, 2020, the School District issued refunding bonds for \$5,305,000 known as the 2020 Refunding Bonds (General Obligation – Unlimited Tax). The proceeds, net of issuance costs and bond discounts, were used to retire the balance due on the School Loan Revolving Fund loan (\$5,088,843). The 2020 refunding bonds mature in the 2030 fiscal year with annual principal payments ranging from \$165,000 - \$770,000 and has an interest rate range of 0.9-2.1%. The refunding is expected to save the School District approximately \$687,986 over the course of the 2020 refunding bond life with an economic gain of approximately \$570,723.

Note 9 - State Aid Anticipation Notes

During the year ended June 30, 2022, the District was approved for borrowings of \$700,000 for cash flow needs. The following schedule summarizes the short-term debt:

Short-term obligations	Interest Rate	Maturity	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Tax anticipation note 2022	0.49%	2023	\$ -	\$ 700,000	\$ -	\$ 700,000	\$ 700,000
Tax anticipation note 2021	0.50%	2022	750,000	-	(750,000)	-	-
State aid - accrued interest			3,750	6,278	-	10,028	10,028
Total short-term obligations			\$ 753,750	\$ 706,278	\$ (750,000)	\$ 710,028	\$ 710,028

Note 10 - Pension Plan

Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and

Mendon Community Schools

Notes to the Financial Statements

currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

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 are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. 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.

A DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated

Mendon Community Schools

Notes to the Financial Statements

to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2020 valuation will be amortized over a 18-year period beginning October 1, 2020 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2021:

Benefit Structure	Member	Non-Universities
Basic	0.0 - 4.0%	19.78%
Member Investment Plan	3.0 - 7.0%	19.78%
Pension Plus	3.0 - 6.4%	16.82%
Pension Plus 2	6.2%	19.59%
Defined Contribution	0.0%	13.39%

Required contributions to the pension plan from the School District were \$714,120 for the year ended September 30, 2021.

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

At June 30, 2022, the School District reported a liability of \$5,630,775 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2020. The School District's proportion 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 pension contributions required from all applicable employers during the measurement period. At September 30, 2021, the School District's proportion was 0.02378 percent, which was a decrease of 0.00148 percent from its proportion measured as of September 30, 2020.

For the year ending June 30, 2022, the School District recognized pension expense of \$159,983. At June 30, 2022, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Mendon Community Schools

Notes to the Financial Statements

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 87,223	\$ 33,159
Changes of assumptions	354,944	-
Net difference between projected and actual earnings on pension plan investments	-	1,810,276
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	876,340
Employer contributions subsequent to the measurement date	777,990	-
Total	\$ 1,220,157	\$ 2,719,775

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year Ended September 30	Amount:
2022	\$ (547,185)
2023	(597,058)
2024	(600,141)
2025	(533,224)

Actuarial Assumptions

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.

Mendon Community Schools

Notes to the Financial Statements

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2020
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	
- MIP and Basic Plans:	6.80% net of investment expenses
- Pension Plus Plan:	6.80% net of investment expenses
- Pension Plus 2 Plan:	6.00% net of investment expenses
Projected Salary Increases:	2.75 - 11.55%, including wage inflation at 2.75%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	
Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active Members:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP- 2017 from 2006.

Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2018 valuation. The total pension liability as of September 30, 2021, is based on the results of an actuarial valuation date of September 30, 2020, 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: 4.4367
- Recognition period for assets in years: 5.0000
- Full actuarial assumptions are available in the 2021 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-term Expected 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

Mendon Community Schools

Notes to the Financial Statements

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. 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, 2021, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	25.0%	5.4%
Private Equity Pools	16.0	9.1
International Equity Pools	15.0	7.5
Fixed Income Pools	10.5	(0.7)
Real Estate and Infrastructure Pools	10.0	5.4
Absolute Return Pools	9.0	2.6
Real Return/Opportunistic Pools	12.5	6.1
Short-term Investment Pools	2.0	(1.3)
Total	100.0%	

*Long-term rates of return are net of administrative expenses and 2.0% inflation.

Rate of Return

For the fiscal year ended September 30, 2021, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 27.3%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.8% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 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 these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Mendon Community Schools

Notes to the Financial Statements

Sensitivity of the School District's proportionate share of the net pension liability to changes in the discount rate

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease (Non-Hybrid/Hybrid)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)	1% Increase (Non-Hybrid/Hybrid)
5.8% / 5.8% / 5.0%	6.8% / 6.8% / 6.0%	7.8% / 7.8% / 7.0%
\$8,050,482	\$5,630,775	\$3,624,680

* Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2. Non-university employers provide Basic, MIP, Pension Plus and Pension Plus 2 plans. University employers provide only the Basic and MIP plans.

Michigan Public School Employees' Retirement System (MPERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS ACFR, available on the ORS website at www.michigan.gov/orsschools.

Note 11 - Postemployment Benefits Other Than Pensions (OPEB)

Plan Description

The Michigan Public School Employees' Retirement System (System or MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

Mendon Community Schools

Notes to the Financial Statements

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided

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

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Mendon Community Schools

Notes to the Financial Statements

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2020 valuation will be amortized over a 18-year period beginning October 1, 2020 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year ended September 30, 2021.

<u>Benefit Structure</u>	<u>Member</u>	<u>Non-Universities</u>
Premium Subsidy	3.00%	8.43%
Personal Healthcare Fund (PHF)	0.00%	7.57%

Required contributions to the OPEB plan from the School District were \$172,473 for the year ended September 30, 2021.

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

At June 30, 2022, the School District reported a liability of \$354,632 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2020. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2021, the School District's proportion was 0.02323%, which was a decrease of 0.00078% from its proportion measured as of October 1, 2020.

For the year ending June 30, 2022, the School District recognized OPEB expense of \$(318,822). At June 30, 2022, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Mendon Community Schools

Notes to the Financial Statements

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ 1,012,271
Changes of assumptions	296,455	44,361
Net difference between projected and actual earnings on pension plan investments	-	267,292
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,778	343,264
Employer contributions subsequent to the measurement date	149,255	-
Total	\$ 448,488	\$ 1,667,188

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Plan Year Ended September 30	Amount:
2022	\$ (387,848)
2023	(343,468)
2024	(285,611)
2025	(258,551)
2026	(81,755)
Thereafter	(10,722)

Actuarial Assumptions

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.

Mendon Community Schools

Notes to the Financial Statements

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2020
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	6.95%, net of investment expenses
Projected Salary Increases:	2.75 - 11.55%, including wage inflation at 2.75%
Healthcare Cost Trend Rate:	Pre-65: 7.75% year 1 graded to 3.5% year 15; 3.0% year 120 Post-65: 5.25% year 1 graded to 3.5% year 15; 3.0% year 120

Mortality:

Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active Members:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Other Assumptions:

Opt-Out Assumption	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for one or more dependents.

Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual OPEB valuations beginning with the September 30, 2018 valuation. The total OPEB liability as of September 30, 2021, is based on the results of an actuarial valuation date of September 30, 2020, 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: 6.1312
- Recognition period for assets in years: 5.0000

Mendon Community Schools

Notes to the Financial Statements

- Full actuarial assumptions are available in the 2021 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-term Expected Return on Plan Assets

The long-term expected rate of return on OPEB 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 OPEB 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. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2021, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	25.0%	5.4%
Private Equity Pools	16.0	9.1
International Equity Pools	15.0	7.5
Fixed Income Pools	10.5	(0.7)
Real Estate and Infrastructure Pools	10.0	5.4
Absolute Return Pools	9.0	2.6
Real Return/Opportunistic Pools	12.5	6.1
Short-term Investment Pools	2.0	(1.3)
Total	100.0%	

*Long-term rates of return are net of administrative expenses and 2.0% inflation.

Rate of Return

For the fiscal year ended September 30, 2021, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 27.14%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.95%. 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 these assumptions, the OPEB plan's fiduciary net position was projected to be available to make

Mendon Community Schools

Notes to the Financial Statements

all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the School District's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 6.95%, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1% Decrease	Current Discount Rate	1% Increase
5.95%	6.95%	7.95%
<u>\$658,970</u>	<u>\$354,632</u>	<u>\$96,357</u>

Sensitivity of the School District's proportionate share of the net OPEB liability to Healthcare Cost Trend Rate

The following presents the School District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the School District's proportionate share of net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
<u>\$86,315</u>	<u>\$354,632</u>	<u>\$656,521</u>

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2021 MPSERS ACFR, available on the ORS website at www.michigan.gov/orsschools.

Note 12 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the School District carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years

Mendon Community Schools

Notes to the Financial Statements

Note 13 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Note 14 - Tax Abatements

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

For the fiscal year ended June 30, 2022, the School District's operating property tax revenues were reduced by \$25,479 and the debt service property tax revenues were reduced by \$14,062 under these programs. Operating revenues not paid to the district because of tax abatement agreements are reimbursed to the district by the State of Michigan through the per-pupil foundation allowance.

Note 15 - Subsequent Events

The Administration and Board of Education is not aware of any subsequent events that would have a significant impact on the financial condition of the School District.

Required Supplementary Information

Mendon Community Schools
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2022

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
Local sources	\$ 1,549,542	\$ 1,585,230	\$ 1,579,590	\$ (5,640)
State sources	3,388,295	3,545,048	3,510,290	(34,758)
Federal sources	347,578	243,604	215,342	(28,262)
Interdistrict	56,886	71,860	73,263	1,403
Total Revenues	5,342,301	5,445,742	5,378,485	(67,257)
Expenditures				
Instruction				
Basic programs	2,656,272	2,632,545	2,526,588	105,957
Added needs	513,542	522,127	478,604	43,523
Total instruction	3,169,814	3,154,672	3,005,192	149,480
Supporting services				
Pupil support services	138,000	148,200	131,604	16,596
Instructional staff	95,986	79,133	42,714	36,419
General administration	198,850	215,950	210,124	5,826
School administration	423,610	455,050	415,200	39,850
Business	171,350	217,278	190,736	26,542
Operations and maintenance	595,850	690,963	577,601	113,362
Pupil transportation	189,359	312,325	249,315	63,010
Technology	105,488	151,939	138,565	13,374
Total supporting services	1,918,493	2,270,838	1,955,859	314,979
Community services	4,205	4,171	3,519	652
Athletics	220,081	232,150	217,758	14,392
Debt service	12,550	1,869	1,866	3
Total Expenditures	5,325,143	5,663,700	5,184,194	479,506
Excess (Deficiency) of Revenues				
Over Expenditures	17,158	(217,958)	194,291	412,249
Net Change in Fund Balance	17,158	(217,958)	194,291	412,249
Fund Balance at Beginning of Period	1,715,031	1,715,031	1,715,031	--
Fund Balance at End of Period	\$ 1,732,189	\$ 1,497,073	\$ 1,909,322	\$ 412,249

Mendon Community Schools
Schedule of School District's Proportionate Share of Net Pension Liability
Michigan Public School Employee Retirement Plan
Last Eight Fiscal Years (Amounts were determined as of September 30 of each fiscal year)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School District's Portion of Net Pension Liability (%)	0.02378%	0.02527%	0.02726%	0.02920%	0.03095%	0.03214%	0.03307%	0.03326%
School District's Proportionate Share of Net Pension Liability	\$ 5,630,775	\$ 8,679,067	\$ 9,027,433	\$ 8,779,000	\$ 8,020,697	\$ 8,018,490	\$ 8,077,249	\$ 7,324,980
School District's Covered Payroll	\$ 2,101,901	\$ 2,130,687	\$ 2,352,802	\$ 2,368,627	\$ 2,569,652	\$ 2,695,524	\$ 2,797,329	\$ 2,885,635
School District's Proportionate Share of Net Pension Liability as a Percentage of its Covered Payroll	267.89%	407.34%	383.69%	370.64%	312.13%	297.47%	288.75%	253.84%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	72.60%	60.31%	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%

Mendon Community Schools
Schedule of School District's Pension Contributions
Michigan Public School Employee Retirement Plan
Last Eight School District Fiscal Years (Amounts determined as of June 30 of each year)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily Required Contributions	\$ 714,120	\$ 694,336	\$ 724,159	\$ 425,315	\$ 420,466	\$ 476,700	\$ 492,300	\$ 516,475
Contributions in Relation to Statutorily Required Contributions	<u>714,120</u>	<u>694,336</u>	<u>724,159</u>	<u>425,315</u>	<u>420,466</u>	<u>476,700</u>	<u>492,300</u>	<u>516,475</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's Covered Payroll	\$ 2,275,186	\$ 2,062,347	\$ 2,166,195	\$ 2,390,248	\$ 2,430,082	\$ 2,550,767	\$ 2,681,830	\$ 2,798,520
Contributions as a Percentage of Covered Payroll	31.39%	33.67%	33.43%	17.79%	17.30%	18.69%	18.36%	18.46%

Mendon Community Schools
Schedule of School District's Proportionate Share of Net OPEB Liability
Michigan Public School Employee Retirement Plan
Last Five Fiscal Years (Amounts were determined as of September 30 of each fiscal year)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
School District's Portion of Net OPEB Liability (%)	0.02323%	0.02401%	0.02694%	0.02785%	0.03113%
School District's Proportionate Share of Net OPEB Liability	\$ 354,632	\$ 1,286,432	\$ 1,933,581	\$ 2,213,810	\$ 2,756,853
School District's Covered Payroll	\$ 2,101,901	\$ 2,130,687	\$ 2,352,802	\$ 2,368,627	\$ 2,569,652
School District's Proportionate Share of Net OPEB Liability as a Percentage of its Covered Payroll	16.87%	60.38%	82.18%	93.46%	107.29%
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	87.33%	59.44%	48.46%	42.95%	36.39%

Mendon Community Schools
Schedule of School District's OPEB Contributions
Michigan Public School Employee Retirement Plan
Last Five School District Fiscal Years (Amounts determined as of June 30 of each year)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily Required Contributions	\$ 172,473	\$ 169,657	\$ 184,962	\$ 204,502	\$ 202,170
Contributions in Relation to Statutorily Required Contributions	<u>172,473</u>	<u>169,657</u>	<u>184,962</u>	<u>204,502</u>	<u>202,170</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's Covered Payroll	\$ 2,275,186	\$ 2,062,347	\$ 2,166,195	\$ 2,390,248	\$ 2,430,082
Contributions as a Percentage of Covered Payroll	7.58%	8.23%	8.54%	8.56%	8.32%

Combining and Individual Fund Statements and Schedules

**Mendon Community Schools
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2022**

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service</u>	<u>Student Activity</u>	
ASSETS			
Cash and investments	\$ 152,626	\$ 101,661	\$ 254,287
Due from governmental units	441	--	441
Inventory	9,994	--	9,994
Due from other funds	39,322	49	39,371
<i>Total Assets</i>	\$ 202,383	\$ 101,710	\$ 304,093
LIABILITIES			
Unearned revenue	\$ 13,584	\$ --	\$ 13,584
<i>Total Liabilities</i>	13,584	--	13,584
FUND BALANCE			
Nonspendable	9,994	--	9,994
Restricted	178,805	--	178,805
Committed	--	101,710	101,710
Unassigned	--	--	--
<i>Total Fund Balance</i>	188,799	101,710	290,509
<i>Total Liabilities and Fund Balance</i>	\$ 202,383	\$ 101,710	\$ 304,093

Mendon Community Schools
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2022

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service</u>	<u>Student Activity</u>	
Revenues			
Local sources	\$ 15,649	\$ 75,938	\$ 91,587
State sources	6,027	--	6,027
Federal sources	329,665	--	329,665
<i>Total Revenues</i>	<u>351,341</u>	<u>75,938</u>	<u>427,279</u>
Expenditures			
Supporting services	--	64,203	64,203
Food services	427,817	--	427,817
<i>Total Expenditures</i>	<u>427,817</u>	<u>64,203</u>	<u>492,020</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(76,476)</u>	<u>11,735</u>	<u>(64,741)</u>
<i>Net Change in Fund Balance</i>	<u>(76,476)</u>	<u>11,735</u>	<u>(64,741)</u>
<i>Fund Balance at Beginning of Period</i>	<u>265,275</u>	<u>89,975</u>	<u>355,250</u>
<i>Fund Balance at End of Period</i>	<u>\$ 188,799</u>	<u>\$ 101,710</u>	<u>\$ 290,509</u>

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

To the Board of Education
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 the Mendon Community Schools (the "School"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated October 25, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) as a basis for designing 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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws,

regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

A handwritten signature in dark ink that reads "Gabridge & Company". The script is cursive and fluid, with the ampersand being a simple loop.

Gabridge & Company, PLC
Sturgis, MI
October 25, 2022

October 25, 2022

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 the Mendon Community Schools (the “School”) for the year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 5, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 to the financial statements. There were no new accounting policies adopted during the fiscal year ended June 30, 2022. 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 School District’s financial statements were:

- Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability.
- Management’s estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management’s estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 25, 2022.

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 School District'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 School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, the pension and OPEB schedules, and the budgetary comparison schedules, 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.

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

Restriction on Use

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

Very truly yours,

A handwritten signature in dark ink that reads "Gabridge & Company". The script is cursive and fluid, with the ampersand being particularly stylized.

Gabridge & Company, PLC
Sturgis, MI