

The School District of the City of  
Harper Woods

Year Ended  
June 30, 2018

Financial  
Statements &  
Single Audit Act  
Compliance



# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	4
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	16
Reconciliation - Fund Balances of Governmental Funds to Net Position of Governmental Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	18
Reconciliation - Net Changes in Fund Balances of Governmental Funds to Change in Net Position of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	20
Statement of Fiduciary Assets and Liabilities	21
Notes to the Financial Statements	24
<b>Required Supplementary Information</b>	
MPSERS Cost-Sharing Multiple-Employer Plan:	
Schedule of the District's Proportionate Share of the Net Pension Liability	46
Schedule of the District's Pension Contributions	46
Schedule of the District's Proportionate Share of the Net Other Postemployment Benefit Liability	47
Schedule of the District's Other Postemployment Benefit Contributions	47
<b>Single Audit Act Compliance</b>	
Independent Auditors' Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	51
Schedule of Expenditures of Federal Awards	54
Notes to Schedule of Expenditures of Federal Awards	58
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	59

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## ■ Table of Contents

	<u>Page</u>
Independent Auditors' Report on Compliance for the Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	61
Schedule of Findings and Questioned Costs	65
Summary Schedule of Prior Audit Findings	72



**INDEPENDENT AUDITORS' REPORT**

October 15, 2018

Board of Education  
The School District of the City of Harper Woods  
Harper Woods, Michigan

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *The School District of the City of Harper Woods* (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

***Independent Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of The School District of the City of Harper Woods as of June 30, 2018, and the respective changes in financial position thereof and the budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Implementation of GASB Statement No. 75*

As described in Note 17, the District implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the current year. Accordingly, beginning net position of governmental activities was restated. Our opinion is not modified with respect to this matter.

### *Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Management's Discussion and Analysis

This section of The School District of the City of Harper Woods' annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District financially as a whole. The *government-wide financial statements* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the District's operations in more detail than the government-wide financial statements by providing information about the District's most significant funds - the general fund and the debt service fund, with any other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the District acts solely as an agent for the benefit of students.

### Overview of the Financial Statements

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

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

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

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

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Management's Discussion and Analysis

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

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

### The District as a Whole

Recall that the statement of net position provides the perspective of the District as a whole and over time, may serve as a useful indicator of a government's financial position. Below is a summary of the District's net position as of June 30, 2018 and 2017.

	Net Position	
	2018	2017
<b>Assets</b>		
Current and other assets	\$ 6,750,592	\$ 7,715,385
Capital assets, net	30,416,432	30,947,685
<b>Total assets</b>	<u>37,167,024</u>	<u>38,663,070</u>
<b>Deferred outflows of resources</b>	<u>9,046,547</u>	<u>6,383,746</u>
<b>Liabilities</b>		
Other liabilities	37,484,150	27,209,994
Long-term debt	37,775,745	38,663,368
<b>Total liabilities</b>	<u>75,259,895</u>	<u>65,873,362</u>
<b>Deferred inflows of resources</b>	<u>1,707,744</u>	<u>125,863</u>
<b>Net position</b>		
Net investment in capital assets	7,361,574	6,693,803
Restricted	612,672	555,120
Unrestricted (deficit)	(38,728,314)	(28,201,332)
<b>Total net position</b>	<u><u>\$(30,754,068)</u></u>	<u><u>\$(20,952,409)</u></u>

The District had negative net position of \$30,754,068 at June 30, 2018. The district had net investment in capital assets of \$7,361,574, which compares the original cost, less accumulated depreciation of the District's capital assets, plus any unspent bond proceeds to the long-term debt used to finance the acquisition of those assets, and reduced for long-term indebtedness used to finance the related capital assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. In addition, net position of \$612,672 is restricted. The remaining balance is unrestricted net position, which has a negative balance mainly due to the recording of the District's portion of the Michigan Public School Employees Retirement System (MPSERS) net pension and other postemployment benefit liabilities in accordance with GASB 68 and 75.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Management's Discussion and Analysis

The results of this year's operations for the District as a whole are reported in the statement of activities. Below is a summary of the District's changes in net position for the years ended June 30, 2018 and 2017.

### District's Changes in Net Position

	Change in Net Position	
	2018	2017
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 208,333	\$ 186,044
Operating grants and contributions	4,585,851	4,080,378
General revenue:		
Property taxes	2,616,825	2,612,727
Unrestricted state aid	17,285,993	16,569,598
Other	1,208,120	1,123,786
<b>Total revenue</b>	<u>25,905,122</u>	<u>24,572,533</u>
<b>Function/Program Expenses</b>		
Instruction	15,407,328	14,136,233
Support services	7,780,430	6,962,416
Community services	194,394	142,589
Food services	1,400,719	1,270,035
Athletics	336,540	285,136
Interest on long-term debt	1,132,006	1,104,489
Unallocated depreciation	896,753	915,924
<b>Total expenses</b>	<u>27,148,170</u>	<u>24,816,822</u>
<b>Change in net position</b>	(1,243,048)	(244,289)
Net position, beginning of year	(20,952,409)	(20,708,120)
Restatement for implementation of GASB 75	(8,558,611)	-
<b>Net position, end of year</b>	<u><u>\$(30,754,068)</u></u>	<u><u>\$(20,952,409)</u></u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$27,148,170. Certain activities were partially funded from those who benefited from the programs (\$208,333) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4,585,851). The District paid for the remaining "public benefit" portion of our governmental activities with \$2,616,825 in taxes, \$17,285,993 in state foundation allowance and special education, and with our other revenues, i.e., interest and general entitlements.

The District experienced a decrease in net position of \$1,243,048. The primary reason for the change in net position is an increase of \$2,331,348 in expenses, mainly in instructional services due to hiring of 2 new classroom teachers and the associated classroom expenses, 3 new CTE classes (teachers and associated classroom expenses), third party alternate school expenses, increased pension liabilities, the hiring of reading and math consultants, a new curriculum director, district consultants, parent liaison, climate and culture professionals and attendance consultants. This increase was partially offset by an increase in state revenue from the same third party alternate school.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Management's Discussion and Analysis

As discussed above, the net cost shows the financial burden that was placed on the state and the District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of the District's operating revenue sources, the Board of Education and administration must annually evaluate the needs of the District and balance those needs with state-prescribed available unrestricted resources.

### The District's Funds

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

As the District completed 2018, the governmental funds reported a combined fund balance of \$3,902,144 which is a decrease of \$958,896 in comparison with the prior year. The primary reasons for the change are as follows:

In the general fund, our principal operating fund, the fund balance decreased \$588,858 to \$3,525,044. This change is compared to the increase of \$924,758 in the prior year. Part of this decrease in fund balance was attributable to the addition of the new CTE program and the commitment to improving student's scores on the state administered tests by hiring math and ELA consultants, District Operating consultants and a full time Curriculum Director as well as a Parent Liaison, Climate and Culture professionals.

The debt service fund shows a fund balance decrease of \$437,759 (from \$202,187 to a deficit fund balance of \$235,572). The millage rate is 13.0 mills (funding a combined debt service fund for the 2006, 2012 and 2016 refunding bonds). The millage rate is determined annually to ensure that the District accumulates sufficient resources to pay annual bond issue-related debt service. Due to a mandate from the State of Michigan, the millage rate was increased to 13.0 mills for the previous year and will remain the same for several years, until the State School Bond Loan Fund is fully repaid.

### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. Three adjustments to the 2017-2018 budget were adopted on November 21, 2017, March 20, 2018 and June 19, 2018. The significant changes between the original adopted budget and the final amended budget include a net increase of 124 FTE's at the traditional K-12 schools and at Harper Academy (the district's in-house alternate ed school), an increase of 49 FTE's from the third party operator, Diploma Success, where the district receives 25% of the per pupil state funding and an increase of 41 FTE's in the third party dropout recovery program where again the District receives 25% of the per pupil state funding. Changes in expenditures included the corresponding increase in payments to the third party operator, hiring of math and reading specialists, a curriculum director, 3 new CTE teachers, new computers districtwide, the installation of air conditioning at the two elementary schools and additional building security.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Management's Discussion and Analysis

### Capital Assets and Debt Administration

#### Capital Assets

As of June 30, 2018, the District had \$30,416,432 invested in a broad range of capital assets, including land, buildings and improvements, vehicles and furniture and equipment. Additional information on the District's capital assets can be found in note 6 in the notes to the financial statements.

	District's Capital Assets (Net of Depreciation)	
	2018	2017
Land	\$ 46,749	\$ 46,749
Work in process	343,848	-
Buildings and improvements	29,394,932	30,203,500
Vehicles	86,092	101,417
Furniture and equipment	544,811	596,019
<b>Total capital assets, net</b>	<b>\$30,416,432</b>	<b>\$ 30,947,685</b>

#### Debt

At the end of this 2017-2018 fiscal year, the District had \$33,330,000 in bonds outstanding versus \$35,690,000 in the previous year. The District also had a school bond loan fund and compensated absences. See summary of the District's debt below:

	Long-term Debt	
	2018	2017
General obligation bonds	\$33,330,000	\$ 35,690,000
Bond premium	1,807,932	1,934,736
School bond loan fund	2,339,006	745,589
Compensated absences	298,807	293,043
<b>Total</b>	<b>\$37,775,745</b>	<b>\$ 38,663,368</b>

The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the District's boundaries. If the District issues "Qualified Debt", i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The District's outstanding unqualified general obligation debt is zero as of June 2018 and therefore below the statutorily imposed limit.

Other obligations include amounts owed to the State School Bond Loan Fund, bond premiums recognized from the issuance of the 2012 and 2016 bond refundings, which will be amortized over the life of the bonds, and compensated absences. More detailed information about the long-term liabilities is included in Note 9 of the notes to the financial statements.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Management's Discussion and Analysis

### Economic Factors and Next Year's Budget and Rates

Our elected officials and administration consider many factors when setting the District's 2018-19 fiscal year budget. The 2018-19 fiscal year budget was adopted by the Board of Education in June 2018 as follows:

Estimated July 1, 2018 general fund balance	\$ 3,734,047
Revenue	<u>24,408,315</u>
Total available to appropriate	28,142,362
Expenditures	<u>24,048,455</u>
Estimated June 30, 2019 general fund balance	<u>\$ 4,093,907</u>

The actual July 1, 2018 general fund balance is \$209,003 lower than budgeted. The July 1, 2018 fund balance is 15.0% of the 2017-18 general fund expenditures which were \$23,563,241.

One of the most important factors affecting the budget is our student count and foundation grant allocation from the state. State revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2018-2019 fiscal year is 10 percent and 90 percent of the February 2018 and October 2018 student counts, respectively. The 2018-19 budget was adopted in June 2018, based on an estimate of blended students of 2,373 including 618 school of choice students (218 in K-12 and 400 at Diploma Success and the Virtual Academy). The budget is based on 1,856 in K-12, 200 at the alternate high school, 100 at the cyber school, 52 at Harper Academy and 200 in the Credit Recovery Program. Approximately 80 percent of total general fund revenue is from the foundation allowance including the 18 mills local tax portion and the State Aid portions under the State Aid Act sections 22(a), 22(b) and the Special Education section 51(a). Under State law, the District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding is validated in October, state law requires the District to amend the budget if actual District resources are not sufficient to fund original appropriations.

Since the District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The foundation grant per student for the District in 2017-18 was \$8,279. The budget adopted in June 2018 for the 2018-19 fiscal year assumed a net increase in the foundation allowance an additional \$130 per FTE (from \$8,279 to \$8,409).

The full per pupil allocation is based on the District receiving the 18 mills of non-homestead taxes each year. The operating millage renewal was approved by the voters in August, 2014. The expiration date of the 18 mill levy is December 2024, subject to potential Headlee rollbacks in the future if the District's State Equalized Value (SEV) increases faster than the inflation rate.

### Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Harper Woods Schools, Chief Financial Officer, 20225 Beaconsfield, Harper Woods, Michigan 48225, telephone 313-245-3016.

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## BASIC FINANCIAL STATEMENTS

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Statement of Net Position

June 30, 2018

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 2,008,903
Receivables	4,306,653
Inventories	21,798
Prepaid items	413,238
Capital assets, not being depreciated	390,597
Capital assets being depreciated, net	<u>30,025,835</u>
<b>Total assets</b>	<u><b>37,167,024</b></u>
<b>Deferred outflows of resources</b>	
Deferred charge on refunding	1,158,074
Deferred pension amounts	7,318,747
Deferred other postemployment benefit amounts	<u>569,726</u>
<b>Total deferred outflows of resources</b>	<u><b>9,046,547</b></u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	2,891,098
Short-term notes payable	143,008
Long-term liabilities:	
Due within one year	2,556,704
Due in more than one year	35,219,041
Net pension liability	25,681,787
Net other postemployment benefit liability	<u>8,768,257</u>
<b>Total liabilities</b>	<u><b>75,259,895</b></u>
<b>Deferred inflows of resources</b>	
Deferred pension amounts	1,411,313
Deferred other postemployment benefit amounts	<u>296,431</u>
<b>Total deferred inflows of resources</b>	<u><b>1,707,744</b></u>
<b>Net position</b>	
Net investment in capital assets	7,361,574
Restricted for food service	612,672
Unrestricted (deficit)	<u>(38,728,314)</u>
<b>Total net position</b>	<u><u><b>\$ (30,754,068)</b></u></u>

The accompanying notes are an integral part of these basic financial statements.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Statement of Activities

For the Year Ended June 30, 2018

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
<b>Governmental activities:</b>				
Instruction	\$ 15,407,328	\$ -	\$ 3,249,516	\$ (12,157,812)
Support services	7,780,430	-	-	(7,780,430)
Community services	194,394	68,524	-	(125,870)
Food services	1,400,719	130,045	1,336,335	65,661
Athletics	336,540	9,764	-	(326,776)
Interest on long-term debt	1,132,006	-	-	(1,132,006)
Unallocated depreciation	896,753	-	-	(896,753)
<b>Total</b>	<b>\$ 27,148,170</b>	<b>\$ 208,333</b>	<b>\$ 4,585,851</b>	<b>(22,353,986)</b>
<b>General revenues:</b>				
Taxes:				
Property taxes, levied for general purposes				1,104,196
Property taxes, levied for debt services				1,512,629
Unrestricted state aid				17,285,993
Grants and contributions not restricted to specific programs				1,145,937
Unrestricted investment earnings				62,183
<b>Total general revenues</b>				<b>21,110,938</b>
<b>Change in net position</b>				<b>(1,243,048)</b>
<b>Net position, beginning of year, as restated</b>				<b>(29,511,020)</b>
<b>Net position, end of year</b>				<b>\$ (30,754,068)</b>

The accompanying notes are an integral part of these basic financial statements.

## FUND FINANCIAL STATEMENTS

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Balance Sheet

Governmental Funds

June 30, 2018

	General	Debt Service	Nonmajor Food Service Special Revenue	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 1,639,345	\$ 633	\$ 368,925	\$ 2,008,903
Accounts receivable	4,807	-	-	4,807
Due from other governments	4,230,939	-	70,907	4,301,846
Due from other funds	236,205	-	195,031	431,236
Inventories	-	-	21,798	21,798
Prepaid items	368,238	-	45,000	413,238
<b>Total assets</b>	<b>\$ 6,479,534</b>	<b>\$ 633</b>	<b>\$ 701,661</b>	<b>\$ 7,181,828</b>
<b>Liabilities</b>				
Accounts payable	\$ 1,306,410	\$ -	\$ 88,989	\$ 1,395,399
Accrued payroll and other liabilities	1,310,041	-	-	1,310,041
Due to other funds	195,031	236,205	-	431,236
Short-term notes payable	143,008	-	-	143,008
<b>Total liabilities</b>	<b>2,954,490</b>	<b>236,205</b>	<b>88,989</b>	<b>3,279,684</b>
<b>Fund balances</b>				
Nonspendable for inventories	-	-	21,798	21,798
Nonspendable for prepaid items	368,238	-	45,000	413,238
Restricted for food service	-	-	545,874	545,874
Unassigned (deficit)	3,156,806	(235,572)	-	2,921,234
<b>Total fund balances</b>	<b>3,525,044</b>	<b>(235,572)</b>	<b>612,672</b>	<b>3,902,144</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,479,534</b>	<b>\$ 633</b>	<b>\$ 701,661</b>	<b>\$ 7,181,828</b>

The accompanying notes are an integral part of these basic financial statements.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2018

Fund balances - total governmental funds \$ 3,902,144

Amounts reported for *governmental activities* in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets not being depreciated	390,597
Capital assets being depreciated	45,794,791
Accumulated depreciation	(15,768,956)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable and school bond loan fund	(35,669,006)
Unamortized premium	(1,807,932)
Deferred charge on refunding	1,158,074
Accrued interest on bonds payable	(185,658)
Compensated absences	(298,807)

Certain pension and other postemployment benefit-related amounts, such as the net pension and other postemployment benefit liabilities and 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.

Net pension liability	(25,681,787)
Net other postemployment benefit liability	(8,768,257)
Deferred outflows related to the net pension liability	7,318,747
Deferred inflows related to the net pension liability	(1,411,313)
Deferred outflows related to the net other postemployment benefit liability	569,726
Deferred inflows related to the net other postemployment benefit liability	(296,431)

Net position of governmental activities \$ (30,754,068)

The accompanying notes are an integral part of these basic financial statements.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2018

	General	Debt Service	Nonmajor Food Service Special Revenue	Total Governmental Funds
<b>Revenues</b>				
Local sources	\$ 2,438,874	\$ 1,512,714	\$ 130,045	\$ 4,081,633
State sources	19,183,397	-	30,405	19,213,802
Federal sources	1,352,112	-	1,305,930	2,658,042
<b>Total revenues</b>	<b>22,974,383</b>	<b>1,512,714</b>	<b>1,466,380</b>	<b>25,953,477</b>
<b>Expenditures</b>				
Current:				
Instruction	15,073,012	-	-	15,073,012
Support services	7,610,462	-	-	7,610,462
Community services	192,359	-	-	192,359
Food services	-	-	1,398,659	1,398,659
Athletics	330,191	-	-	330,191
Debt service:				
Principal	-	2,360,000	-	2,360,000
Interest and fiscal charges	-	1,151,134	-	1,151,134
Capital outlay and maintenance	357,217	-	-	357,217
<b>Total expenditures</b>	<b>23,563,241</b>	<b>3,511,134</b>	<b>1,398,659</b>	<b>28,473,034</b>
Revenues over (under) expenditures	(588,858)	(1,998,420)	67,721	(2,519,557)
<b>Other financing sources</b>				
Issuance of long-term debt	-	1,560,661	-	1,560,661
<b>Net change in fund balances</b>	<b>(588,858)</b>	<b>(437,759)</b>	<b>67,721</b>	<b>(958,896)</b>
Fund balances, beginning of year	4,113,902	202,187	544,951	4,861,040
<b>Fund balances (deficit), end of year</b>	<b>\$ 3,525,044</b>	<b>\$ (235,572)</b>	<b>\$ 612,672</b>	<b>\$ 3,902,144</b>

The accompanying notes are an integral part of these basic financial statements.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended June 30, 2018

Net change in fund balances - total governmental funds \$ (958,896)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital assets purchased	365,500
Depreciation expense	(896,753)

Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds.

Change in unavailable enhancement revenues	(48,355)
--	----------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net position.

Principal payments on long-term liabilities	2,360,000
Proceeds from issuance of long-term debt	(1,560,661)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Change in net pension liability and related deferred amounts	(579,396)
Change in net other postemployment benefit liability and related deferred amounts	63,649
Change in accrued interest payable on bonds	(26,396)
Amortization of bond premiums	126,804
Amortization of deferred charge on refunding	(82,780)
Change in the accrual for compensated absences	(5,764)

Change in net position of governmental activities	<u>\$ (1,243,048)</u>
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The accompanying notes are an integral part of these basic financial statements.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Local source	\$ 1,949,259	\$ 1,949,259	\$ 2,438,874	\$ 489,615
State sources	17,682,793	18,419,981	19,183,397	763,416
Federal sources	976,661	1,271,870	1,352,112	80,242
<b>Total revenues</b>	<b>20,608,713</b>	<b>21,641,110</b>	<b>22,974,383</b>	<b>1,333,273</b>
<b>Expenditures</b>				
Instruction:				
Basic programs	10,898,252	11,385,368	12,178,726	793,358
Added needs	2,446,872	2,719,372	2,894,286	174,914
<b>Total instruction</b>	<b>13,345,124</b>	<b>14,104,740</b>	<b>15,073,012</b>	<b>968,272</b>
Support services:				
Pupil	1,075,314	1,075,314	1,229,095	153,781
Instructional staff	890,511	1,247,922	1,414,713	166,791
General administration	603,050	615,050	631,415	16,365
School administration	1,144,471	1,166,406	1,231,501	65,095
Business	413,188	413,188	497,710	84,522
Operations and maintenance	1,779,650	1,829,650	1,956,904	127,254
Pupil transportation services	347,371	425,371	464,303	38,932
Central services	105,000	125,000	184,821	59,821
<b>Total support services</b>	<b>6,358,555</b>	<b>6,897,901</b>	<b>7,610,462</b>	<b>712,561</b>
Community services	105,809	150,809	192,359	41,550
Athletics	258,238	318,238	330,191	11,953
Capital outlay and maintenance	20,000	513,256	357,217	(156,039)
<b>Total expenditures</b>	<b>20,087,726</b>	<b>21,984,944</b>	<b>23,563,241</b>	<b>1,578,297</b>
<b>Net change in fund balance</b>	<b>520,987</b>	<b>(343,834)</b>	<b>(588,858)</b>	<b>(245,024)</b>
Fund balance, beginning of year	4,113,902	4,113,902	4,113,902	-
<b>Fund balance, end of year</b>	<b>\$ 4,634,889</b>	<b>\$ 3,770,068</b>	<b>\$ 3,525,044</b>	<b>\$ (245,024)</b>

The accompanying notes are an integral part of these basic financial statements.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Statement of Fiduciary Assets and Liabilities

Agency Fund  
June 30, 2018

	Student Activities Agency Fund
<b>Assets</b>	
Cash and cash equivalents	\$ 86,993
<b>Liabilities</b>	
Due to student groups	\$ 86,993

The accompanying notes are an integral part of these basic financial statements.

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## NOTES TO THE FINANCIAL STATEMENTS

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting entity

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

#### Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the current year.

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 government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

#### Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. However, agency funds do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the 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 expenditure-driven 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.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

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

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for and reported in another fund.

The *debt service fund* is used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

Additionally, the District reports the following fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

### **Assets, deferred outflows of resources, liabilities, deferred inflows of resources and equity**

#### ***Deposits and investments***

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

The District's investments in the Michigan Liquid Assets Fund (MILAF) are recorded at amortized cost.

#### ***Receivables and payables***

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

#### ***Inventories and prepaid items***

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### *Capital assets*

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	20-50
Vehicles	5-10
Furniture and equipment	5-10

### *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 District reports deferred outflows for the charge on refunding. This amount represents the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also reports deferred outflows of resources related to the net pension liability and the net other postemployment benefit liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

### *Compensated absences*

It is the District's policy to permit employees to accumulate various earned but unused vacation and sick pay benefits. These are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Benefits are accrued based on various contract stipulations and lengths of service for the various bargaining units.

### *Deferred inflows of resources*

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources are related to pension and other postemployment benefit liabilities.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### *Long-term obligations*

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

### *Fund equity*

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

The Board of Education has adopted a minimum fund balance policy in which the total fund balance of the general fund will be equal to at least 15 percent of the previous year's general fund expenditures and transfers out. If the general fund balance falls below the minimum range, the District will replenish shortages or deficiencies using budget strategies and timeframes as detailed in the policy.

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

### *Pensions and Other Postemployment Benefits*

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 2. BUDGETARY INFORMATION

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

### 3. ACCOUNTABILITY AND COMPLIANCE

#### Excess of Expenditures Over Appropriations

During the year ended June 30, 2018, the District incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	Final Budget	Actual	Variance
<b>General fund</b>			
Instruction:			
Basic programs	\$ 11,385,368	\$ 12,178,726	\$ 793,358
Added needs	2,719,372	2,894,286	174,914
Support services:			
Pupil	1,075,314	1,229,095	153,781
Instructional staff	1,247,922	1,414,713	166,791
General administration	615,050	631,415	16,365
School administration	1,166,406	1,231,501	65,095
Business	413,188	497,710	84,522
Operations and maintenance	1,829,650	1,956,904	127,254
Pupil transportation services	425,371	464,303	38,932
Central services	125,000	184,821	59,821
Community services	150,809	192,359	41,550
Athletics	318,238	330,191	11,953

#### Fund Deficit

The District had an unassigned fund deficit in the debt service fund in the amount of \$235,572.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 4. DEPOSITS AND INVESTMENTS

#### Deposits and investments

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

<b>Statement of Net Position</b>	
Cash and cash equivalents	\$ 2,008,903
<b>Statement of Fiduciary Assets and Liabilities</b>	
Cash and cash equivalents	<u>86,993</u>
	<u>\$ 2,095,896</u>

These balances are categorized for note disclosures as follows:

Bank deposits (checking/savings accounts)	\$ 14,425
MILAF investment funds	2,080,457
Cash on hand	<u>1,014</u>
	<u>\$ 2,095,896</u>

#### Statutory Authority

Michigan law authorizes the District to deposit and invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

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

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

### Deposit and Investment Risk

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

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

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, all of the District's bank balance of \$14,425 was insured.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All of the District's investments were with the Michigan Liquid Asset Fund (MILAF) at year end.

## 5. RECEIVABLES

Receivables as of June 30, 2018 for the District's individual major funds and nonmajor fund are as follows:

	General Fund	Nonmajor Food Service	Total
Receivables:			
Accounts	\$ 4,807	\$ -	\$ 4,807
Due from other governments	4,230,939	70,907	4,301,846
	<hr/>	<hr/>	<hr/>
Total	\$ 4,235,746	\$ 70,907	\$ 4,306,653
	<hr/>	<hr/>	<hr/>

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 6. CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Land	\$ 46,749	\$ -	\$ -	\$ 46,749
Construction in progress	-	343,848	-	343,848
<b>Total capital assets not being depreciated</b>	<b>46,749</b>	<b>343,848</b>	<b>-</b>	<b>390,597</b>
Capital assets being depreciated:				
Buildings and improvements	42,604,558	-	-	42,604,558
Vehicles	256,258	-	-	256,258
Furniture and equipment	2,912,323	21,652	-	2,933,975
<b>Total capital assets being depreciated</b>	<b>45,773,139</b>	<b>21,652</b>	<b>-</b>	<b>45,794,791</b>
Less accumulated depreciation for:				
Buildings and improvements	(12,401,058)	(808,568)	-	(13,209,626)
Vehicles	(154,841)	(15,325)	-	(170,166)
Furniture and equipment	(2,316,304)	(72,860)	-	(2,389,164)
<b>Total accumulated depreciation</b>	<b>(14,872,203)</b>	<b>(896,753)</b>	<b>-</b>	<b>(15,768,956)</b>
<b>Total capital assets being depreciated, net</b>	<b>30,900,936</b>	<b>(875,101)</b>	<b>-</b>	<b>30,025,835</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 30,947,685</b>	<b>\$ (875,101)</b>	<b>\$ -</b>	<b>\$ 30,416,432</b>

Depreciation expense of \$896,753 was charged to the function "unallocated depreciation".

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 7. PAYABLES

Accounts payable and accrued liabilities as of June 30, 2018 for the District's individual major funds and nonmajor fund are as follows:

	General General Fund	Nonmajor Food Service	Total
<b>Fund Financial Statements:</b>			
Accounts payable	\$ 1,306,410	\$ 88,989	\$ 1,395,399
Accrued payroll and other liabilities	<u>1,310,041</u>	<u>-</u>	<u>1,310,041</u>
	<u>\$ 2,616,451</u>	<u>\$ 88,989</u>	2,705,440
<b>Government-wide Financial Statements -</b>			
Accrued interest on long-term debt			<u>185,658</u>
			<u>\$ 2,891,098</u>

### 8. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2018, interfund receivables and payables in the fund financial statements consisted of the following:

	Due From Other Funds	Due To Other Funds
General fund	\$ 236,205	\$ 195,031
Debt service fund	-	236,205
Nonmajor food service fund	<u>195,031</u>	<u>-</u>
	<u>\$ 431,236</u>	<u>\$ 431,236</u>

The District often reports interfund balances between many of its funds. These interfund balances result 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.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 9. LONG-TERM DEBT

The following is a summary of bond, loan, and compensated absence activity for the year ended June 30, 2018:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
General obligation					
bonds	\$ 35,690,000	\$ -	\$ (2,360,000)	\$ 33,330,000	\$ 2,400,000
Premium on bonds	1,934,736	-	(126,804)	1,807,932	126,804
School bond loan fund	745,589	1,593,417	-	2,339,006	-
Compensated absences	293,043	25,716	(19,952)	298,807	29,900
	<u>\$ 38,663,368</u>	<u>\$ 1,619,133</u>	<u>\$ (2,506,756)</u>	<u>\$ 37,775,745</u>	<u>\$ 2,556,704</u>

Compensated absences are typically liquidated by the general fund.

Bonds payable at June 30, 2018, are comprised of the following issues:

General Obligation Bonds:

\$9,950,000 2006 Refunding Bonds, due in annual installments of \$25,000 to \$65,000 through year 2028; plus interest at 4.0%	\$ 385,000
\$18,730,000 2012 Refunding Bonds, due in annual installments of \$165,000 to \$1,445,000 through year 2029; plus interest at 2.0% to 5.0%	13,725,000
\$8,295,000 2016 Refunding Bonds, due in annual installments of \$605,000 to \$1,545,000 through year 2034; plus interest at 4.0%	8,295,000
\$12,380,000 2016 Refunding Bonds (refunded SBLF), due in annual installments of \$250,000 to \$1,510,000 through year 2026; plus interest at 1.1% to 2.75%	<u>10,925,000</u>
	<u>\$ 33,330,000</u>

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

Annual debt service requirements to maturity for bonds is as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 2,400,000	\$ 1,113,941	\$ 3,513,941
2020	2,475,000	1,038,315	3,513,315
2021	2,520,000	989,807	3,509,807
2022	2,580,000	933,047	3,513,047
2023	2,665,000	843,533	3,508,533
2024-2028	11,580,000	2,830,385	14,410,385
2029-2033	7,565,000	1,224,325	8,789,325
2034	1,545,000	61,800	1,606,800
	<u>\$ 33,330,000</u>	<u>\$ 9,035,153</u>	<u>\$ 42,365,153</u>

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond Loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the debt service requirements on the general obligation bonds. Changes to the School Bond Loan Fund for the year ended June 30, 2018, are as follows:

	Principal	Interest	Total
Beginning balance	\$ 740,161	\$ 5,428	\$ 745,589
Additions	1,560,661	32,756	1,593,417
Ending balance	<u>\$ 2,300,822</u>	<u>\$ 38,184</u>	<u>\$ 2,339,006</u>

## 10. SHORT-TERM NOTES PAYABLE

The District has a short-term state aid anticipation note totaling \$1,008,447 of which \$143,008 is outstanding and included as a liability in the general fund at June 30, 2018. The note carries an interest rate of 1.27% and is due July 20, 2018.

Short-term debt activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
State aid notes	\$ 142,943	\$ 1,008,447	\$ (1,008,382)	\$ 143,008

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 11. COMMITMENTS AND CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2018.

### 12. RISK MANAGEMENT

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for workers compensation and participates in the SET-SEG (risk pool) for claims relating to property and general liability. The District also participates in the MESSA risk pool for claims related to health medical claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### 13. PROPERTY TAXES

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied by the City of Harper Woods on July 1st. All levies become delinquent on February 14. The delinquent tax revolving fund of Wayne County advances delinquent real taxes to the District.

### 14. RETIREMENT PLAN

#### *Plan Description*

The Michigan Public School Employees' Retirement System (the "System" or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "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 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 SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

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 at the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

### *Pension 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% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB member 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.

### *Other Postemployment 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.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

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.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 22-year period for the 2017 fiscal year.

The table below summarizes pension contribution rates in effect for fiscal year 2018:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	17.89% - 19.03%
Member Investment Plan (MIP)	3.00% - 7.00%	17.89% - 19.03%
Pension Plus	3.00% - 6.40%	16.61% - 18.40%
Pension Plus 2	6.20%	19.74%
Defined Contribution	0.00%	13.54% - 15.27%

Required contributions to the pension plan from the District were \$2,779,376 for the year ended June 30, 2018.

The table below summarizes OPEB contribution rates in effect for fiscal year 2018:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	5.91% - 7.67%
Personal Healthcare Fund (PHF)	0.00%	5.69% - 7.42%

Required contributions to the OPEB plan from the District were \$645,839 for the year ended June 30, 2018.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

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

At June 30, 2018, the District reported a liability of \$25,681,787 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The 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, 2017, the District's proportion was 0.09910%, which was an increase of 0.00205% from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$3,356,676. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 223,192	\$ 126,015	\$ 97,177
Changes in assumptions	2,813,644	-	2,813,644
Net difference between projected and actual earnings on pension plan investments	-	1,227,758	(1,227,758)
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,756,385	57,540	1,698,845
	<u>4,793,221</u>	<u>1,411,313</u>	<u>3,381,908</u>
District contributions subsequent to the measurement date	2,525,526	-	2,525,526
	<u>2,525,526</u>	<u>-</u>	<u>2,525,526</u>
<b>Total</b>	<u><u>\$ 7,318,747</u></u>	<u><u>\$ 1,411,313</u></u>	<u><u>\$ 5,907,434</u></u>

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

\$2,525,526 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 ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2019	\$ 1,162,750
2020	1,517,653
2021	699,901
2022	<u>1,604</u>
<b>Total</b>	<b><u>\$ 3,381,908</u></b>

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

At June 30, 2018, the District reported a liability of \$8,768,257 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The 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, 2017, the District's proportion was 0.09902%.

For the year ended June 30, 2018, the District recognized OPEB expense of \$587,196. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 93,356	\$ (93,356)
Net difference between projected and actual earnings on OPEB plan investments	-	203,075	(203,075)
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>3,174</u>	<u>-</u>	<u>3,174</u>
	3,174	296,431	(293,257)
District contributions subsequent to the measurement date	<u>566,552</u>	<u>-</u>	<u>566,552</u>
<b>Total</b>	<b><u>\$ 569,726</u></b>	<b><u>\$ 296,431</u></b>	<b><u>\$ 273,295</u></b>

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

\$566,552 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2019	\$ (70,924)
2020	(70,924)
2021	(70,924)
2022	(70,924)
2023	<u>(9,561)</u>
<b>Total</b>	<b><u>\$ (293,257)</u></b>

### *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. The total pension and OPEB liabilities in the September 30, 2016 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	7.5%
Pension Plus plan (hybrid)	7.0%
OPEB plans	7.5%
Projected salary increases	3.5% - 12.3%, including wage inflation at 3.5%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.5% Year 1 graded to 3.5% Year 12
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### Other OPEB assumptions:

Opt out assumptions	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 1 or more dependents.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.5188 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.4744 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

### *Long-term Expected Return on Plan Assets*

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of September 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.60%	1.56%
Alternative investment pools	18.00%	8.70%	1.57%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	-0.10%	-0.01%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.00%	0.78%
Short-term investment pools	2.00%	-0.90%	-0.02%
	<u>100.00%</u>		<u>5.45%</u>
Inflation			<u>2.05%</u>
Investment rate of return			<u>7.50%</u>

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### *Discount Rate*

A discount rate of 7.5% was used to measure the total pension and OPEB liabilities (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension and OPEB plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension and OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

### *Sensitivity of District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for the Hybrid Plan), as well as what the 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$ 33,454,827	\$ 25,681,787	\$ 19,137,383

### *Sensitivity of District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate*

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the 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 higher:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net OPEB liability	\$ 10,270,163	\$ 8,768,257	\$ 7,493,609

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### *Sensitivity of District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate*

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

	1% Decrease (6.5%)	Current Healthcare Cost Trend Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net OPEB liability	\$ 7,425,535	\$ 8,768,257	\$ 10,292,824

### *Pension and OPEB Plans Fiduciary Net Position*

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

### *Payable to the Pension Plan*

At June 30, 2018, the District reported a payable of \$413,579 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2018.

### *Payable to the OPEB Plan*

At June 30, 2018, the District reported a payable of \$71,647 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2018.

## 15. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2018, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 390,597
Capital assets being depreciated, net	<u>30,025,835</u>
	<u>30,416,432</u>
Related debt:	
Total bonds payable	33,330,000
Deduct: Bonds payable refunding SBLF	(10,925,000)
Bond premium	1,807,932
Deferred charge on advance refunding	<u>(1,158,074)</u>
	<u>23,054,858</u>
Net investment in capital assets	<u><u>\$ 7,361,574</u></u>

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 16. OPERATING LEASES

During the current year, the District entered into two leases for buildings which will commence in the next fiscal year and are both for a term of five years with options to extend the leases for an additional ten years. The future minimum lease payments for these leases are as follows:

Year Ended June 30,	Amount
2019	\$ 289,820
2020	329,304
2021	329,304
2022	329,304
2023	329,304
2024	<u>39,484</u>
	<u>\$ 1,646,520</u>

### 17. RESTATEMENTS

The District adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the current year. As a result of this change, beginning net position of governmental activities was decreased by \$8,558,611.



## REQUIRED SUPPLEMENTARY INFORMATION

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Required Supplementary Information MPERS Cost-Sharing Multiple-Employer Plan

### Schedule of the District's Proportionate Share of the Net Pension Liability

	Year Ended June 30,			
	2015	2016	2017	2018
District's proportion of the net pension liability	\$ 18,711,495	\$ 22,073,771	\$ 24,211,986	\$ 25,681,787
District's proportionate share of the net pension liability	0.08495%	0.09037%	0.09705%	0.09910%
District's covered payroll	\$ 7,239,068	\$ 7,567,437	\$ 8,411,638	\$ 8,243,572
District's proportionate share of the net pension liability as a percentage of its covered payroll	258.48%	291.69%	287.84%	311.54%
Plan fiduciary net position as a percentage of the total pension liability	66.20%	63.17%	63.27%	64.21%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

### Schedule of the District's Pension Contributions

	Year Ended June 30,			
	2015	2016	2017	2018
Statutorily required contribution	\$ 1,624,143	\$ 2,184,302	\$ 2,294,856	\$ 2,779,376
Contributions in relation to the statutorily required contribution	(1,624,143)	(2,184,302)	(2,294,856)	(2,779,376)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 7,362,379	\$ 8,271,806	\$ 8,150,359	\$ 8,817,368
Contributions as a percentage of covered payroll	22.06%	26.41%	28.16%	31.52%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Required Supplementary Information MPERS Cost-Sharing Multiple-Employer Plan

### Schedule of the District's Proportionate Share of the Net Other Postemployment Benefit Liability

	Year Ended June 30, 2018
District's proportion of the net OPEB liability	\$ 8,768,257
District's proportionate share of the net OPEB liability	0.09902%
District's covered payroll	\$ 8,243,572
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	106.36%
Plan fiduciary net position as a percentage of the total OPEB liability	36.39%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

### Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended June 30, 2018
Statutorily required contribution	\$ 645,839
Contributions in relation to the statutorily required contribution	<u>(645,839)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered payroll	\$ 8,817,368
Contributions as a percentage of covered payroll	7.32%

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

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## SINGLE AUDIT ACT COMPLIANCE

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**INDEPENDENT AUDITORS' REPORT ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE**

October 15, 2018

Board of Education  
The School District of the City of Harper Woods  
Harper Woods, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *The School District of the City of Harper Woods* (the "District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 15, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Rehmann Robson LLC*

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# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2018

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
<b>U.S. Department of Agriculture</b>				
Child Nutrition Cluster:				
Cash Assistance:				
National School Breakfast Program	10.553	MDE	171970	\$ 189,911
National School Breakfast Program	10.553	MDE	181970	171,586
Non-Cash Assistance -				
Entitlement Commodities	10.555	MDE	n/a	70,036
Cash Assistance:				
National School Lunch Program	10.555	MDE	171960	587,638
National School Lunch Program	10.555	MDE	181960	548,158
Summer Food Service Program	10.559	MDE	150900	8,654
Summer Food Service Program	10.559	MDE	170900	29,441
Summer Food Service Program	10.559	MDE	171900	2,482
Summer Food Service Program	10.559	MDE	180900	6,037
Summer Food Service Program	10.559	MDE	181900	511
Total Child Nutrition Cluster				
Child and Adult Care Food Program	10.558	MDE	171920	369,932
Child and Adult Care Food Program	10.558	MDE	172010	12,745
Child and Adult Care Food Program	10.558	MDE	181920	333,420
Child and Adult Care Food Program	10.558	MDE	182010	11,626
<b>Total U.S. Department of Agriculture</b>				
<b>U.S. Department of Education</b>				
Title I:				
Title I, Part A - Improving Basic Programs	84.010	MDE	171530/1617	582,991
Title I, Part A - Improving Basic Programs	84.010	MDE	181530/1718	715,175

Accrued (Unearned) Revenue at July 1, 2017	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2018	Accrued (Unearned) Revenue at June 30, 2018
\$ 11,361	\$ 31,947	\$ 169,325	\$ 20,586	\$ -
-	160,807	-	171,586	10,779
<u>11,361</u>	<u>192,754</u>	<u>169,325</u>	<u>192,172</u>	<u>10,779</u>
-	70,036	-	70,036	-
31,275	102,901	516,012	71,626	-
-	517,434	-	548,158	30,724
<u>31,275</u>	<u>690,371</u>	<u>516,012</u>	<u>689,820</u>	<u>30,724</u>
-	8,654	-	8,654	-
5,876	29,441	5,876	23,565	-
496	2,482	496	1,986	-
-	-	-	6,037	6,037
-	-	-	511	511
<u>6,372</u>	<u>40,577</u>	<u>6,372</u>	<u>40,753</u>	<u>6,548</u>
<u>49,008</u>	<u>923,702</u>	<u>691,709</u>	<u>922,745</u>	<u>48,051</u>
20,381	57,367	332,946	36,986	-
728	1,881	11,592	1,153	-
-	314,394	-	333,420	19,026
-	11,002	-	11,626	624
<u>21,109</u>	<u>384,644</u>	<u>344,538</u>	<u>383,185</u>	<u>19,650</u>
<u>70,117</u>	<u>1,308,346</u>	<u>1,036,247</u>	<u>1,305,930</u>	<u>67,701</u>
225,032	295,274	512,749	70,242	-
-	558,825	-	715,175	156,350
<u>225,032</u>	<u>854,099</u>	<u>512,749</u>	<u>785,417</u>	<u>156,350</u>

continued..

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2018

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
<b>U.S. Department of Education (continued)</b>				
Title II:				
Title II, Part A - Improving Teacher Quality	84.367	MDE	170520/1617	\$ 85,875
Title II, Part A - Improving Teacher Quality	84.367	MDE	180520/1718	101,683
Title IV, Part A	84.424	MDE	180750/1718	10,000
Special Education Cluster:				
I.D.E.A. Flow-Through	84.027A	WCRESA	070460/1617	402,570
I.D.E.A. Flow-Through	84.027A	WCRESA	070460/1718	444,834
Preschool Incentive	84.173	WCRESA	070460/1617	10,149
Preschool Incentive	84.173	WCRESA	070460/1718	10,178
<b>Total U.S. Department of Education</b>				
<b>Total Federal Financial Assistance</b>				

See notes to schedule of expenditures of federal awards.

Accrued (Unearned) Revenue at July 1, 2017	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2018	Accrued (Unearned) Revenue at June 30, 2018
\$ 34,457	\$ 34,457	\$ 85,875	\$ -	\$ -
-	101,683	-	101,683	-
<u>34,457</u>	<u>136,140</u>	<u>85,875</u>	<u>101,683</u>	<u>-</u>
-	10,000	-	10,000	-
300,645	300,645	402,570	-	-
-	246,519	-	444,834	198,315
<u>300,645</u>	<u>547,164</u>	<u>402,570</u>	<u>444,834</u>	<u>198,315</u>
2,852	2,852	10,149	-	-
-	10,178	-	10,178	-
<u>2,852</u>	<u>13,030</u>	<u>10,149</u>	<u>10,178</u>	<u>-</u>
562,986	1,560,433	1,011,343	1,352,112	354,665
<u>\$ 633,103</u>	<u>\$ 2,868,779</u>	<u>\$ 2,047,590</u>	<u>\$ 2,658,042</u>	<u>\$ 422,366</u>

concluded.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to Schedule of Expenditures of Federal Awards

### 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of The School District of the City of Harper Woods (the "District") under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this Schedule.

For purposes of charging indirect costs to federal awards, the District has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

### 3. PASS-THROUGH AGENCIES

The District receives certain federal grants as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
WCRESA	Wayne County Regional Educational Service Agency



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

October 15, 2018

Board of Education  
The School District of the City of Harper Woods  
Harper Woods, 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 School District of the City of Harper Woods* (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 15, 2018.

#### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs, as item 2018-001 that we consider to be a material weakness.

**Compliance and Other Matters**

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

**The School District of the City of Harper Woods’ Response to the Finding**

The District’s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 District’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.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

October 15, 2018

Board of Education  
The School District of the City of Harper Woods  
Harper Woods, Michigan

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

We have audited the compliance of *The School District of the City of Harper Woods* (the "District") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Independent Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### *Basis for Qualified Opinion on the Title I program*

As described in item 2018-002 in the accompanying schedule of findings and questioned costs, the District did not comply with the Allowable Costs/Cost Principles requirement applicable to its Title I program. Compliance with this requirement is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

### *Qualified Opinion on the Title I program*

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Title I program for the year ended June 30, 2018.

### *Unmodified Opinion on the Other Major Federal Program*

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the other major federal program identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2018.

### *Other Matters*

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-004, 2018-005 and 2018-006. Our opinion on each major federal program is not modified with respect to these matters.

The District's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

### **Report on Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-002 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-003, 2018-004, 2018-005 and 2018-006 to be significant deficiencies.

The District's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

#### *Purpose of this Report*

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

The image shows a handwritten signature in black ink that reads "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.

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# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2018

### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  X  yes   no

Significant deficiency(ies) identified?   yes  X  none reported

Noncompliance material to financial statements noted?   yes  X  no

#### Federal Awards

Internal control over major programs:

Material weakness(es) identified?  X  yes   no

Significant deficiency(ies) identified?  X  yes   none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  X  yes   no

Identification of major programs/  
Type of auditor's report issued on compliance for major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion</u>
10.CNC	Child Nutrition Cluster	Unmodified
84.010	Title I, Part A	Qualified

Dollar threshold used to distinguish between Type A and Type B programs:  \$ 750,000

Auditee qualified as low-risk auditee?   yes  X  no

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2018

### SECTION II - FINANCIAL STATEMENT FINDINGS

#### 2018-001 - Material Audit Adjustment (Repeat)

**Finding Type.** Material weakness in Internal Control over Financial Reporting.

**Criteria.** Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

**Condition:** During our audit, we identified and proposed a material adjustment (which was approved and recorded by management) to adjust the District's capital asset schedule to the appropriate balances.

**Cause.** This condition was the result of oversights in the process of properly capitalizing construction in progress on the District's books and records.

**Effect.** As a result of this condition, the capital asset schedule was initially understated by approximately \$344,000.

**Recommendation:** We recommend that the District reconcile the District's capital asset records to the activity including all additions and disposals.

**View of Responsible Officials.** This was a misunderstanding on the CFO's part. The journal entry was made upon recommendation of the auditor. All capital assets and expenditures will be reviewed when paid for proper coding.

**Responsible Official.** James Dennis, Chief Financial Officer

**Estimated Completion Date.** 8/24/18

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2018

### SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

#### 2018-002 - Allowable Costs/Cost Principles - Payroll Documentation

**Finding Type.** Material Noncompliance; Material Weakness in Internal Controls Over Compliance

**Federal program(s)**

*U.S. Department of Education -*

➤ Title I, Part A (CFDA# 84.010); Passed through MDE; All project numbers

**Criteria.** Per the District's federal policies, the District is required to support payroll charges to federal cost objectives with adequate documentation including semi-annual payroll certifications for employees charged 100% to a single federal cost objective and with Personnel Activity Reports for those who split their time between multiple cost objectives.

**Condition.** The District was unable to provide proper documentation for four employees charged through the payroll system and for two employees that were journalized into the grant from other functions.

**Cause.** This condition appears to be the result of the District not following its internal policies for all of its employees being charged to grants.

**Effect.** As a result of this condition, the District does not have appropriate payroll support for six transactions charged to the grant.

**Questioned Costs.** The total amount charged for salaries and fringes with incomplete documentation amounted to \$73,125.

**Recommendation.** We recommend the District prepare and retain payroll documentation in accordance with its federal policies and procedures.

**View of Responsible Officials.** All charges to federally funded programs will be reviewed for proper coding and documentation. Staff members will be clearly identified and posted to the grant general ledger accounts and properly documented throughout the term of the grant.

**Responsible Official.** James Dennis, Chief Financial Officer

**Estimated Completion Date.** September 1, 2018

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2018

### SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

#### 2018-003 - Allowable Costs/Cost Principles - Journal Entry and Expense Report Approval

**Finding Type.** Significant Deficiency in Internal Controls over Compliance

**Federal program(s)**

*U.S. Department of Agriculture -*

- Child Nutrition Cluster (CFDA# 10.CNC); Passed through MDE; All project numbers

*U.S. Department of Education -*

- Title I, Part A (CFDA# 84.010); Passed through MDE; All project numbers

**Criteria.** The District is responsible for developing policies and a system of internal control that ensures the District complies with the Uniform Guidance, grant contract and State requirements.

**Condition.** Two of the CFO's expense reports and all twelve of the journal entries selected for testing did not have evidence of independent approval.

**Cause.** The District does not have proper internal controls or policies to require independent approval of journal entries and employee expense reports submitted by the CFO.

**Effect.** The District exposes itself to potential noncompliance by not having strong internal controls and policies in place.

**Questioned Costs.** No costs have been questioned as a result of this finding inasmuch as no unallowable costs were identified.

**Recommendation.** We recommend that the District develop policies that require independent review of journal entries and expense reimbursement reports prepared by the CFO.

**View of Responsible Officials.** The CFO's expense reports will be reviewed and signed by the Superintendent. Journal entries created by the CFO will be reviewed by the accounts payable clerk for accuracy and then posted to the general ledger.

**Responsible Official.** James Dennis, Chief Financial Officer

**Estimated Completion Date.** September 1, 2018

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2018

### SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

#### 2018-004 - Equipment and Real Property Management (Repeat)

**Finding Type.** Immaterial Noncompliance; Significant Deficiency in Internal Controls over Compliance

**Federal program(s)**

*U.S. Department of Agriculture:*

- Child Nutrition Cluster (CFDA# 10.CNC); Passed through MDE; All project numbers

**Criteria.** The Uniform Guidance requires governments that purchase equipment and real property to maintain records which indicate those assets purchased with federal funds, and to conduct a physical inventory of equipment at least once every two years.

**Condition.** The District has not conducted a physical inventory of equipment within the past two fiscal years. In addition, the District's capital asset records do not include a proper designation for those assets purchased with federal funds.

**Cause.** While the District has adopted policies that comply with the requirements of the Uniform Guidance for equipment and real property management, it is not consistently following the policy to ensure compliance.

**Effect.** The District did not comply with the requirements of the Uniform Guidance, which could also result in further noncompliance when capital assets are disposed in future years as a result of not being clearly designated as purchased with federal funds.

**Questioned Costs.** No costs have been questioned as a result of this finding inasmuch as no disallowed costs were identified.

**Recommendation.** We recommend that the District clearly designate any capital assets purchased with federal funding within its records.

**View of Responsible Officials.** A physical inventory of the District's assets will be performed during the 18-19 school year to ensure the accuracy of the capital asset schedule and properly record all assets that are no longer in use or have been disposed of.

**Responsible Official.** James Dennis, Chief Financial Officer

**Estimated Completion Date.** June 30, 2019

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2018

### SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

#### 2018-005 - Procurement

**Finding Type.** Immaterial Noncompliance; Significant Deficiency in Internal Controls over Compliance

**Federal program(s)**

*U.S. Department of Agriculture -*

➤ Child Nutrition Cluster (CFDA# 10.CNC); Passed through MDE; All project numbers

*U.S. Department of Education -*

➤ Title I, Part A (CFDA# 84.010); Passed through MDE; All project numbers

**Criteria.** The District's purchasing policy states that some form of competitive bidding based upon adequate and complete specifications will be implemented for all purchases projected to exceed \$10,000.

**Condition.** During our audit procedures over the District's procurement process, it was noted that of the four contract files tested, none had the required bid documentation.

**Cause.** The District does not have the proper internal controls in place to ensure that all contracts awarded have complied with the District's purchasing policy and federal requirements.

**Effect.** The District did not follow its own procurement policy that requires open competition for all contracts over \$10,000.

**Questioned Costs.** No costs have been questioned as a result of this finding inasmuch as no disallowed costs were identified.

**Recommendation.** We recommend that the District enhance its procurement procedures to ensure that all projects requiring bids are completed and included in the project file for sufficient audit documentation.

**View of Responsible Officials.** All guidelines and requirements for federally funded grants will be reviewed and followed.

**Responsible Official.** James Dennis, Chief Financial Officer

**Estimated Completion Date.** June 30, 2019

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2018

### SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

#### 2018-006 - Special Tests and Provisions - Food Service Fund Balance (Repeat)

**Finding Type.** Immaterial Noncompliance; Significant Deficiency in Internal Controls over Compliance

**Federal program(s)**

*U.S. Department of Agriculture:*

- Child Nutrition Cluster (CFDA# 10.CNC); Passed through MDE; All project numbers

**Criteria.** The USDA requires that the ending balance of the non-profit school food service fund does not exceed three months' average of operating expenses [7 CFR Part 210.14(b)].

**Condition.** In our review of the District's food service fund balance, we noted that the District's fund balance exceeded three months' average of operating expenses.

**Cause.** This condition appears to be the result of the District's increased food service revenue as a part of the Community Eligibility Option, and conservative budgeting of expenditures by management.

**Effect.** As a result of this condition, the District did not fully comply with USDA fund balance requirements.

**Questioned Costs.** No costs have been questioned as a result of this finding inasmuch as no disallowed costs were identified.

**Recommendation.** We recommend the District review its budgeting of expenditures for the food service fund to ensure that fund balance is reduced to an appropriate level.

**View of Responsible Officials.** The CFO will work with the Food Service Director and the Superintendent to insure that excess funding from the food service program are put back into the program in the areas of payroll, staffing, inventory, supplies, food options and equipment at mandated levels to maximize service and provide our students quality meals and snacks.

**Responsible Official.** James Dennis, Chief Financial Officer

**Estimated Completion Date.** June 30, 2019



# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2018

### Finding 2017-001 - Material Audit Adjustment (Repeat)

The District had a material adjustment (which was approved and posted by management) to adjust the District's general ledger to the appropriate balances. This finding was not adequately resolved. See finding 2018-001 in the current year Schedule of Findings and Questioned Costs.

### Finding 2017-002 - Equipment and Real Property Management (Repeat)

The District has not conducted a physical inventory of equipment within the past two fiscal years. In addition, the District's capital asset records do not include a proper designation for those assets purchased with federal funds. This finding was not adequately resolved. See finding 2018-004 in the current year Schedule of Findings and Questioned Costs.

### Finding 2017-003 - Special Tests and Provisions - Food Service Fund Balance (Repeat)

The District's fund balance exceeded three months' average of operating expenses. This finding was not adequately resolved. See finding 2018-006 in the current year Schedule of Findings and Questioned Costs.

