

The School District of the City of
Harper Woods

Year Ended
June 30, 2014

Financial
Statements &
Single Audit Act
Compliance

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THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

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INDEPENDENT AUDITORS' REPORT

October 17, 2014

To The 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, 2014, 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, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 17, 2014 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, 2014. 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 and deferred outflows of resources and liabilities, 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 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 a useful indicator of a government's financial position. Below is a summary of the District's net position (deficit) as of June 30, 2014 and 2013.

	Governmental Activities	
	2014	2013
Assets		
Current and other assets	\$ 5,041,470	\$ 5,799,874
Capital assets - net of accumulated depreciation	<u>33,448,900</u>	<u>34,186,536</u>
Total assets	<u>38,490,370</u>	<u>39,986,410</u>
Deferred outflows of resources	<u>1,882,608</u>	<u>2,002,402</u>
Liabilities		
Other liabilities	3,938,347	4,644,643
Long-term liabilities	<u>38,191,550</u>	<u>38,109,182</u>
Total liabilities	<u>42,129,897</u>	<u>42,753,825</u>
Net position		
Net investment in capital assets	(2,507,372)	(1,547,229)
Restricted	335,540	243,268
Unrestricted	<u>414,913</u>	<u>538,948</u>
Total net position (deficit)	<u><u>\$(1,756,919)</u></u>	<u><u>\$ (765,013)</u></u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

The District's net position (deficit) was (\$1.76 million) at June 30, 2014. The net investment in capital assets deficit of \$2,507,372, 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 \$317,115 is restricted for food service expenses. The remaining balance of net unrestricted deficit is required to meet the government's ongoing obligations to its programs.

The net deficit of (\$1.76) million of governmental activities represent the accumulated results of all past years' operations. The operating results of the general fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the 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, 2014 and 2013.

District's Changes in Net Position

	Governmental Activities	
	2014	2013
Revenue		
Program revenue:		
Charges for services	\$ 168,453	\$ 225,501
Operating grants and contributions	4,995,042	4,803,101
General revenue:		
Property taxes	2,215,785	2,362,750
Unrestricted state aid	11,333,825	10,481,598
Other	285,018	269,535
Total revenue	18,998,123	18,142,485
Function/Program Expenses		
Instruction	9,836,104	8,834,495
Support services	6,215,046	5,881,543
Food services	1,115,126	1,015,399
Athletics	186,166	167,807
Community services	159,950	134,894
Interest on long-term debt	1,414,566	1,393,622
Unallocated depreciation	1,063,071	1,053,049
Total expenses	19,990,029	18,480,809
Change in net position	(991,906)	(338,324)
Net position (deficit), beginning of year	(765,013)	(426,689)
Net position (deficit), end of year	\$(1,756,919)	\$ (765,013)

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

As reported in the statement of activities, the cost of all of our governmental activities this year was \$20.0 million. Certain activities were partially funded from those who benefited from the programs (\$.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5.0 million). The District paid for the remaining "public benefit" portion of our governmental activities with \$2.2 million in taxes, \$11.3 million 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 \$991,906. The key reason for the change in net position is an increase of \$1.5 million in expenses, mainly in the instruction services due to the third party alternate school expenses. Expense also includes approximately \$1.1 million of depreciation expense.

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 2014, the governmental funds reported a combined fund balance of \$2,555,792 which is an increase from the \$2,319,651 as of June 30, 2013. The primary reasons for the change are as follows:

In the general fund, our principal operating fund, the fund balance increased \$107,601 to \$2,067,125. This change is compared to the increase of \$959,446 in the prior year. Part of this increase in fund balance was attributable to negotiated employee concessions, cost containments, and lower utility charges because of internal control implementations reduced by the severe winter weather. The District also received reimbursement of prior year taxes from Wayne County earlier than in previous years.

The debt service fund shows a fund balance increase of \$54,693 (from \$98,434 to \$153,127). The millage rate is 7.4 mills (funding a combined debt service fund for both the 2006 and 2012 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 current year and will remain the same for several years, until the State School Bond Loan Fund is fully repaid. Debt service funds fund balances are restricted since they can only be used to pay debt service obligations.

The special revenue fund for the food service program showed a net increase of \$92,272.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

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. The sole adjustment to the 2013-14 budgets adopted in June 2013 occurred in October 2013. The significant changes between the original adopted budget and the final amended budget include a reduction of 50 FTE's at the traditional K-12 schools and 75 FTE's at the alternate high school run by a third party operator where the district receives 25% of the per pupil state funding. This reduction in revenue was slightly offset by the carryover of the Title I, School Improvement and Safe and Secure federal grants. Changes in expenditures included the purchase of a new school bus, the corresponding reduction in payments to the third party operator and carryover grant expenses, and not hiring 2 teachers at the early elementary school because of the less than planned headcount.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2014, the District had \$33.4 million 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)	
	2014	2013
Land	\$ 46,749	\$ 46,749
Buildings and improvements	32,700,834	33,426,618
Vehicles	135,370	63,829
Furniture and equipment	565,947	649,340
Total capital assets, net	\$33,448,900	\$34,186,536

Debt

At the end of this 2013-2014 fiscal year, the District had \$28.1 million in bonds outstanding versus \$29.2 million 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	
	2014	2013
General obligation bonds	\$28,105,000	\$29,220,000
Net bond premium/discount	1,304,724	1,396,971
School bond loan fund	8,429,156	7,119,196
Compensated absences	352,670	373,015
Total	\$38,191,550	\$38,109,182

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

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 2014 and therefore below the statutorily imposed limit.

Other obligations include amounts owed to the State School Bond Loan Fund, bond premiums and discounts recognized from the issuance of the 2006 and 2012 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.

Economic Factors and Next Year's Budget and Rates

Our elected officials and administration consider many factors when setting the District's 2014-15 fiscal year budget. The 2014-15 fiscal year budget was adopted by the Board of Education in June 2014 as follows:

Estimated July 1, 2014 general fund balance	\$ 2,181,521
Revenue	<u>15,824,216</u>
Total available to appropriate	18,005,737
Expenditures	<u>15,693,564</u>
Estimated June 30, 2015 general fund balance	<u>\$ 2,312,173</u>

The actual July 1, 2014 general fund balance is \$114,396 lower than estimated. The July 1, 2014 fund equity is 12.3% of the 2013-14 general fund expenditures which were \$16,742,458. This fund balance is out of compliance with the Board of Education policy of maintaining a general fund balance greater than 15% of the previous year's expenditures.

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 2014-2015 fiscal year is 10 percent and 90 percent of the February 2015 and Fall 2014 student counts, respectively. The 2014-15 budget was adopted in June 2014, based on an estimate of blended students of 1673 including 468 school of choice students, 1363 in k-12, 250 at the alternate high school and 60 at the projected cyber school. 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 2013-14 was \$8,049. The budget adopted in June 2014 for the 2014-15 fiscal year assumed a net increase in the foundation allowance of \$11: an additional \$50 per FTE allowance (from \$8,049 to \$8,099), partially offset by the elimination of the \$7 per FTE Hold Harmless Money and \$30 per FTE for Positive Pupil Performance, and \$2 less (from \$52 to \$50) per FTE for adhering to Best Practices.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

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, Business Manager, 20225 Beaconsfield, Harper Woods, Michigan 48225, telephone 313-245-3016.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Statement of Net Position

June 30, 2014

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,102,842
Receivables	2,813,766
Inventories	26,996
Prepaid items	97,866
Capital assets, not being depreciated	46,749
Capital assets being depreciated, net	<u>33,402,151</u>
Total assets	<u>38,490,370</u>
Deferred outflows of resources	
Deferred charge on refunding	<u>1,882,608</u>
Liabilities	
Accounts payable and accrued liabilities	3,614,920
Short-term notes payable	160,059
Unearned revenue	163,368
Long-term liabilities:	
Due within one year	1,180,300
Due in more than one year	<u>37,011,250</u>
Total liabilities	<u>42,129,897</u>
Net position	
Net investment in capital assets	(2,507,372)
Restricted for food service	335,540
Unrestricted	<u>414,913</u>
Total net position (deficit)	<u><u>\$ (1,756,919)</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, 2014

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 9,836,104	\$ -	\$ 3,872,613	\$ (5,963,491)
Support services	6,215,046	-	-	(6,215,046)
Food services	1,115,126	84,969	1,122,429	92,272
Athletics	186,166	20,498	-	(165,668)
Community services	159,950	62,986	-	(96,964)
Interest on long-term debt	1,414,566	-	-	(1,414,566)
Unallocated depreciation	1,063,071	-	-	(1,063,071)
Total	\$ 19,990,029	\$ 168,453	\$ 4,995,042	(14,826,534)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,256,694
Property taxes, levied for debt services				959,091
Unrestricted state aid				11,333,825
Grants and contributions not restricted to specific programs				272,091
Unrestricted investment earnings				12,927
Total general revenues				13,834,628
Change in net position				(991,906)
Net position (deficit), beginning of year				(765,013)
Net position (deficit), end of year				\$ (1,756,919)

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, 2014

	General	Debt Service Fund	Nonmajor Governmental Fund Special Revenue Food Service	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,884,198	\$ 522	\$ 218,122	\$ 2,102,842
Accounts receivable	7,037	-	-	7,037
Due from other governments	2,757,788	-	48,941	2,806,729
Due from other funds	34,079	152,605	48,306	234,990
Inventories	-	-	26,996	26,996
Prepaid items	52,866	-	45,000	97,866
Total assets	\$ 4,735,968	\$ 153,127	\$ 387,365	\$ 5,276,460
Liabilities				
Accounts payable	\$ 970,144	\$ -	\$ 51,825	\$ 1,021,969
Accrued payroll and other liabilities	1,140,282	-	-	1,140,282
Due to other funds	234,990	-	-	234,990
Short-term notes payable	160,059	-	-	160,059
Unearned revenue	163,368	-	-	163,368
Total liabilities	2,668,843	-	51,825	2,720,668
Fund balances				
Nonspendable for inventories	-	-	26,996	26,996
Nonspendable for prepaid items	52,866	-	45,000	97,866
Restricted for debt service	-	153,127	-	153,127
Restricted for food service	-	-	263,544	263,544
Unassigned	2,014,259	-	-	2,014,259
Total fund balances	2,067,125	153,127	335,540	2,555,792
Total liabilities and fund balances	\$ 4,735,968	\$ 153,127	\$ 387,365	\$ 5,276,460

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
June 30, 2014

Fund balances - total governmental funds	\$ 2,555,792
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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	46,749
Capital assets being depreciated	45,289,864
Accumulated depreciation	(11,887,713)

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	(36,534,156)
Unamortized discount	117,402
Unamortized premium	(1,422,126)
Deferred loss on refunding	1,882,608
Accrued interest on bonds payable	(1,452,669)
Compensated absences	(352,670)

Net position (deficit) of governmental activities	<u>\$ (1,756,919)</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 Balances

Governmental Funds

For the Year Ended June 30, 2014

	General	Debt Service Fund	Nonmajor Governmental Fund Special Revenue Food Service	Total Governmental Funds
Revenues				
Local sources	\$ 1,625,196	\$ 959,091	\$ 84,969	\$ 2,669,256
State sources	12,735,787	-	47,223	12,783,010
Federal sources	2,470,651	-	1,075,206	3,545,857
Total revenues	16,831,634	959,091	1,207,398	18,998,123
Expenditures				
Current:				
Instruction	9,856,449	-	-	9,856,449
Support services	6,391,720	-	-	6,391,720
Community services	159,950	-	-	159,950
Food services	-	-	1,115,126	1,115,126
Athletics	186,166	-	-	186,166
Debt service:				
Principal	-	1,115,000	-	1,115,000
Interest and fiscal charges	-	1,099,358	-	1,099,358
Capital outlay and maintenance	148,173	-	-	148,173
Total expenditures	16,742,458	2,214,358	1,115,126	20,071,942
Revenues over (under) expenditures	89,176	(1,255,267)	92,272	(1,073,819)
Other financing sources				
Issuance of long-term debt	-	1,309,960	-	1,309,960
Net change in fund balances	89,176	54,693	92,272	236,141
Fund balances, beginning of year	1,977,949	98,434	243,268	2,319,651
Fund balances, end of year	\$ 2,067,125	\$ 153,127	\$ 335,540	\$ 2,555,792

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, 2014

Net change in fund balances - total governmental funds	\$ 236,141
Amounts reported for <i>governmental activities</i> 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 outlay	325,435
Depreciation expense	(1,063,071)
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	1,115,000
Proceeds from issuance of long-term liabilities	(1,309,960)
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 accrued interest payable on bonds	(288,249)
Amortization of bond discounts	(6,178)
Amortization of bond premiums	98,425
Amortization of deferred charge on refunding	(119,794)
Change in the accrual for compensated absences	20,345
	<hr/>
Change in net position of governmental activities	<u><u>\$ (991,906)</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 Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local source	\$ 1,563,967	\$ 1,563,967	\$ 1,625,196	\$ 61,229
State sources	12,759,224	11,775,648	12,735,787	960,139
Federal sources	2,319,484	2,680,688	2,470,651	(210,037)
Total revenues	16,642,675	16,020,303	16,831,634	811,331
Expenditures				
Instruction:				
Basic programs	8,059,676	7,842,328	7,994,875	152,547
Added needs	1,948,825	2,076,190	1,861,574	(214,616)
Total instruction	10,008,501	9,918,518	9,856,449	(62,069)
Supporting services:				
Pupil	807,279	823,026	912,927	89,901
Instructional staff	1,336,048	1,379,449	1,645,616	266,167
General administration	488,179	428,179	384,413	(43,766)
School administration	827,339	827,339	861,358	34,019
Business	290,039	290,039	402,525	112,486
Operations and maintenance	1,424,112	1,454,112	1,653,559	199,447
Pupil transportation services	259,036	349,036	445,567	96,531
Central services	88,431	88,431	85,755	(2,676)
Total supporting services	5,520,463	5,639,611	6,391,720	752,109
Community service	111,261	111,261	159,950	48,689
Athletics	126,092	126,092	186,166	60,074
Capital outlay and maintenance	-	-	148,173	148,173
Debt service:				
Principal	20,278	20,278	-	(20,278)
Interest	971	971	-	(971)
Total debt service	21,249	21,249	-	(21,249)
Total expenditures	15,787,566	15,816,731	16,742,458	925,727
Net change in fund balance	855,109	203,572	89,176	(114,396)
Fund balance, beginning of year	1,977,949	1,977,949	1,977,949	-
Fund balance, end of year	\$ 2,833,058	\$ 2,181,521	\$ 2,067,125	\$ (114,396)

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, 2014

	Student Activities Agency Fund
Assets	
Cash	\$ 73,040
Liabilities	
Due to student groups	\$ 73,040

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 year ended June 30, 2014.

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.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

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.

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 required to be 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 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.

Assets, deferred outflows of resources, liabilities 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.

Investments for the District are reported at fair value.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

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.

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 fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the 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 financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

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.

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 require 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.

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. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year ended June 30, 2014, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	Final Budget	Actual	Variance
General fund			
Instruction -			
Basic programs	\$ 7,842,328	\$ 7,994,875	\$ 152,547
Support services:			
Pupil	823,026	912,927	89,901
Instructional staff	1,379,449	1,645,616	266,167
School administration	827,339	861,358	34,019
Business	290,039	402,525	112,486
Operations and maintenance	1,454,112	1,653,559	199,447
Pupil transportation services	349,036	445,567	96,531
Community service	111,261	159,950	48,689
Athletics	126,092	186,166	60,074
Capital outlay and maintenance	-	148,173	148,173

4. DEPOSITS AND INVESTMENTS

Deposits and investments

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

Statement of Net Position	
Cash and cash equivalents	\$ 2,102,842
Statement of Fiduciary Assets and Liabilities	
Cash and cash equivalents	<u>73,040</u>
	<u>\$ 2,175,882</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

These balances are categorized for note disclosures as follows:

Deposits	\$ 7,238
MILAF investment funds	<u>2,168,644</u>
	<u>\$ 2,175,882</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.
- 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.

Investments

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following investments:

Investment	Maturity	Fair Value	Rating
Michigan Liquid Asset Fund	n/a	\$ 2,168,644	S&P-AAAm

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

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. Maturity dates are identified above for investments held at year end.

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 rating for investments is identified above for investments held at year end.

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 \$7,238 was insured.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. None of the above investments are exposed to custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District’s investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

5. RECEIVABLES

	General Fund	Nonmajor Funds	Total
Receivables:			
Accounts	\$ 7,037	\$ -	\$ 7,037
Intergovernmental	2,757,788	48,941	2,806,729
Total	<u>\$ 2,764,825</u>	<u>\$ 48,941</u>	<u>\$ 2,813,766</u>

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, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated -				
Land	\$ 46,749	\$ -	\$ -	\$ 46,749
Capital assets being depreciated:				
Buildings and improvements	42,284,161	180,968	-	42,465,129
Vehicles	129,953	89,544	-	219,497
Furniture and equipment	2,550,315	54,923	-	2,605,238
Total capital assets being depreciated	44,964,429	325,435	-	45,289,864
Less accumulated depreciation for:				
Buildings and improvements	(8,857,543)	(906,752)	-	(9,764,295)
Vehicles	(66,124)	(18,003)	-	(84,127)
Furniture and equipment	(1,900,975)	(138,316)	-	(2,039,291)
Total accumulated depreciation	(10,824,642)	(1,063,071)	-	(11,887,713)
Total capital assets being depreciated, net	34,139,787	(737,636)	-	33,402,151
Governmental activities capital assets, net	\$ 34,186,536	\$ (737,636)	\$ -	\$ 33,448,900

Depreciation expense of \$1,063,071 was charged to the function "unallocated depreciation".

7. PAYABLES

Accounts payable as of June 30, 2014 for the District's individual major funds and nonmajor fund are as follows:

	General Fund	Nonmajor Funds	Total
Fund Financial Statements -			
Accounts payable	\$ 970,144	\$ 51,825	\$ 1,021,969
Accrued payroll and other liabilities	1,140,282	-	1,140,282
	<u>\$ 2,110,426</u>	<u>\$ 51,825</u>	
Government-wide Financial Statements -			
Accrued interest on long-term debt			<u>1,452,669</u>
			<u>\$ 3,614,920</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

8. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2014, interfund receivables and payables in the fund financial statements consisted of the following:

	Due From Other Funds	Due To Other Funds
General fund	\$ 34,079	\$ 234,990
Debt service fund	152,605	-
Food service fund	48,306	-
	<u>\$ 234,990</u>	<u>\$ 234,990</u>

9. LONG-TERM DEBT

The following is a summary of bond, note, and compensated absence activity for the year ended June 30, 2014:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities					
General obligation					
bonds	\$ 29,220,000	\$ -	\$ (1,115,000)	\$ 28,105,000	\$ 1,145,000
Net bond premium/ discount	1,396,971	-	(92,247)	1,304,724	-
School bond loan fund	7,119,196	1,309,960	-	8,429,156	-
Compensated absences	373,015	22,880	(43,225)	352,670	35,300
	<u>\$ 38,109,182</u>	<u>\$ 1,332,840</u>	<u>\$ (1,250,472)</u>	<u>\$ 38,191,550</u>	<u>\$ 1,180,300</u>

Compensated absences are typically liquidated by the general fund.

Bonds payable at June 30, 2014, are comprised of the following issues:

General Obligation Bonds:

\$9,950,000 2006 Refunding Bonds, due in annual installments of \$50,000 to \$1,785,000 through year 2034; plus interest at 4.0% to 4.125%

\$ 9,800,000

\$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%

18,305,000

\$ 28,105,000

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

Annual debt service requirements to maturity for bonds and installment debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 1,145,000	\$ 1,098,772	\$ 2,243,772
2016	1,135,000	1,059,846	2,194,846
2017	1,145,000	1,025,496	2,170,496
2018	1,155,000	991,446	2,146,446
2019	1,150,000	957,096	2,107,096
2020-2024	6,295,000	3,985,720	10,280,720
2025-2029	7,415,000	2,600,430	10,015,430
3030-3034	8,665,000	1,085,287	9,750,287
	<u>\$ 28,105,000</u>	<u>\$ 12,804,093</u>	<u>\$ 40,909,093</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, 2014, are as follows:

	Principal	Interest	Total
Beginning balance	\$ 7,119,196	\$ 982,058	\$ 8,101,254
Additions	1,309,960	294,013	1,603,973
Ending balance	<u>\$ 8,429,156</u>	<u>\$ 1,276,071</u>	<u>\$ 9,705,227</u>

Advance Refunding. In 2007, the District issued \$9,950,000 of general obligation refunding bonds to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$9,155,000 of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The balance of these defeased bonds outstanding as of June 30, 2014 was \$9,155,000.

Advance Refunding. In 2012, the District issued \$18,730,000 of general obligation refunding bonds to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$17,570,000 of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The balance of these defeased bonds outstanding as of June 30, 2014 was \$17,570,000.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

10. SHORT-TERM NOTES PAYABLE

The District has one short-term state aid anticipation note totaling \$802,584 of which \$160,059 is outstanding and included as a liability in the general fund at June 30, 2014. The note carries an interest rate of .430% and is due July 21, 2014.

Short-term debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
State aid notes	\$ 1,208,297	\$ 802,584	\$ (1,850,822)	\$ 160,059

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, 2014.

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.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

14. DEFINED BENEFIT PENSION PLAN

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a collection of several retirement plans administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute. The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-5103.

Funding Policy

Defined Benefit Plans

Member contribution rates vary based on date of hire and certain voluntary elections. Member Investment Plan ("MIP") members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 through June 30, 2008 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Members first hired July 1, 2008 through June 30, 2010 contribute at the following graduated permanently fixed contribution rates: 3.0 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000. Basic Plan members make no contributions. Basic 4% and MIP 7% members contribute 4 percent and 7 percent of pretax salary, respectively. Based on the option selected at enrollment, these individuals contribute at a fixed rate until termination of employment or until reaching 30 years of service. At that time, based on the option selected, employee contributions are no longer required or revert to the contribution requirements under the MIP plan in which the employee initially enrolled.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree healthcare benefits on a cash disbursement basis. The rates for the year ended June 30, 2014 as a percentage of payroll ranged from 24.32 to 24.79 percent. In addition, the District is invoiced monthly an amount that approximates 4.56 percent of covered payroll for "MPERS UAAL Stabilization." This additional contribution is offset by monthly State aid payments equal to the amounts actually billed by the Office of Retirement Services.

Hybrid Plans

Members hired between July 1, 2010 and September 3, 2012 are enrolled in the Pension Plus plan. Members hired on or after September 4, 2012 are automatically enrolled in this plan unless an election is made to participate in the defined contribution plan (described below). Participant contributions contain a pension component as well as a savings component. The pension component is based on the following pretax contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000. For the savings component, participants contribute 2 percent of gross pay to a 457 plan. Member contributions for the savings component are matched at a rate of 50 percent by the employer, up to a maximum of one percent and invested in a 401(k) plan.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

Effective February 1, 2013, members that initially enrolled in the defined benefit plan were provided the option to convert to a defined contribution plan. In these instances, any service credit accumulated under the defined benefit plan before February 1, 2013 is retained. For service performed after this date, the converted plan member receives 4 percent employer contributions to a personal 401(k) account.

Voluntary employee contributions are permitted in accordance with IRS guidelines. Employer contributions for the pension component of the plan vest at 10 years of service. Employer contributions for the savings component and earnings thereon vest based on the following schedule: 50 percent at 2 years of service, 75 percent at 3 years of service, and 100 percent at 4 years of service. Any voluntary contributions vest with the employee immediately. If a member participating in the hybrid plan retires with certain age and service requirements, he or she will receive a monthly pension based on compensation received before February 1, 2013.

Defined Contribution Plan

A member first enrolling in MPSERS on or after September 4, 2012 may elect to enroll in the defined contribution plan. Employer and employee contribution rates and vesting requirements are consistent with the defined contribution component of the hybrid plan as described above.

Required Contributions

The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS under all plans for the years ended June 30, 2014, 2013, and 2012 were \$2,057,917, \$1,676,435, and \$1,647,351, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the Premium Subsidy plan, a defined benefit postemployment healthcare plan, which is funded by employers on a cash disbursement basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Plan participants contribute 3 percent of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that cover up to 80 percent of cost.

Plan members enrolled on or after September 4, 2012 participate in the Personal Healthcare Fund. This defined contribution other postemployment benefits plan includes a required 2 percent employee contribution into a personal tax-deferred account, which is matched by an additional 2 percent employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3 percent employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 are pending a Supreme Court resolution.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

The District's contributions to MPSERS for other postemployment benefits are not separately identified and are included in the contribution amounts disclosed above.

15. SUBSEQUENT EVENT

On August 7, 2014, the District borrowed \$800,000 in State Aid Notes due on July 20, 2015 for cash flow purposes.

16. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2014, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 46,749
Capital assets being depreciated, net	<u>33,402,151</u>
	<u>33,448,900</u>
Related debt:	
Total bonds payable	36,534,156
Net bond premium/discount	1,304,724
Deferred loss on advance refunding	<u>(1,882,608)</u>
	<u>35,956,272</u>
Net investment in capital assets	<u>\$ (2,507,372)</u>

17. EFFECT OF UPCOMING CHANGES IN ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will be effective for the District's fiscal year ending June 30, 2015. This statement will require the recognition of a "net pension liability" on the statement of net position, equal to the unfunded portion of the District's defined benefit pension plan, as defined and calculated in accordance with the new standard. While the exact amount of this liability is not readily determinable at this time, management estimates that it may approximate \$18,404,000. GASB 68 will require the net pension liability to be recorded for the year ending June 30, 2015, by restating beginning net position as of July 1, 2014.



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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 OMB CIRCULAR A-133

October 17, 2014

To The 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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 17, 2014, 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 OMB Circular A-133 and is not a required part of the basic financial statements. The 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



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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, 2014

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number
U.S. Department of Agriculture			
Child Nutrition Cluster:			
Cash Assistance:			
National School Breakfast Program	10.553	MDE	131970
National School Breakfast Program	10.553	MDE	141970
National School Lunch Program	10.555	MDE	131960
National School Snack Program	10.555	MDE	131980
National School Lunch Program	10.555	MDE	141960
Summer Food Service Program	10.559	MDE	130900
Summer Food Service Program	10.559	MDE	131900
Summer Food Service Program	10.559	MDE	140900
Summer Food Service Program	10.559	MDE	141900
Non-Cash Assistance -			
Entitlement Commodities	10.555	MDE	n/a
Child and Adult Care Food Program	10.558	MDE	131920
Child and Adult Care Food Program	10.558	MDE	132010
Child and Adult Care Food Program	10.558	MDE	141920
Child and Adult Care Food Program	10.558	MDE	142010
Total U.S. Department of Agriculture			
U.S. Department of Education			
Title I Cluster:			
Title I, Part A - Improving Basic Programs	84.010	MDE	131530/1213
Title I, Part A - Improving Basic Programs	84.010	MDE	141530/1314
Safe and Supportive Schools	84.184	MDE	132790/SSS2013
Safe and Supportive Schools	84.184	MDE	142790/SSS2014

Approved Grant Award Amount	Accrued (Deferred) Revenue at July 1, 2013	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2014	Accrued (Deferred) Revenue at June 30, 2014
\$ 185,733	\$ 8,719	\$ 29,545	\$ 164,907	\$ 20,826	\$ -
146,775	-	139,519	-	146,775	7,256
416,270	16,080	76,194	356,156	60,114	-
46,436	1,967	1,967	46,436	-	-
416,339	-	397,058	-	416,339	19,281
42,510	5,299	42,510	5,299	37,211	-
3,620	452	3,620	452	3,168	-
5,097	-	-	-	5,097	5,097
434	-	-	-	434	434
44,552	-	44,552	-	44,552	-
	<u>32,517</u>	<u>734,965</u>	<u>573,250</u>	<u>734,516</u>	<u>32,068</u>
186,652	4,390	38,967	152,075	34,577	-
13,294	349	1,546	12,097	1,197	-
292,227	-	276,095	-	292,227	16,132
12,689	-	11,951	-	12,689	738
	<u>4,739</u>	<u>328,559</u>	<u>164,172</u>	<u>340,690</u>	<u>16,870</u>
	<u>37,256</u>	<u>1,063,524</u>	<u>737,422</u>	<u>1,075,206</u>	<u>48,938</u>
211,570	56,068	56,068	211,570	-	-
401,190	-	260,461	-	321,691	61,230
	<u>56,068</u>	<u>316,529</u>	<u>211,570</u>	<u>321,691</u>	<u>61,230</u>
175,603	43,830	100,041	119,392	56,211	-
125,500	-	102,953	-	120,974	18,021
	<u>43,830</u>	<u>202,994</u>	<u>119,392</u>	<u>177,185</u>	<u>18,021</u>

continued...

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2014

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number
U.S. Department of Education (continued)			
Title II:			
Title II, Part A - Improving Teacher Quality	84.367	MDE	130520/1213
Title II, Part A - Improving Teacher Quality	84.367	MDE	140520/1314
School Improvement Grant Cluster:			
Formula School Improvement	84.377	MDE	111760/1112
Formula School Improvement	84.377	MDE	121760/1213
ARRA School Improvement Grant, Recovery	84.388	MDE	131765/1314
Special Education Cluster:			
I.D.E.A. Flow-Through	84.027A	WCRESA	070460/1213
I.D.E.A. Flow-Through	84.027A	WCRESA	070460/1314
Preschool Incentive	84.173	WCRESA	070460/1213
Preschool Incentive	84.173	WCRESA	070460/1314
Total U.S. Department of Education			
Total Federal Financial Assistance			

See notes to schedule of expenditures of federal awards.

Approved Grant Award Amount	Accrued (Deferred) Revenue at July 1, 2013	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2014	Accrued (Deferred) Revenue at June 30, 2014
\$ 51,728	\$ 21,078	\$ 21,078	\$ 51,728	\$ -	\$ -
53,385	-	44,642	-	53,885	9,243
	<u>21,078</u>	<u>65,720</u>	<u>51,728</u>	<u>53,885</u>	<u>9,243</u>
672,300	504,312	672,300	66,575	167,988	-
1,326,226	353,710	353,710	504,312	-	-
1,999,242	-	1,155,574	-	1,326,228	170,654
	<u>858,022</u>	<u>2,181,584</u>	<u>570,887</u>	<u>1,494,216</u>	<u>170,654</u>
388,600	178,979	178,979	388,600	-	-
387,208	-	188,550	-	387,208	198,658
18,198	9,398	9,398	18,198	-	-
19,809	-	8,488	-	19,809	11,321
	<u>188,377</u>	<u>385,415</u>	<u>406,798</u>	<u>407,017</u>	<u>209,979</u>
	<u>1,167,375</u>	<u>3,152,242</u>	<u>1,360,375</u>	<u>2,453,994</u>	<u>469,127</u>
	<u>\$ 1,204,631</u>	<u>\$ 4,215,766</u>	<u>\$ 2,097,797</u>	<u>\$ 3,529,200</u>	<u>\$ 518,065</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, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 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 OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. 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 included 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.

3. RECONCILIATION OF BASIC FINANCIAL STATEMENTS

The following schedule reconciles federal sources reported in the financial statements to the expenditures reported on the schedule of expenditures of federal awards:

Federal sources reported in the financial statements	\$ 3,545,857
Adjustments to prior year federal expenditures	(16,656)
Expenditures reported in the schedule of expenditures of federal awards	<u>\$ 3,529,201</u>

4. PASS-THROUGH AGENCIES

The District receives certain federal grant 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 Education 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 17, 2014

To The 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, 2014, 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 17, 2014.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-FS-01 to be a material weakness.

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.

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's Response to Finding

The District's response to the finding identified in our audit are 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.

A handwritten signature in black ink that reads "Rehmann Johnson LLC". The signature is written in a cursive, flowing style.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

October 17, 2014

To The 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 Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Special Education and School Improvement Grant programs

As described in item 2014-SA-01 in the accompanying schedule of findings and questioned costs, the District did not comply with the Allowable Costs/Cost Principals requirement applicable to its Special Education and School Improvement Grant programs. Compliance with this requirement is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion on Special Education and School Improvement Grant programs

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its Special Education and School Improvement Grant programs for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

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 each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an other instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-SA-02. Our opinion on each major federal program is not modified with respect to this matter.

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 OMB Circular A-133, 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 described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 2014-SA-01 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-SA-02 to be a significant deficiency.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Rehmann Loborn LLC

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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, 2014

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 Circular A-133, Section 510(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>
10.553, 10.555 & 10.559	Child Nutrition Cluster	Unmodified
84.377 & 84.388	School Improvement Grant Cluster	Qualified
84.027A & 84.173	Special Education Cluster	Qualified
10.558	Child and Adult Care Food Program	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

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, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

2014-FS-01 - Material Audit Adjustments

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 material adjustments (which were approved and posted by management) to adjust the District's general ledger to the appropriate balances.

Cause. This condition was the result of oversights in the process of properly recording the state aid note payable and unearned revenue related to the at-risk program on the District's books and records.

Effect. As a result of this condition, the District's accounting records were initially misstated by amounts material to certain individual opinion units.

Recommendation. Management has already taken appropriate corrective action by reviewing and approving the proposed audit adjustments.

Corrective Action. Management agrees with the adjustments proposed by its auditors, and they have been posted in the District's records.

Responsible Official. James Dennis, Business Manager

Estimated Completion Date. August 22, 2014

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2014

SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

2014-SA-01 - 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:

- Special Education Cluster (CFDA# 84.027A & 84.173); Passed through WRESA; All project numbers
- School Improvement Grant (SIG) Cluster (CFDA# 84.377 & 84.388); Passed through MDE; All project numbers

Criteria. Per OMB Circular A-87, 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 semi-annual certifications for 11 employees and one employee was not paid the correct rate.

Cause. This condition appears to be the result of the District not being fully aware of the federal guidelines for all of its awards.

Effect. As a result of this condition, the District does not have appropriate payroll support for 11 employees.

Questioned Costs. Known questioned costs identified during our testing were as follows:

- Special Education Cluster - \$1,859
- School Improvement Grant Cluster - \$14,586

Recommendation. We recommend the District prepare and retain payroll documentation in accordance with A-87 for all federal awards.

View of Responsible Officials. Required documentation/certifications are currently being maintained for all district employees and are being reviewed quarterly.

Responsible Official. James Dennis, Business Manager

Estimated Completion Date. July 1, 2014

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2014

SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS (Concluded)

2014-SA-02 - Procurement, Suspension and Debarment

Finding Type. Immaterial Noncompliance; Significant deficiency in internal controls over compliance

Federal program(s)

U.S. Department of Education:

- Special Education Cluster (CFDA# 84.027A & 84.173); Passed through WRESA; All project numbers
- School Improvement Grant (SIG) Cluster (CFDA# 84.377 & 84.388); 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. The District is also required to document whether a vendor appears to be suspended or debarred.

Condition. During our audit procedures over the District's procurement process it was noted that three out of four contract files tested did not have the required bid documentation. Also, two out of four files selected did not have documentation of the District verifying that the vendor is not suspended or debarred.

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 and did not follow requirements to check whether a vendor is suspended or debarred.

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. Also, the District verify that any vendors or contractors selected are verified as being neither suspended or debarred per the SAM.gov website.

View of Responsible Officials. Procedures are in place to ensure that district policies are followed regarding competitive bidding and that all vendors/contractors selected are on the approved via the SAM.gov website.

Responsible Official. James Dennis, Business Manager

Estimated Completion Date. July 1, 2014



THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

■ Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2014

Finding 2013-FS-01 - Material Audit Adjustment

This finding was not adequately resolved. See finding 2014-FS-01 in the current year Schedule of Findings and Questioned Costs.

Finding 2013-SA-01 - Review of Family Applications for Free and Reduced Meals

This finding was adequately resolved.



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