

The School District of the City of  
Harper Woods

Year Ended  
June 30, 2016

Financial  
Statements &  
Single Audit Act  
Compliance

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# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

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# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

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**INDEPENDENT AUDITORS' REPORT**

October 12, 2016

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, 2016, 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, 2016, and the respective changes in financial position thereof and the budgetary comparison for the general fund and the major special revenue 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 and the schedules for the pension plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2016 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, 2016. 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 food service special revenue fund, with any other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the District acts solely as an agent for the benefit of students.

### Overview of the Financial Statements

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

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

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

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

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



# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Management's Discussion and Analysis

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

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

### The District as a Whole

Recall that the statement of net position provides the perspective of the District as a whole and over time, may serve as a useful indicator of a government's financial position. Below is a summary of the District's net position as of June 30, 2016 and 2015.

	Governmental Activities	
	2016	2015
<b>Assets</b>		
Current and other assets	\$ 6,304,551	\$ 5,915,407
Capital assets - net of accumulated depreciation	<u>31,624,418</u>	<u>32,535,266</u>
<b>Total assets</b>	<u>37,928,969</u>	<u>38,450,673</u>
<b>Deferred outflows of resources</b>	<u>5,275,599</u>	<u>4,579,407</u>
<b>Liabilities</b>		
Other liabilities	24,329,111	23,002,311
Long-term liabilities	<u>39,507,443</u>	<u>37,872,662</u>
<b>Total liabilities</b>	<u>63,836,554</u>	<u>60,874,973</u>
<b>Deferred inflows of resources</b>	<u>76,134</u>	<u>2,072,643</u>
<b>Net position</b>		
Net investment in capital assets	6,322,208	6,125,603
Restricted	860,067	416,161
Unrestricted (deficit)	<u>(27,890,395)</u>	<u>(26,459,300)</u>
<b>Total net position</b>	<u><u>\$(20,708,120)</u></u>	<u><u>\$(19,917,536)</u></u>

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Management's Discussion and Analysis

The District had negative net position of \$20,708,120 at June 30, 2016. The district had net investment in capital assets of \$6,322,208, which compares the original cost, less accumulated depreciation of the District's capital assets, plus any unspent bond proceeds to the long-term debt used to finance the acquisition of those assets, and reduced for long-term indebtedness used to finance the related capital assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. In addition, net position of \$860,067 is restricted. The remaining balance of net unrestricted deficit is required to meet the government's ongoing obligations to its programs.

The negative net position of \$20,708,120 of governmental activities represents the accumulated results of all past years' operations. The operating results of the general fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the 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, 2016 and 2015.

### District's Changes in Net Position

	Governmental Activities	
	2016	2015
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 215,039	\$ 178,452
Operating grants and contributions	4,056,540	4,438,427
General revenue:		
Property taxes	2,522,769	2,631,047
Unrestricted state aid	14,781,970	13,664,039
Other	394,889	345,012
<b>Total revenue</b>	<u>21,971,207</u>	<u>21,256,977</u>
<b>Function/Program Expenses</b>		
Instruction	12,273,807	11,281,203
Support services	6,330,301	5,764,516
Community services	176,352	1,220,347
Food services	1,314,349	198,799
Athletics	218,961	123,479
Interest on long-term debt	1,427,357	1,422,505
Unallocated depreciation	1,020,664	1,047,902
<b>Total expenses</b>	<u>22,761,791</u>	<u>21,058,751</u>
<b>Change in net position</b>	(790,584)	198,226
Net position, beginning of year	(19,917,536)	(1,756,919)
Restatement for implementation of GASB 68	-	(18,358,843)
<b>Net position, end of year</b>	<u><u>\$(20,708,120)</u></u>	<u><u>\$(19,917,536)</u></u>

# 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 \$22,761,791. Certain activities were partially funded from those who benefited from the programs (\$215,039) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4,056,540). The District paid for the remaining "public benefit" portion of our governmental activities with \$2,522,769 in taxes, \$14,781,970 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 \$790,584. The primary reason for the change in net position is an increase of \$1,703,040 in expenses, mainly in instructional services due to hiring of 2 new teachers and the associated classroom expenses, third party alternate school expenses, the filling all of building and district administrative positions, and additional parking lot and concrete repairs. This increase was partially offset by an increase in state revenue from the same third party alternate school.

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 2016, the governmental funds reported a combined fund balance of \$4,214,453 which is an increase of \$802,079 in comparison with the prior year. The primary reasons for the change are as follows:

In the general fund, our principal operating fund, the fund balance increased \$446,836 to \$3,189,144. This change is compared to the increase of \$675,183 in the prior year. Part of this increase in fund balance was attributable to cost containment and the success of the Dropout Recovery program/cyber school by the district's partner organization Diploma Success.

The special revenue fund for the food service program showed a net increase of \$182,404. The reason for this increase is the District is under the community eligibility option, and receives reimbursement for all meals served. The District will work with its food service company to review payroll, supplies and equipment needs for the District.

The debt service fund shows a fund balance increase of \$172,839 (from \$253,905 to \$426,744). The millage rate is 13.0 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.

### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. Three adjustment to the 2015-2016 budget were adopted on October 20, 2015, March 15, 2016 and June 21, 2016. The significant changes between the original adopted budget and the final amended budget include a net increase of 15 FTE's at the traditional K-12 schools and at Harper Academy (the district's in-house alternate ed school), and 23 FTE's from the credit recovery program run by a third party operator where the district receives 25% of the per pupil state funding. Changes in expenditures included the corresponding increase in payments to the third party operator, unanticipated unused sick day payouts for 2 retiring teachers, parking lot work at all three buildings and additional lockers at the High School.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Management's Discussion and Analysis

### Capital Assets and Debt Administration

#### Capital Assets

As of June 30, 2016, the District had \$31,624,418 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)	
	2016	2015
Land	\$ 46,749	\$ 46,749
Buildings and improvements	31,012,067	31,886,862
Vehicles	89,293	112,332
Furniture and equipment	476,309	489,323
<b>Total capital assets, net</b>	<b>\$31,624,418</b>	<b>\$ 32,535,266</b>

#### Debt

At the end of this 2015-2016 fiscal year, the District had \$25,825,000 in bonds outstanding versus \$26,960,000 in the previous year. The District also had a school bond loan fund and compensated absences. See summary of the District's debt below:

	Long-term Debt	
	2016	2015
General obligation bonds	\$25,825,000	\$ 26,960,000
Net bond premium/discount	1,120,230	1,212,477
School bond loan fund	12,262,181	10,973,090
Compensated absences	300,032	343,961
<b>Total</b>	<b>\$39,507,443</b>	<b>\$ 39,489,528</b>

The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the District's boundaries. If the District issues "Qualified Debt", i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The District's outstanding unqualified general obligation debt is zero as of June 2016 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.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Management's Discussion and Analysis

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

Our elected officials and administration consider many factors when setting the District's 2016-17 fiscal year budget. The 2016-17 fiscal year budget was adopted by the Board of Education in June 2016 as follows:

Estimated July 1, 2016 general fund balance	\$ 3,189,144
Revenue	<u>18,675,105</u>
Total available to appropriate	21,864,249
Expenditures	<u>18,611,091</u>
Estimated June 30, 2017 general fund balance	<u>\$ 3,253,158</u>

The actual July 1, 2016 general fund balance is \$76,941 higher than budgeted. The July 1, 2016 fund equity is 17.3% of the 2015-16 general fund expenditures which were \$18,606,049.

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 2016-2017 fiscal year is 10 percent and 90 percent of the February 2016 and October 2016 student counts, respectively. The 2016-17 budget was adopted in June 2016, based on an estimate of blended students of 1,916 including 631 school of choice students (156 in K-12 and 410 at Diploma Success and the Virtual Academy). The budget is based on 1,471 in K-12, 225 at the alternate high school, 125 at the cyber school, 35 at Harper Academy and 60 in the Credit Recovery Program. Approximately 80 percent of total general fund revenue is from the foundation allowance including the 18 mills local tax portion and the State Aid portions under the State Aid Act sections 22(a), 22(b) and the Special Education section 51(a). Under State law, the District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the state's ability to fund local school operations. Once the final student count and related per pupil funding is validated in October, state law requires the District to amend the budget if actual District resources are not sufficient to fund original appropriations.

Since the District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The foundation grant per student for the District in 2015-16 was \$8,169. The budget adopted in June 2016 for the 2016-17 fiscal year assumed a net increase in the foundation allowance an additional \$60 per FTE (from \$8,169 to \$8,229).

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.

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## BASIC FINANCIAL STATEMENTS

## GOVERNMENT-WIDE FINANCIAL STATEMENTS



# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Statement of Net Position

June 30, 2016

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 268,151
Investments	2,217,978
Receivables	3,490,056
Inventories	24,338
Prepaid items	304,028
Capital assets, not being depreciated	46,749
Capital assets being depreciated, net	<u>31,577,669</u>
<b>Total assets</b>	<u>37,928,969</u>
<b>Deferred outflows of resources</b>	
Deferred charge on refunding	1,643,020
Deferred pension amounts	<u>3,632,579</u>
<b>Total deferred outflows of resources</b>	<u>5,275,599</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	2,083,825
Short-term notes payable	142,943
Unearned revenue	28,572
Long-term liabilities:	
Due within one year	1,267,247
Due in more than one year	38,240,196
Net pension liability	<u>22,073,771</u>
<b>Total liabilities</b>	<u>63,836,554</u>
<b>Deferred inflows of resources</b>	
Deferred pension amounts	<u>76,134</u>
<b>Net position</b>	
Net investment in capital assets	6,322,208
Restricted for:	
Food service	598,565
Debt service	261,502
Unrestricted (deficit)	<u>(27,890,395)</u>
<b>Total net position</b>	<u><u>\$ (20,708,120)</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, 2016

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
<b>Governmental activities:</b>				
Instruction	\$ 12,273,807	\$ -	\$ 2,687,763	\$ (9,586,044)
Support services	6,330,301	-	-	(6,330,301)
Community services	176,352	72,441	-	(103,911)
Food services	1,314,349	125,062	1,368,777	179,490
Athletics	218,961	17,536	-	(201,425)
Interest on long-term debt	1,427,357	-	-	(1,427,357)
Unallocated depreciation	1,020,664	-	-	(1,020,664)
<b>Total</b>	<b>\$ 22,761,791</b>	<b>\$ 215,039</b>	<b>\$ 4,056,540</b>	<b>(18,490,212)</b>
<b>General revenues:</b>				
Taxes:				
Property taxes, levied for general purposes				1,098,307
Property taxes, levied for debt services				1,424,462
Unrestricted state aid				14,781,970
Grants and contributions not restricted to specific programs				361,059
Unrestricted investment earnings				33,830
<b>Total general revenues</b>				<b>17,699,628</b>
<b>Change in net position</b>				<b>(790,584)</b>
<b>Net position, beginning of year</b>				<b>(19,917,536)</b>
<b>Net position, end of year</b>				<b>\$ (20,708,120)</b>

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

## FUND FINANCIAL STATEMENTS

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Balance Sheet

Governmental Funds

June 30, 2016

	General	Food Service Special Revenue	Nonmajor Debt Service	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 9,548	\$ -	\$ 258,603	\$ 268,151
Investments	2,005,432	212,002	544	2,217,978
Accounts receivable	8,863	-	-	8,863
Due from other governments	3,398,606	82,587	-	3,481,193
Due from other funds	-	338,358	167,597	505,955
Inventories	-	24,338	-	24,338
Prepaid items	259,028	45,000	-	304,028
<b>Total assets</b>	<b>\$ 5,681,477</b>	<b>\$ 702,285</b>	<b>\$ 426,744</b>	<b>\$ 6,810,506</b>
<b>Liabilities</b>				
Accounts payable	\$ 551,764	\$ 103,720	\$ -	\$ 655,484
Accrued payroll and other liabilities	1,263,099	-	-	1,263,099
Due to other funds	505,955	-	-	505,955
Short-term notes payable	142,943	-	-	142,943
Unearned revenue	28,572	-	-	28,572
<b>Total liabilities</b>	<b>2,492,333</b>	<b>103,720</b>	<b>-</b>	<b>2,596,053</b>
<b>Fund balances</b>				
Nonspendable for inventories	-	24,338	-	24,338
Nonspendable for prepaid items	259,028	45,000	-	304,028
Restricted for debt service	-	-	426,744	426,744
Restricted for food service	-	529,227	-	529,227
Unassigned	2,930,116	-	-	2,930,116
<b>Total fund balances</b>	<b>3,189,144</b>	<b>598,565</b>	<b>426,744</b>	<b>4,214,453</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,681,477</b>	<b>\$ 702,285</b>	<b>\$ 426,744</b>	<b>\$ 6,810,506</b>

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Reconciliation

Fund Balances for Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2016

Fund balances - total governmental funds \$ 4,214,453

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	45,533,948
Accumulated depreciation	(13,956,279)

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

Bonds payable and school bond loan fund	(38,087,181)
Unamortized discount	105,046
Unamortized premium	(1,225,276)
Deferred loss on refunding	1,643,020
Accrued interest on bonds payable	(165,242)
Compensated absences	(300,032)

Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.

Net pension liability	(22,073,771)
Deferred outflows related to the net pension liability	3,632,579
Deferred inflows related to the net pension liability	(76,134)

Net position of governmental activities \$ (20,708,120)

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, 2016

	General	Food Service Special Revenue	Nonmajor Debt Service	Total Governmental Funds
<b>Revenues</b>				
Local sources	\$ 1,583,152	\$ 125,062	\$ 1,424,483	\$ 3,132,697
State sources	16,566,872	48,144	-	16,615,016
Federal sources	902,861	1,320,633	-	2,223,494
<b>Total revenues</b>	<b>19,052,885</b>	<b>1,493,839</b>	<b>1,424,483</b>	<b>21,971,207</b>
<b>Expenditures</b>				
Current:				
Instruction	11,951,527	-	-	11,951,527
Support services	6,215,514	-	-	6,215,514
Community services	173,108	-	-	173,108
Food services	-	1,311,435	-	1,311,435
Athletics	212,474	-	-	212,474
Debt service:				
Principal	-	-	1,135,000	1,135,000
Interest and fiscal charges	-	-	1,025,891	1,025,891
Capital outlay and maintenance	53,426	-	-	53,426
<b>Total expenditures</b>	<b>18,606,049</b>	<b>1,311,435</b>	<b>2,160,891</b>	<b>22,078,375</b>
Revenues over (under) expenditures	446,836	182,404	(736,408)	(107,168)
<b>Other financing sources</b>				
Issuance of long-term debt	-	-	909,247	909,247
<b>Net change in fund balances</b>	<b>446,836</b>	<b>182,404</b>	<b>172,839</b>	<b>802,079</b>
Fund balances, beginning of year	2,742,308	416,161	253,905	3,412,374
<b>Fund balances, end of year</b>	<b>\$ 3,189,144</b>	<b>\$ 598,565</b>	<b>\$ 426,744</b>	<b>\$ 4,214,453</b>

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended June 30, 2016

Net change in fund balances - total governmental funds	\$ 802,079
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	109,816
Depreciation expense	(1,020,664)
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	1,135,000
Proceeds from issuance of long-term debt	(909,247)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in net pension liability and related deferred amounts	(549,781)
Change in accrued interest payable on bonds	(374,169)
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	43,929
Change in net position of governmental activities	<u>\$ (790,584)</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, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Local source	\$ 1,526,121	\$ 1,278,321	\$ 1,583,152	\$ 304,831
State sources	15,963,013	16,299,013	16,566,872	267,859
Federal sources	942,202	1,023,222	902,861	(120,361)
<b>Total revenues</b>	<b>18,431,336</b>	<b>18,600,556</b>	<b>19,052,885</b>	<b>452,329</b>
<b>Expenditures</b>				
Instruction:				
Basic programs	9,914,580	9,714,228	9,948,459	234,231
Added needs	2,145,182	2,123,387	2,003,068	(120,319)
<b>Total instruction</b>	<b>12,059,762</b>	<b>11,837,615</b>	<b>11,951,527</b>	<b>113,912</b>
Support services:				
Pupil	969,880	1,007,002	986,896	(20,106)
Instructional staff	976,725	948,561	866,490	(82,071)
General administration	453,185	567,442	599,535	32,093
School administration	1,020,420	1,076,445	1,114,835	38,390
Business	307,151	369,259	517,397	148,138
Operations and maintenance	1,484,132	1,625,258	1,722,367	97,109
Pupil transportation services	241,860	297,194	321,791	24,597
Central services	113,588	116,238	86,203	(30,035)
<b>Total support services</b>	<b>5,566,941</b>	<b>6,007,399</b>	<b>6,215,514</b>	<b>208,115</b>
Community services	107,206	168,246	173,108	4,862
Athletics	184,032	184,032	212,474	28,442
Capital outlay and maintenance	-	33,369	53,426	20,057
<b>Total expenditures</b>	<b>17,917,941</b>	<b>18,230,661</b>	<b>18,606,049</b>	<b>375,388</b>
<b>Net change in fund balance</b>	<b>513,395</b>	<b>369,895</b>	<b>446,836</b>	<b>76,941</b>
Fund balance, beginning of year	2,742,308	2,742,308	2,742,308	-
<b>Fund balance, end of year</b>	<b>\$ 3,255,703</b>	<b>\$ 3,112,203</b>	<b>\$ 3,189,144</b>	<b>\$ 76,941</b>

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 - Food Service

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Local source	\$ 109,123	\$ 109,123	\$ 125,062	\$ 15,939
State sources	37,849	42,577	48,144	5,567
Federal sources	1,052,004	1,052,004	1,320,633	268,629
<b>Total revenues</b>	<b>1,198,976</b>	<b>1,203,704</b>	<b>1,493,839</b>	<b>290,135</b>
<b>Expenditures</b>				
Food service	1,110,539	1,110,539	1,311,435	200,896
<b>Net change in fund balance</b>	<b>88,437</b>	<b>93,165</b>	<b>182,404</b>	<b>89,239</b>
Fund balance, beginning of year	416,161	416,161	416,161	-
<b>Fund balance, end of year</b>	<b>\$ 504,598</b>	<b>\$ 509,326</b>	<b>\$ 598,565</b>	<b>\$ 89,239</b>

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Statement of Fiduciary Assets and Liabilities

Agency Fund  
June 30, 2016

	Student Activities Agency Fund
<b>Assets</b>	
Cash and cash equivalents	\$ 61,503
<b>Liabilities</b>	
Due to student groups	\$ 61,503

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

## NOTES TO THE FINANCIAL STATEMENTS

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting entity

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

#### Government-wide and fund financial statements

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

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

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

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

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

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

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

The District reports the following major governmental funds:

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

The food service *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.

Additionally, the District reports the following fund types:

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

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

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

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

#### *Deposits and investments*

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

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

#### *Receivables and payables*

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

#### *Inventories and prepaid items*

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

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated 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 net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows for the loss on refunding. This amount represents the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also reports deferred outflows of resources related to the net pension liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

### *Compensated absences*

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

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### *Deferred inflows of resources*

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

### *Long-term obligations*

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

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

### *Fund equity*

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

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

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### *Pensions*

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

## 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, 2016, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	Final Budget	Actual	Variance
<b>General fund</b>			
Instruction -			
Basic programs	\$ 9,714,228	\$ 9,948,459	\$ 234,231
Support services:			
General administration	567,442	599,535	32,093
School administration	1,076,445	1,114,835	38,390
Business	369,259	517,397	148,138
Operations and maintenance	1,625,258	1,722,367	97,109
Pupil transportation services	297,194	321,791	24,597
Community services	168,246	173,108	4,862
Athletics	184,032	212,474	28,442
Capital outlay and maintenance	33,369	53,426	20,057
<b>Food service</b>			
Food service	1,110,539	1,311,435	200,896



# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 4. DEPOSITS AND INVESTMENTS

#### Deposits and investments

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

<b>Statement of Net Position</b>	
Cash and cash equivalents	\$ 268,151
Investments	<u>2,217,978</u>
	2,486,129
 <b>Statement of Fiduciary Assets and Liabilities</b>	
Cash and cash equivalents	<u>61,503</u>
	<u><u>\$ 2,547,632</u></u>

These balances are categorized for note disclosures as follows:

Deposits	\$ 9,562
MILAF investment funds	<u>2,538,070</u>
	<u><u>\$ 2,547,632</u></u>

#### Statutory Authority

Michigan law authorizes the District to deposit and invest in:

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

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

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

### Investments

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

Investment	Maturity	Amortized Cost	Rating
Michigan Liquid Asset Fund	n/a	\$ 2,538,070	S&P-AAAm

### 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 \$9,548 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.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 5. RECEIVABLES

	General Fund	Food Service	Total
Receivables:			
Accounts	\$ 8,863	\$ -	\$ 8,863
Due from other governments	3,398,606	82,587	3,481,193
<b>Total</b>	<b>\$ 3,407,469</b>	<b>\$ 82,587</b>	<b>\$ 3,490,056</b>

### 6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated -				
Land	\$ 46,749	\$ -	\$ -	\$ 46,749
Capital assets being depreciated:				
Buildings and improvements	42,562,433	42,125	-	42,604,558
Vehicles	219,497	-	-	219,497
Furniture and equipment	2,642,202	67,691	-	2,709,893
Total capital assets being depreciated	45,424,132	109,816	-	45,533,948
Less accumulated depreciation for:				
Buildings and improvements	(10,675,571)	(916,920)	-	(11,592,491)
Vehicles	(107,165)	(23,039)	-	(130,204)
Furniture and equipment	(2,152,879)	(80,705)	-	(2,233,584)
Total accumulated depreciation	(12,935,615)	(1,020,664)	-	(13,956,279)
Total capital assets being depreciated, net	32,488,517	(910,848)	-	31,577,669
<b>Governmental activities capital assets, net</b>	<b>\$ 32,535,266</b>	<b>\$ (910,848)</b>	<b>\$ -</b>	<b>\$ 31,624,418</b>

Depreciation expense of \$1,020,664 was charged to the function "unallocated depreciation".

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 7. PAYABLES

Accounts payable and accrued liabilities as of June 30, 2016 for the District's individual major funds and nonmajor fund are as follows:

	General Fund	Food Service	Total
<b>Fund Financial Statements:</b>			
Accounts payable	\$ 551,764	\$ 103,720	\$ 655,484
Accrued payroll and other liabilities	1,263,099	-	1,263,099
	<u>\$ 1,814,863</u>	<u>\$ 103,720</u>	1,918,583
<b>Government-wide Financial Statements -</b>			
Accrued interest on long-term debt			165,242
			<u>\$ 2,083,825</u>

### 8. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2016, interfund receivables and payables in the fund financial statements consisted of the following:

	Due From Other Funds	Due To Other Funds
General fund	\$ -	\$ 505,955
Food service fund	338,358	-
Debt service fund	167,597	-
	<u>\$ 505,955</u>	<u>\$ 505,955</u>

The District often reports interfund balances between many of its funds. These interfund balances result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 9. LONG-TERM DEBT

The following is a summary of bond, note, and compensated absence activity for the year ended June 30, 2016:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
General obligation					
bonds	\$ 26,960,000	\$ -	\$ (1,135,000)	\$ 25,825,000	\$ 1,145,000
Premium on bonds	1,323,701	-	(98,425)	1,225,276	98,425
Discount on bonds	(111,224)	-	6,178	(105,046)	(6,178)
School bond loan fund	10,973,090	1,289,091	-	12,262,181	-
Compensated absences	343,961	11,749	(55,678)	300,032	30,000
	<u>\$ 39,489,528</u>	<u>\$ 1,300,840</u>	<u>\$ (1,282,925)</u>	<u>\$ 39,507,443</u>	<u>\$ 1,267,247</u>

Compensated absences are typically liquidated by the general fund.

Bonds payable at June 30, 2016, 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%	<u>16,025,000</u>
	<u>\$ 25,825,000</u>

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

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

Year Ending June 30,	Principal	Interest	Total
2017	\$ 1,145,000	\$ 991,446	\$ 2,136,446
2018	1,155,000	957,096	2,112,096
2019	1,150,000	933,996	2,083,996
2020	1,180,000	876,496	2,056,496
2021	1,200,000	849,356	2,049,356
2022-2026	6,775,000	3,453,955	10,228,955
2027-2031	7,920,000	2,052,524	9,972,524
2032-2034	5,300,000	439,106	5,739,106
	<u>\$ 25,825,000</u>	<u>\$ 10,553,975</u>	<u>\$ 36,378,975</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, 2016, are as follows:

	Principal	Interest	Total
Beginning balance	\$ 9,705,227	\$ 1,267,863	\$ 10,973,090
Additions	909,247	379,844	1,289,091
Ending balance	<u>\$ 10,614,474</u>	<u>\$ 1,647,707</u>	<u>\$ 12,262,181</u>

## 10. SHORT-TERM NOTES PAYABLE

The District has two short-term state aid anticipation notes totaling \$1,004,819 of which \$142,943 is outstanding and included as a liability in the general fund at June 30, 2016. The notes carry interest rates of .760% and .640% and are due July 20, 2016.

Short-term debt activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
State aid notes	\$ 114,323	\$ 1,004,819	\$ (976,199)	\$ 142,943

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 11. COMMITMENTS AND CONTINGENCIES

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

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2016.

### 12. RISK MANAGEMENT

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

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

### 13. PROPERTY TAXES

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

### 14. RETIREMENT PLAN

#### *Plan Description*

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

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

The System’s financial statements are available at [www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr).

### *Benefits Provided*

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

### *Contributions and Funded Status*

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21-year period for the 2015 fiscal year.

The table below summarizes pension contribution rates in effect for fiscal year 2015.

Benefit Structure	Member Rates	Employer Rates
Basic	0.0% - 4.0%	22.52% - 23.07%
Member Investment Plan (MIP)	3.0% - 7.0%	22.52% - 23.07%
Pension Plus	3.0% - 6.4%	21.99%
Defined Contribution	0.0%	17.72% - 18.76%

The District's contribution to MPSERS under all pension plans for the year ended June 30, 2016 was \$2,184,302.



# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

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

At June 30, 2016, the District reported a liability of \$22,073,771 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the District's proportion was .09037%, which was an increase of .00542% from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$2,140,171. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 73,115	\$ (73,115)
Changes in assumptions	543,503	-	543,503
Net difference between projected and actual earnings on pension plan investments	112,669	-	112,669
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,023,798	3,019	1,020,779
	<u>1,679,970</u>	<u>76,134</u>	<u>1,603,836</u>
District contributions subsequent to the measurement date	1,952,609	-	1,952,609
<b>Total</b>	<u><u>\$ 3,632,579</u></u>	<u><u>\$ 76,134</u></u>	<u><u>\$ 3,556,445</u></u>

\$1,952,609 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2017	\$ 336,406
2018	336,406
2019	307,100
2020	<u>623,924</u>
<b>Total</b>	<u><u>\$ 1,603,836</u></u>

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### *Actuarial Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension liability in the September 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	8.0%
Pension Plus plan (hybrid)	7.5%
Projected salary increases	3.5% - 12.3%, including wage inflation at 3.5%
Cost of living adjustments	3% annual non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.90%	1.64%
Alternative investment pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.90%	0.09%
Real estate and infrastructure pools	10.00%	4.30%	0.43%
Absolute return pools	15.50%	6.00%	0.93%
Short-term investment pools	2.00%	0.00%	0.00%
	100.00%		5.90%
Inflation			2.10%
Investment rate of return			8.00%

### *Discount Rate*

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District's proportionate share of the net pension liability	\$ 28,458,750	\$ 22,073,771	\$ 16,690,973

### *Pension Plan Fiduciary Net Position*

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

### *Payable to the Pension Plan*

At June 30, 2016, the District reported a payable of \$279,079 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2016.

### *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 prefunded 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. Employer contributions range from 2.71% to 6.83% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% 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% employee contribution into a personal tax-deferred account, which is matched by an additional 2% 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% 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 were declared unconstitutional by the Supreme Court. Such amounts will be refunded by MPSERS to each District, including interest, and will then be refunded to individual employees.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

The District's contributions to MPSERS for other postemployment benefits amounted to \$780,655 for the year ended June 30, 2016.

### 15. SUBSEQUENT EVENT

On August 3, 2016, the District borrowed \$1,000,000 in State Aid Notes due on July 20, 2017 for cash flow purposes.

On August 3, 2016, the District issued \$20,675,000 in refunding bonds to advance refund \$9,415,000 of 2006 refunding bonds and \$12,257,385 of School Bond Loan Fund revolving loans.

### 16. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2016, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 46,749
Capital assets being depreciated, net	<u>31,577,669</u>
	<u>31,624,418</u>
Related debt:	
Total bonds payable	25,825,000
Net bond premium/discount	1,120,230
Deferred loss on advance refunding	<u>(1,643,020)</u>
	<u>25,302,210</u>
Net investment in capital assets	<u>\$ 6,322,208</u>



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## REQUIRED SUPPLEMENTARY INFORMATION

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Required Supplementary Information

### MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,	
	2015	2016
District's proportion of the net pension liability	\$ 18,711,495	\$ 22,073,771
District's proportionate share of the net pension liability	0.08495%	0.09037%
District's covered-employee payroll	7,239,068	7,567,437
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	258.48%	291.69%
Plan fiduciary net position as a percentage of the total pension liability	66.20%	63.17%

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

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



# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Required Supplementary Information

### MPSERS Cost-Sharing Multiple-Employer Plan

#### Schedule of District Contributions

	Year Ended June 30,	
	2015	2016
Contractually required contribution	\$ 1,624,143	\$ 2,184,302
Contributions in relation to the contractually required contribution	<u>(1,624,143)</u>	<u>(2,184,302)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 7,362,379	\$ 8,271,806
Contributions as a percentage of covered employee payroll	22.06%	26.41%

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

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## SINGLE AUDIT ACT COMPLIANCE

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

October 12, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 12, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Rehmann Robson LLC*

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# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2016

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
<b>U.S. Department of Agriculture</b>				
Child Nutrition Cluster:				
Cash Assistance:				
National School Breakfast Program	10.553	MDE	151970	\$ 183,060
National School Breakfast Program	10.553	MDE	161970	189,771
National School Lunch Program	10.555	MDE	151960	532,830
National School Lunch Program	10.555	MDE	161960	528,860
Summer Food Service Program	10.559	MDE	150900	37,745
Summer Food Service Program	10.559	MDE	151900	3,220
Summer Food Service Program	10.559	MDE	160900	5,583
Summer Food Service Program	10.559	MDE	161900	476
Non-Cash Assistance -				
Entitlement Commodities	10.555	MDE	n/a	60,749
Child and Adult Care Food Program	10.558	MDE	151920	323,603
Child and Adult Care Food Program	10.558	MDE	152010	13,602
Child and Adult Care Food Program	10.558	MDE	161920	365,233
Child and Adult Care Food Program	10.558	MDE	162010	15,456
<b>Total U.S. Department of Agriculture</b>				
<b>U.S. Department of Education</b>				
Title I Cluster:				
Title I, Part A - Improving Basic Programs	84.010	MDE	151530/1415	430,922
Title I, Part A - Improving Basic Programs	84.010	MDE	161530/1516	585,713
Safe and Supportive Schools	84.184	MDE	152790/SSS2015	100,400



Accrued (Unearned) Revenue at July 1, 2015	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Adjustments	Expenditures Year Ended June 30, 2016	Accrued (Unearned) Revenue at June 30, 2016
\$ 8,860	\$ 29,592	\$ 162,328	\$ -	\$ 20,732	\$ -
-	176,270	-	-	189,771	13,501
21,570	84,445	469,955	-	62,875	-
-	495,050	-	-	528,860	33,810
5,740	37,745	5,740	-	32,005	-
490	3,220	490	-	2,730	-
-	-	-	-	5,583	5,583
-	-	-	-	476	476
-	60,749	-	-	60,749	-
<u>36,660</u>	<u>887,071</u>	<u>638,513</u>	<u>-</u>	<u>903,781</u>	<u>53,370</u>
15,699	50,673	288,629	-	34,974	-
685	1,874	12,413	-	1,189	-
-	340,964	-	-	365,233	24,269
-	14,382	-	-	15,456	1,074
<u>16,384</u>	<u>407,893</u>	<u>301,042</u>	<u>-</u>	<u>416,852</u>	<u>25,343</u>
<u>53,044</u>	<u>1,294,964</u>	<u>939,555</u>	<u>-</u>	<u>1,320,633</u>	<u>78,713</u>
206,518	267,020	360,679	(9,741)	70,243	-
-	237,207	-	-	383,131	145,924
<u>206,518</u>	<u>504,227</u>	<u>360,679</u>	<u>(9,741)</u>	<u>453,374</u>	<u>145,924</u>
<u>18,947</u>	<u>18,939</u>	<u>94,837</u>	<u>(8)</u>	<u>-</u>	<u>-</u>

continued...

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2016

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
U.S. Department of Education (continued)				
Title II:				
Title II, Part A - Improving Teacher Quality	84.367	MDE	150520/1415	\$ 51,894
Title II, Part A - Improving Teacher Quality	84.367	MDE	160520/1516	51,728
Special Education Cluster:				
I.D.E.A. Flow-Through	84.027A	WCRESA	070460/1415	417,294
I.D.E.A. Flow-Through	84.027A	WCRESA	070460/1516	396,978
Preschool Incentive	84.173	WCRESA	070460/1415	17,253
Preschool Incentive	84.173	WCRESA	070460/1516	17,632

Total U.S. Department of Education

Total Federal Financial Assistance

See notes to schedule of expenditures of federal awards.

Accrued (Unearned) Revenue at July 1, 2015	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Adjustments	Expenditures Year Ended June 30, 2016	Accrued (Unearned) Revenue at June 30, 2016
\$ 14,853	\$ 11,001	\$ 48,266	\$ (3,852)	\$ -	\$ -
-	45,570	-	-	48,478	2,908
<u>14,853</u>	<u>56,571</u>	<u>48,266</u>	<u>(3,852)</u>	<u>48,478</u>	<u>2,908</u>
105,169	105,169	417,294	-	-	-
-	126,085	-	-	396,978	270,893
6,976	6,976	17,253	-	-	-
-	4,468	-	-	17,632	13,164
<u>112,145</u>	<u>242,698</u>	<u>434,547</u>	<u>-</u>	<u>414,610</u>	<u>284,057</u>
<u>352,463</u>	<u>822,435</u>	<u>938,329</u>	<u>(13,601)</u>	<u>916,462</u>	<u>432,889</u>
<u>\$ 405,507</u>	<u>\$ 2,117,399</u>	<u>\$ 1,877,884</u>	<u>\$ (13,601)</u>	<u>\$ 2,237,095</u>	<u>\$ 511,602</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 School District of the City of Harper Woods (the "District") under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

### 3. 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:

Expenditures reported in the schedule of expenditures of federal awards	\$	2,237,095
Adjustments to prior year federal expenditures		(13,601)
Federal sources reported in the financial statements	\$	<u>2,223,494</u>

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to Schedule of Expenditures of Federal Awards

### 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



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**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 12, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 12, 2016.

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2016-001 that we consider to be a significant deficiency.

**Compliance and Other Matters**

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

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

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

**Purpose of this Report**

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





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

October 12, 2016

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 *Harper Woods School District* (the "District") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2016. The District's major federal program is 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 the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### *Opinion on Each of the 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 its major federal program for the year ended June 30, 2016.

### *Other Matters*

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-002 and 2016-003. Our opinion on each major federal program is not modified with respect to these matters.

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

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

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

*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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-002 and 2016-003 that we consider to be significant deficiencies.

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

*Purpose of this Report*

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

*Rehmann Lobson 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, 2016

### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?            yes   X   no

Significant deficiency(ies) identified?   X   yes            none reported

Noncompliance material to financial statements noted?            yes   X   no

#### Federal Awards

Internal control over major programs:

Material weakness(es) identified?            yes   X   no

Significant deficiency(ies) identified?   X   yes            none reported

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

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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion</u>
10.CNC	Child Nutrition Cluster	Unmodified

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

Auditee qualified as low-risk auditee?            yes   X   no

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2016

### SECTION II - FINANCIAL STATEMENT FINDINGS

#### 2016-001 - Significant Audit Adjustment

**Finding Type.** Significant Deficiency in Internal Control over Financial Reporting.

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

**Condition.** During our audit, we identified and proposed a significant adjustment (which was 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 receivables and revenue on the District's books and records.

**Effect.** As a result of this condition, accounts receivable and federal revenue were overstated by \$70,242.

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

**Corrective Action.** Management agrees with the adjustment proposed by its auditors, and it has been posted in the District's records.

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

**Estimated Completion Date.** August 16, 2016

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2016

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

#### 2016-002 - Allowable Costs/Cost Principles - Payroll Charges

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

**Federal program(s)**

*U.S. Department of Agriculture:*

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

**Criteria.** Per the Uniform Guidance, the District is required to support payroll charges to federal cost objectives with adequate documentation including support for the approved wage rates for individuals paid to those individuals.

**Condition.** The District appears to have paid an incorrect wage rate to one employee out of the 40 employees selected for testing.

**Cause.** This condition appears to be the result of a manual data entry error by the District as a part the payroll process.

**Effect.** As a result of this condition, the expenditures charged for payroll exceeded approved amounts for one employee.

**Questioned Costs.** No costs have been questioned as a result of this finding.

**Recommendation.** We recommend the District review its internal controls over payroll reporting to ensure that all employees are paid appropriate wage rates as supported by board approved rates and employee contracts.

**View of Responsible Officials.** The district is currently working with Wayne RESA, who oversees the accounting program, to make the hourly rate a fixed, unadjustable cell. Until that happens, the district payroll staff will continue to review all offsite submitted payroll information for timeliness and accuracy.

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

**Estimated Completion Date.** August 16, 2016

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2016

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

#### 2016-003 - Special Tests and Provisions - Food Service Fund Balance

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

**Federal program(s)**

*U.S. Department of Agriculture:*

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

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

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

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

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

**Questioned Costs.** No costs have been questioned as a result of this finding.

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

**View of Responsible Officials.** James Dennis, CFO, will work in conjunction with the Chartwell on site manager to review payroll, supplies and equipment needs at the district's three buildings.

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

**Estimated Completion Date.** September 30, 2016





# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2016

### Finding 2015-001 - Significant Audit Adjustment

During our audit, we identified and proposed a significant adjustment (which was approved and posted by management) to adjust the District's general ledger to the appropriate balances. This finding was not adequately resolved. See finding 2016-001 in the current year Schedule of Findings and Questioned Costs.

### Finding 2015-002 - Allowable Costs/Cost Principles - Payroll Documentation

The District was unable to provide time and effort documentation in accordance with A-87 for one employee out of the 44 employees selected for testing. This finding was adequately resolved.

### Finding 2015-003 - Procurement, Suspension and Debarment

Four out of five contract files tested did not have the required bid documentation. Also, four out of five files selected did not have documentation of the District verifying that the vendor is not suspended or debarred. This finding was adequately resolved.

### Finding 2015-004 - Allowable Costs/Cost Principles - Indirect Costs

The District charged certain costs to IDEA based only on remaining budgeted amounts for indirect costs. This finding was adequately resolved.



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## CORRECTIVE ACTION PLAN

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Pursuant to Federal Regulations, Uniform Administrative Requirements section 200.511, the following are the findings as noted in the School District of the City of Harper Woods Single Audit report for the year ending June 30, 2016 and the corrective actions to be completed.

**Finding: 2016-001 – Significant Audit Adjustments**

***Auditor Description of Condition and Effect:*** During our audit, we identified and proposed a significant adjustment (which was approved and posted by management) to adjust the District's general ledger to the appropriate balances. This condition was the result of oversights in the process of properly recording receivables and revenue on the District's books and records. As a result of this condition, accounts receivable and federal revenue were overstated by \$70,242.

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

***Corrective Action:*** The referenced finding was simply due to a clerical error. Management agrees with the adjustment proposed by the auditors, and it has been posted in the District's record. All documentation will be subjected to targeted review to ensure accuracy and proper coding prior to submission for reimbursement.

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

***Completion Date:*** August 17, 2016

**Finding: 2016-002 – Allowable Costs/Cost Principles – Payroll Charges**

***Auditor Description of Condition and Effect:*** The District appears to have paid an incorrect wage rate to one employee out of the 40 employees selected for testing. This condition appears to be the result of a manual data entry error by the District as part of the payroll process. As a result of this condition, the expenditures charged for payroll exceeded approved amounts for one employee.

***Auditor Recommendation:*** The auditors recommended the District review its internal control over payroll reporting to ensure that all employees are paid appropriate wage rates as supported by Board approved rates and employee contracts.

***Corrective Action:*** Hourly employees' time is entered at the building level by the building secretaries and reviewed for accuracy by the payroll supervisor and Board Office clerk. The need for accuracy and recording of correct hours and wages has been reviewed with both staff members to ensure a more concentrated effort in their review. The additional monies paid to the cited employee was deducted from her wages paid 9/30/16. In addition, the District is working with the regional ISD to make the hourly wage field on the data entry screen a locked cell to prevent any further erroneous clerical entries.

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

***Completion Date:*** August 17, 2016 for staff review, September 30, 2016 for employee pay adjustment and corrective action in process as it relates to the coordinated effort with the local ISD.

***Providing all learners the tools needed to succeed in an ever changing world.***

It is the policy of the School District of the City of Harper Woods that no discriminatory practices based on gender, race, religion, color, age, national origin, disability, height, weight, or any other status covered by federal, state or local law be allowed in providing instructional opportunities, programs, services, job placement assistance, employment or in policies governing student conduct and attendance. Any person suspecting a discriminatory practice should contact the Secondary School Principal at the School District of the City of Harper Woods, 20225 Beaconsfield, Harper Woods, MI 48225 or call (313) 245-3000.



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**THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS**  
20225 BEACONSFIELD, HARPER WOODS, MI 48225-1395  
313-245-3016 Tel. ~ 313-839-1249 Fax

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Office of the  
Chief Financial  
Officer

Pursuant to Federal Regulations, Uniform Administrative Requirements section 200.511, the following are the findings as noted in the School District of the City of Harper Woods Single Audit report for the year ending June 30, 2016 and the corrective actions to be completed.

**Finding: 2016-003 – Special Tests and Provisions – Food Service Fund Balance**

***Auditor Description of Condition and Effect:*** In the review of the District's food service fund balance, it was noted the District's fund balance exceeded three months' average of operating expenses. This condition appears to be the result of the District's increased food service revenue as a result of the Community Eligibility Option, and the conservative budgeting of expenditures by management. As a result of this condition, the District did not fully comply with USDA fund balance requirements.

***Auditor Recommendation:*** The auditors recommended the District review its budgeting of expenditures for the food service fund to ensure that the fund balance is reduced to an appropriate level.

***Corrective Action:*** The District CFO will work in conjunction with the Chartwell (food service provider) on-site manager to review payroll, inventory, supplies and equipment needs at the District's three buildings to spend to mandated levels and at the same time in an efficient way to maximize service and provide our students with healthy meals and snacks.

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

***Completion Date:*** Corrective action in process

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