

The School District of the City of
Harper Woods

Year Ended
June 30, 2020

Financial
Statements &
Single Audit Act
Compliance

Rehmann

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

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INDEPENDENT AUDITORS' REPORT

December 1, 2020

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, 2020, 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.

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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, 2020, and the respective changes in financial position thereof and the budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2020, 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.

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

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, 2020. 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 debt service fund, with any other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the District acts solely as an agent for the benefit of students.

Overview of the Financial Statements

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

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

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

The statement of net position and the statement of activities report the governmental activities for the District, which encompass all of the District's services, including instruction, support services, community services, food services and athletics. 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:

	Net Position	
	2020	2019
Assets		
Current and other assets	\$ 7,325,090	\$ 6,537,611
Capital assets, net	31,506,901	31,746,429
Total assets	<u>38,831,991</u>	<u>38,284,040</u>
Deferred outflows of resources	<u>18,394,664</u>	<u>14,433,007</u>
Liabilities		
Other liabilities	51,351,547	43,977,705
Long-term debt	38,563,062	38,962,134
Total liabilities	<u>89,914,609</u>	<u>82,939,839</u>
Deferred inflows of resources	<u>4,844,216</u>	<u>4,286,405</u>
Net position		
Net investment in capital assets	9,458,091	8,397,595
Restricted	623,638	472,691
Unrestricted (deficit)	(47,613,899)	(43,379,483)
Total net position (deficit)	<u><u>\$(37,532,170)</u></u>	<u><u>\$(34,509,197)</u></u>

The District had negative net position of \$37,532,170 at June 30, 2020. The district had net investment in capital assets of \$9,458,091, 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 \$623,638 is restricted. The remaining balance is unrestricted net position, which has a negative balance mainly due to the recording of the District's portion of the Michigan Public School Employees Retirement System (MPSERS) net pension and other postemployment benefit liabilities and related amounts.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

The results of this year's operations for the District as a whole are reported in the statement of activities. Below is a summary of the District's changes in net position for the years ended June 30, 2020 and 2019.

District's Changes in Net Position

	Change in Net Position	
	2020	2019
Revenue		
Program revenue:		
Charges for services	\$ 117,122	\$ 193,293
Operating grants and contributions	6,224,050	5,245,315
General revenue:		
Property taxes	2,811,354	2,599,191
Unrestricted state aid	22,757,719	21,491,600
Other	1,808,186	1,659,949
Total revenue	33,718,431	31,189,348
Function/Program Expenses		
Instruction	21,011,197	19,120,117
Support services	11,304,087	11,102,571
Community services	162,334	195,733
Food services	1,632,898	2,036,981
Athletics	406,543	386,370
Interest on long-term debt	1,131,604	1,146,331
Unallocated depreciation	1,092,741	956,374
Total expenses	36,741,404	34,944,477
Change in net position	(3,022,973)	(3,755,129)
Net position, beginning of year	(34,509,197)	(30,754,068)
Net position, end of year	\$(37,532,170)	\$(34,509,197)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$36,741,404. Certain activities were partially funded from those who benefited from the programs (\$117,122) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,224,050). The District paid for the remaining "public benefit" portion of our governmental activities with \$2,811,354 in taxes, \$22,757,719 in state foundation allowance and special education funding, and with our other revenues, i.e., interest and general entitlements.

The District experienced a decrease in net position of \$3,022,973. The primary reason for the change in net position is an increase of \$1,796,927 in expenses, mainly in the cost of finalizing the opening of the CCI Building, purchase of technology equipment at the 2 elementary schools and the cost of an additional 78 FTE's from our third party alternate school offset by an increase in state aid from the same third party alternate school (district receives 25% of the per pupil state aid, the alternate school get 75%).

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 SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

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 2020, the governmental funds reported a combined fund balance of \$1,907,247 which is an increase of \$454,366 in comparison with the prior year. The primary reasons for the change are as follows:

In the general fund, the principal operating fund, the fund balance increased \$62,422 to \$1,098,229. This change is compared to the decrease of \$2,486,237 in the prior year. Part of this increase in fund balance was attributable to increased local tax revenue and an additional 78 FTE's from our third party alternate school offset by an increase in state aid from the same third party alternate school (district receives 25% of the per pupil state aid, the alternate school get 75%).

The debt service fund shows a fund balance increase of \$289,144 (from a deficit fund balance of \$55,617 to a fund balance of \$233,527). The millage rate is 13.0 mills (funding a combined debt service fund for the 2006, 2012, 2016 and 2019 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 set at 13.0 mills, and will remain the same for several years, until the State School Bond Loan Fund is fully repaid.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. Two adjustments to the 2019-2020 budget were adopted on January 21, 2020 and May 19, 2020. The significant changes between the original adopted budget and the final amended budget include a 173 FTE reduction, an increase of \$20 per FTE in State Aid, and additional Title I, Title II, Title IV, IDEA, and GSRP funding. Changes in expenditures included additional custodians, technology equipment, CCI building costs, virtual Spanish/Mandarin classes, new elementary reading and writing program, and building subs to fill teacher vacancies partially offset by unfilled full time teacher wages and benefits.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2020, the District had \$31,506,901 (net of accumulated depreciation) invested in a broad range of capital assets, including land, buildings and improvements, vehicles and furniture and equipment. Significant additions during the year include purchasing the necessary equipment to have each of the 5 CTE programs properly open in the new College and Career Institute building during the 2019-20 academic year and the new middle school building was equipped with the required kitchen appliances to adequately serve the District's students. Additional information on the District's capital assets can be found in note 6 in the notes to the financial statements.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

	District's Capital Assets (Net of Depreciation)	
	2020	2019
Land	\$ 46,749	\$ 46,749
Construction in process	-	259,893
Buildings and improvements	31,009,923	30,842,549
Vehicles	84,450	70,767
Furniture and equipment	365,779	526,471
Total capital assets, net	\$31,506,901	\$ 31,746,429

Long-term Debt

At the end of this 2019-2020 fiscal year, the District had \$33,190,000 in bonds outstanding versus \$30,930,000 in the previous year. The District also had obligations for the school bond loan fund, installment purchase agreements and compensated absences. See summary of the District's debt below:

	Long-term Debt	
	2020	2019
General obligation bonds	\$33,190,000	\$ 30,930,000
Notes from direct borrowings and direct placements	1,412,000	1,488,000
Bond premium	1,554,324	1,681,128
School bond loan fund	2,174,154	4,574,178
Compensated absences	232,584	288,828
Total	\$38,563,062	\$ 38,962,134

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 30, 2020 and therefore below the statutorily imposed limit.

More detailed information about the long-term liabilities is included in Note 9 of the notes to the financial statements.

Economic Factors and Next Year's Budget and Rates

Our elected officials and administration consider many factors when setting the District's 2020-21 fiscal year budget. The 2020-21 fiscal year budget was adopted by the Board of Education in June 2020 as follows:

Estimated July 1, 2020 general fund balance	\$ 1,320,746
Revenue	<u>27,953,905</u>
Total available to appropriate	29,274,651
Expenditures	<u>27,952,046</u>
 Estimated June 30, 2021 general fund balance	 <u>\$ 1,322,605</u>

The actual July 1, 2020 general fund balance is \$222,517 lower than budgeted. The July 1, 2020 fund balance is 3.6% of the 2019-2020 general fund expenditures which were \$30,203,631.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

The budget for the year ended June 30, 2021 was adopted in June 2020 when there was a high degree of uncertainty related to the funding and operations for districts in the State due to the novel coronavirus outbreak (COVID-19). Subsequent to year end, additional funding has been provided by the State through various restricted federal grant programs. Despite this, there continues to be a high degree of uncertainty regarding potential changes to state and federal funding. In addition, the District is continuously evaluating the impacts of the pandemic as it determines the appropriate methods to deliver education to students in a safe environment. These factors will have a significant impact on the operational and financial performance of the District.

One of the most important factors affecting the budget is our student count and foundation allowance from the State. State revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2020-2021 fiscal year is 10 percent and 90 percent of the February 2020 and October 2020 student counts, respectively. The 2020-2021 budget was adopted in June 2020, based on an estimate of blended students of 2,560 including 900 school of choice students (275 in K-12 and 625 at Diploma Success, Virtual Academy and Dropout Recovery). The budget is based on 1895 in K-12, 40 at Harper Academy, 175 at the alternate high school, 200 at the cyber school and 250 in the credit recovery program. Approximately 80 percent of the total general fund revenue is from the foundation allowance including the 18 mills local tax portion and the State Aid portion under the State Aid Act sections 22(a), 22(b), and the Special Education section 51(a). Under State law, the District cannot assess 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 appropriations to school districts. The foundation grant per student for the district in 2019-2020 was \$8,529. The budget adopted in June 2020 for the 2020-2021 fiscal year assumed no increase in the foundation allowance.

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

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Statement of Net Position

June 30, 2020

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,751,074
Receivables	5,034,582
Inventories	44,432
Prepaid items	495,002
Capital assets, not being depreciated	46,749
Capital assets being depreciated, net	<u>31,460,152</u>
Total assets	<u>38,831,991</u>
Deferred outflows of resources	
Deferred charge on refunding	992,514
Deferred pension amounts	13,332,655
Deferred other postemployment benefit amounts	<u>4,069,495</u>
Total deferred outflows of resources	<u>18,394,664</u>
Liabilities	
Accounts payable and accrued liabilities	5,284,851
Short-term notes payable	318,372
Long-term liabilities:	
Due within one year	2,747,104
Due in more than one year	35,815,958
Net pension liability (due in more than one year)	37,166,296
Net other postemployment benefits liability (due in more than one year)	<u>8,582,028</u>
Total liabilities	<u>89,914,609</u>
Deferred inflows of resources	
Deferred pension amounts	1,489,294
Deferred other postemployment benefit amounts	<u>3,354,922</u>
Total deferred inflows of resources	<u>4,844,216</u>
Net position	
Net investment in capital assets	9,458,091
Restricted for:	
Food service	575,491
Debt service	48,147
Unrestricted (deficit)	<u>(47,613,899)</u>
Total net position	<u><u>\$ (37,532,170)</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, 2020

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 21,011,197	\$ -	\$ 4,525,006	\$ (16,486,191)
Support services	11,304,087	-	-	(11,304,087)
Community services	162,334	37,832	-	(124,502)
Food services	1,632,898	60,065	1,699,044	126,211
Athletics	406,543	19,225	-	(387,318)
Interest on long-term debt	1,131,604	-	-	(1,131,604)
Unallocated depreciation	1,092,741	-	-	(1,092,741)
Total	\$ 36,741,404	\$ 117,122	\$ 6,224,050	(30,400,232)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,179,454
Property taxes, levied for debt services				1,631,900
Unrestricted state aid				22,757,719
Grants and contributions not restricted to specific programs				1,737,249
Unrestricted investment earnings				70,937
Total general revenues				27,377,259
Change in net position				(3,022,973)
Net position, beginning of year				(34,509,197)
Net position, end of year				\$ (37,532,170)

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, 2020

	General	Debt Service	Nonmajor Food Service Special Revenue	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,687,722	\$ 291	\$ 63,061	\$ 1,751,074
Accounts receivable	11,012	-	-	11,012
Due from other governments	4,962,584	-	60,986	5,023,570
Due from other funds	-	233,236	432,321	665,557
Inventories	-	-	44,432	44,432
Prepaid items	450,002	-	45,000	495,002
Total assets	\$ 7,111,320	\$ 233,527	\$ 645,800	\$ 7,990,647
Liabilities				
Accounts payable	\$ 3,116,268	\$ -	\$ 70,309	\$ 3,186,577
Accrued payroll and other liabilities	1,912,894	-	-	1,912,894
Due to other funds	665,557	-	-	665,557
Short-term notes payable	318,372	-	-	318,372
Total liabilities	6,013,091	-	70,309	6,083,400
Fund balances				
Nonspendable for inventories	-	-	44,432	44,432
Nonspendable for prepaid items	450,002	-	45,000	495,002
Restricted for debt service	-	233,527	-	233,527
Restricted for food service	-	-	486,059	486,059
Unassigned	648,227	-	-	648,227
Total fund balances	1,098,229	233,527	575,491	1,907,247
Total liabilities and fund balances	\$ 7,111,320	\$ 233,527	\$ 645,800	\$ 7,990,647

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2020

Fund balances - total governmental funds \$ 1,907,247

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	47,092,438
Accumulated depreciation	(15,632,286)

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, installment purchase agreement and school bond loan fund	(36,776,154)
Unamortized premium	(1,554,324)
Deferred charge on refunding	992,514
Accrued interest on bonds payable	(185,380)
Compensated absences	(232,584)

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

Net pension liability	(37,166,296)
Net other postemployment benefit liability	(8,582,028)
Deferred outflows related to the net pension liability	13,332,655
Deferred inflows related to the net pension liability	(1,489,294)
Deferred outflows related to the net other postemployment benefit liability	4,069,495
Deferred inflows related to the net other postemployment benefit liability	(3,354,922)

Net position of governmental activities \$ (37,532,170)

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, 2020

	General	Debt Service	Nonmajor Food Service Special Revenue	Total Governmental Funds
Revenues				
Local sources	\$ 3,044,622	\$ 1,631,975	\$ 60,065	\$ 4,736,662
State sources	25,675,704	61,294	70,195	25,807,193
Federal sources	1,545,727	-	1,628,849	3,174,576
Total revenues	30,266,053	1,693,269	1,759,109	33,718,431
Expenditures				
Current:				
Instruction	18,750,267	-	-	18,750,267
Support services	9,806,882	-	-	9,806,882
Community services	154,457	-	-	154,457
Food services	-	-	1,623,239	1,623,239
Athletics	373,714	-	-	373,714
Debt service:				
Principal	76,000	2,475,000	-	2,551,000
Interest and fiscal charges	54,684	1,088,405	-	1,143,089
Bond issuance costs	-	98,500	-	98,500
Capital outlay and maintenance	987,627	-	33,070	1,020,697
Total expenditures	30,203,631	3,661,905	1,656,309	35,521,845
Revenues over (under) expenditures	62,422	(1,968,636)	102,800	(1,803,414)
Other financing sources (uses)				
Issuance of long-term debt	-	6,894,280	-	6,894,280
Payment to refund school loan revolving fund	-	(4,636,500)	-	(4,636,500)
Total other financing sources (uses)	-	2,257,780	-	2,257,780
Net change in fund balances	62,422	289,144	102,800	454,366
Fund balances, beginning of year	1,035,807	(55,617)	472,691	1,452,881
Fund balances, end of year	\$ 1,098,229	\$ 233,527	\$ 575,491	\$ 1,907,247

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, 2020

Net change in fund balances - total governmental funds	\$ 454,366
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 assets purchased/constructed	1,020,697
Depreciation expense	(1,092,741)
Loss on disposal of capital assets	(167,484)
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 debt	2,551,000
Proceeds from issuance of long-term debt	(6,894,280)
Payment to refund school loan revolving fund	4,636,500
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	(3,848,213)
Change in net other postemployment benefit liability and related deferred amounts	306,437
Change in accrued interest payable on bonds	(89,523)
Amortization of bond premiums	126,804
Amortization of deferred charge on refunding	(82,780)
Change in the accrual for compensated absences	56,244
Change in net position of governmental activities	<u>\$ (3,022,973)</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, 2020

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local source	\$ 2,286,500	\$ 2,286,500	\$ 3,044,622	\$ 758,122
State sources	24,633,612	25,497,517	25,675,704	178,187
Federal sources	1,150,000	1,306,000	1,545,727	239,727
Total revenues	28,070,112	29,090,017	30,266,053	1,176,036
Expenditures				
Instruction:				
Basic programs	14,424,133	14,815,978	15,114,101	298,123
Added needs	3,578,214	3,481,214	3,636,166	154,952
Total instruction	18,002,347	18,297,192	18,750,267	453,075
Support services:				
Pupil	1,438,381	1,393,380	1,514,713	121,333
Instructional staff	722,916	906,367	835,970	(70,397)
General administration	833,646	833,644	762,941	(70,703)
School administration	1,680,278	1,680,278	1,736,248	55,970
Business	728,298	803,298	816,750	13,452
Operations and maintenance	2,842,344	2,836,344	3,432,162	595,818
Pupil transportation services	591,356	591,356	531,342	(60,014)
Central services	104,000	164,000	176,756	12,756
Total support services	8,941,219	9,208,667	9,806,882	598,215
Community services	198,100	198,099	154,457	(43,642)
Athletics	436,134	401,134	373,714	(27,420)
Debt service:				
Principal	-	-	76,000	76,000
Interest and fiscal charges	-	-	54,684	54,684
Total debt service	-	-	130,684	130,684
Capital outlay and maintenance	-	700,000	987,627	287,627
Total expenditures	27,577,800	28,805,092	30,203,631	1,398,539
Net change in fund balance	492,312	284,925	62,422	(222,503)
Fund balance, beginning of year	1,035,807	1,035,807	1,035,807	-
Fund balance, end of year	\$ 1,528,119	\$ 1,320,732	\$ 1,098,229	\$ (222,503)

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, 2020

	Student Activities Agency Fund
Assets	
Cash and cash equivalents	\$ 123,145
Liabilities	
Due to student groups	\$ 123,145

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

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NOTES TO THE FINANCIAL STATEMENTS

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

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

Government-wide and fund financial statements

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

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

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

Measurement focus, basis of accounting, and financial statement presentation

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

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

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

The District reports the following major governmental funds:

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

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

Additionally, the District reports the following fund types:

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

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

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

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

Deposits and investments

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

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

Receivables and payables

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

Inventories and prepaid items

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

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

Capital assets

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

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

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

Deferred outflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows for the charge on refunding. This amount represents the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also reports deferred outflows of resources related to the net pension liability and the net other postemployment benefit liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

Compensated absences

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

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

Deferred inflows of resources

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

Long-term obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight-line 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. At year end, the District was not in compliance with this policy.

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

Pensions and other postemployment benefits

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

2. BUDGETARY INFORMATION

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

3. ACCOUNTABILITY AND COMPLIANCE

Excess of Expenditures Over Appropriations

During the year ended June 30, 2020, the District incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	Final Budget	Actual	Variance
General fund			
Instruction:			
Basic programs	\$ 14,815,978	\$ 15,114,101	\$ 298,123
Added needs	3,481,214	3,636,166	154,952
Support services:			
Pupil	1,393,380	1,514,713	121,333
School administration	1,680,278	1,736,248	55,970
Business	803,298	816,750	13,452
Operations and maintenance	2,836,344	3,432,162	595,818
Central services	164,000	176,756	12,756
Debt service	-	130,684	130,684
Capital outlay and maintenance	700,000	987,627	287,627

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:

Statement of Net Position	
Cash and cash equivalents	\$ 1,751,074
Statement of Fiduciary Assets and Liabilities	
Cash and cash equivalents	<u>123,145</u>
	<u><u>\$ 1,874,219</u></u>

These balances are categorized for note disclosures as follows:

Bank deposits (checking/savings accounts)	\$ 33,876
MILAF investment funds	1,836,851
Cash on hand	<u>3,492</u>
	<u><u>\$ 1,874,219</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.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

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

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

Deposit and Investment Risk

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

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

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, all of the District's bank balance of \$34,093 was insured.

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

5. RECEIVABLES

Receivables as of June 30, 2020 for the District's individual major funds and nonmajor fund are as follows:

	General Fund	Nonmajor Fund	Total
Receivables:			
Accounts	\$ 11,012	\$ -	\$ 11,012
Due from other governments	4,962,584	60,986	5,023,570
Total	<u>\$ 4,973,596</u>	<u>\$ 60,986</u>	<u>\$ 5,034,582</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 46,749	\$ -	\$ -	\$ -	\$ 46,749
Construction in progress	259,893	-	-	(259,893)	-
Total capital assets not being depreciated	306,642	-	-	(259,893)	46,749
Capital assets being depreciated:					
Buildings and improvements	44,872,414	987,627	(142,000)	259,893	45,977,934
Furniture and equipment	3,036,445	-	(2,194,279)	-	842,166
Vehicles	256,258	33,070	(16,990)	-	272,338
	48,165,117	1,020,697	(2,353,269)	259,893	47,092,438
Less accumulated depreciation for:					
Buildings and improvements	(14,029,865)	(1,019,110)	80,964	-	(14,968,011)
Furniture and equipment	(2,509,974)	(55,944)	2,089,531	-	(476,387)
Vehicles	(185,491)	(17,687)	15,290	-	(187,888)
	(16,725,330)	(1,092,741)	2,185,785	-	(15,632,286)
Total capital assets being depreciated, net	31,439,787	(72,044)	(167,484)	259,893	31,460,152
Governmental activities capital assets, net	\$ 31,746,429	\$ (72,044)	\$ (167,484)	\$ -	\$ 31,506,901

Depreciation expense of \$1,092,741 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, 2020 for the District's individual major funds and nonmajor fund are as follows:

	General Fund	Nonmajor Fund	Total
Fund Financial Statements:			
Accounts payable	\$ 3,116,268	\$ 70,309	\$ 3,186,577
Accrued payroll and other liabilities	1,912,894	-	1,912,894
	<u>\$ 5,029,162</u>	<u>\$ 70,309</u>	5,099,471
Government-wide Financial Statements -			
Accrued interest on long-term debt			<u>185,380</u>
			<u>\$ 5,284,851</u>

8. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2020, interfund receivables and payables in the fund financial statements consisted of the following:

	Due From Other Funds	Due To Other Funds
General fund	\$ -	\$ 665,557
Debt service fund	233,236	-
Nonmajor governmental fund	432,321	-
	<u>\$ 665,557</u>	<u>\$ 665,557</u>

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

9. LONG-TERM DEBT

The following is a summary of bond, loan, and compensated absence activity for the year ended June 30, 2020:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	\$ 30,930,000	\$ 4,735,000	\$ (2,475,000)	\$ 33,190,000	\$ 2,520,000
Notes from direct borrowings and direct placements	1,488,000	-	(76,000)	1,412,000	77,000
Subtotal	32,418,000	4,735,000	(2,551,000)	34,602,000	2,597,000
Premium on bonds	1,681,128	-	(126,804)	1,554,324	126,804
School bond loan fund	4,574,178	2,236,476	(4,636,500)	2,174,154	-
Compensated absences	288,828	26,885	(83,129)	232,584	23,300
	<u>\$ 38,962,134</u>	<u>\$ 6,998,361</u>	<u>\$ (7,397,433)</u>	<u>\$ 38,563,062</u>	<u>\$ 2,747,104</u>

Compensated absences are typically liquidated by the general fund.

Bonds payable at June 30, 2020, are comprised of the following issues:

General Obligation Bonds:

\$9,950,000 2006 Refunding Bonds, due in annual installments of \$25,000 to \$65,000 through year 2028; plus interest at 4.0%	\$ 385,000
\$18,730,000 2012 Refunding Bonds, due in annual installments of \$165,000 to \$1,445,000 through year 2029; plus interest at 2.0% to 5.0%	11,395,000
\$8,295,000 2016 Refunding Bonds, due in annual installments of \$605,000 to \$1,545,000 through year 2034; plus interest at 4.0%	8,295,000
\$12,380,000 2016 Refunding Bonds (refunded School Bond Loan Fund), due in annual installments of \$250,000 to \$1,510,000 through year 2026; plus interest at 1.1% to 2.75%	8,380,000
\$4,735,000 2019 Refunding Bonds (refunded School Bond Loan Fund), due in annual installments of \$1,000,000 to \$1,335,000 through year 2030; plus interest at 2.505% to 2.655%	<u>4,735,000</u>
Total general obligation bonds	<u><u>\$ 33,190,000</u></u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

Notes from Direct Borrowings and Direct Placements

\$1,488,000 Installment purchase agreement - due in annual installments of \$76,000 to \$128,000 plus interest at 3.68%, payable annually, through September 6, 2033

\$ 1,412,000

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

Year Ending June 30,	Principal	Interest	Total
2021	\$ 2,520,000	\$ 1,112,274	\$ 3,632,274
2022	2,580,000	1,055,514	3,635,514
2023	2,665,000	966,000	3,631,000
2024	2,765,000	870,020	3,635,020
2025	2,870,000	768,148	3,638,148
2026-2030	10,765,000	2,552,310	13,317,310
2031-2034	9,025,000	618,200	9,643,200
	<u>\$ 33,190,000</u>	<u>\$ 7,942,466</u>	<u>\$ 41,132,466</u>

Annual debt service requirements to maturity for notes from direct borrowings and direct placements are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	\$ 77,000	\$ 51,962	\$ 128,962
2022	80,000	49,128	129,128
2023	83,000	46,184	129,184
2024	87,000	43,130	130,130
2025	90,000	39,928	129,928
2026-2030	510,000	147,016	657,016
2031-2034	485,000	45,485	530,485
	<u>\$ 1,412,000</u>	<u>\$ 422,833</u>	<u>\$ 1,834,833</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

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, 2020, are as follows:

	Principal	Interest	Total
Beginning balance	\$ 4,444,309	\$ 129,869	\$ 4,574,178
Additions	2,159,280	77,196	2,236,476
Refunding	(4,442,168)	(194,332)	(4,636,500)
Ending balance	<u>\$ 2,161,421</u>	<u>\$ 12,733</u>	<u>\$ 2,174,154</u>

10. SHORT-TERM NOTES PAYABLE

During the year, the District financed certain of its operations through the issuance of State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly are recorded as liabilities of the respective funds from which they were issued. The District borrowed \$2,228,600 on August 20, 2019 with an interest rate of 1.30%. This note is due on August 20, 2020.

Short-term debt activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
State aid notes	<u>\$ 261,643</u>	<u>\$ 2,228,600</u>	<u>\$ (2,171,871)</u>	<u>\$ 318,372</u>

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.

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.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

13. PROPERTY TAXES

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

14. RETIREMENT PLAN

Plan Description

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

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

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

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

Pension Benefits Provided

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

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

Participants in the defined contribution plan consist of one of the following: (1) members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan; (2) members who elected to transfer from the defined benefit plan to the defined contribution plan under the reform (P.A. 300) of 2012; or (3) members who worked for a Michigan public school on or after February 1, 2018 and did not elect participation in the Pension Plus 2 plan. Members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan receive a 100% match of the member contribution rate up to a maximum of 3% based on the member's gross earnings. Additionally, there is a mandatory employer contribution of 4% of the member's gross earnings for MPSERS members who elected to convert from a Basic or MIP benefit plan to the defined contribution benefit plan. Members electing the Pension Plus or Pension Plus 2 benefit plan receive a 50% match of the member's contribution percent up to a maximum of 1% based on the member's gross earnings. Effective October 1, 2017, there is a mandatory employer contribution of 4% of the member's gross earnings for members who elect the Defined Contribution benefit plan. The employer must match 100% of the employee contribution for any member who elected the Personal Healthcare Fund up to a maximum of 2% of the member's gross earnings. For all members with a Personal Health Care Fund (PHF), the first 2% of DC contributions must go into the PHF and must be matched 100% by the employer.

Other Postemployment Benefits Provided

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

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

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

Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2018 valuation will be amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

The table below summarizes pension contribution rates in effect for fiscal year 2020:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	18.25% - 19.41%
Member Investment Plan (MIP)	3.00% - 7.00%	18.25% - 19.41%
Pension Plus	3.00% - 6.40%	16.46%
Pension Plus 2	6.20%	19.59%
Defined Contribution	0.00%	13.39%

For the year ended June 30, 2020, required and actual contributions from the District to the pension plan were \$3,301,298, which included \$1,317,760, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate.

The table below summarizes OPEB contribution rates in effect for fiscal year 2020:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	7.93% - 8.09%
Personal Healthcare Fund (PHF)	0.00%	7.57%

For the year ended June 30, 2020, required and actual contributions from the District to the OPEB plan were \$871,006.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

The table below summarizes defined contribution rates in effect for fiscal year 2020:

Benefit Structure	Member Rates	Employer Rates
Defined Contribution	0.00% - 3.00%	0.00% - 7.00%
Personal Healthcare Fund (PHF)	0.00% - 2.00%	0.00% - 2.00%

For the year ended June 30, 2020, required and actual contributions from the District for those members with a defined contribution benefit were \$155,689.

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

At June 30, 2020, the District reported a liability of \$37,166,296 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2018. 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, 2019, the District's proportion was 0.11223%, which was an increase of 0.01076% from its proportion measured as of September 30, 2018.

For the year ended June 30, 2020, the District recognized pension expense of \$7,046,639. At June 30, 2020, 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	\$ 166,591	\$ 154,980	\$ 11,611
Changes in assumptions	7,277,187	-	7,277,187
Net difference between projected and actual earnings on pension plan investments	-	1,191,117	(1,191,117)
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,811,392	143,197	2,668,195
	<u>10,255,170</u>	<u>1,489,294</u>	<u>8,765,876</u>
District contributions subsequent to the measurement date	3,077,485	-	3,077,485
Total	<u>\$ 13,332,655</u>	<u>\$ 1,489,294</u>	<u>\$ 11,843,361</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

The \$3,077,485 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, 2021. 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
2021	\$ 3,422,809
2022	2,665,770
2023	1,886,777
2024	<u>790,520</u>
Total	<u>\$ 8,765,876</u>

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

At June 30, 2020, the District reported a liability of \$8,582,028 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2018. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2019, the District's proportion was 0.11956% which was an increase of 0.01621% from its proportion measured as of September 30, 2018.

For the year ended June 30, 2020, the District recognized OPEB expense of \$530,118. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 3,148,989	\$ (3,148,989)
Changes in assumptions	1,859,552	-	1,859,552
Net difference between projected and actual earnings on OPEB plan investments	-	149,246	(149,246)
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>1,446,296</u>	<u>56,687</u>	<u>1,389,609</u>
	3,305,848	3,354,922	(49,074)
District contributions subsequent to the measurement date	<u>763,647</u>	-	<u>763,647</u>
Total	<u>\$ 4,069,495</u>	<u>\$ 3,354,922</u>	<u>\$ 714,573</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

The \$763,647 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2021	\$ (88,924)
2022	(88,924)
2023	(14,748)
2024	74,818
2025	68,704
Total	\$ (49,074)

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension and OPEB liabilities in the September 30, 2018 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	2.75%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	6.80%
Pension Plus plan (hybrid)	6.80%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	6.95%
Projected salary increases	2.75% - 11.55%, including wage inflation at 2.75%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.5% Year 1 graded to 3.5% Year 12
Mortality	RP-2014 Male and Female Employee Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, the tables were scaled by 82% for males and 78% for females. For active members, 100% of the table rates were used for both males and females
Other OPEB assumptions:	
Opt-out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt-out of the retiree health plan
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage election at retirement	75% of male and 60% of female retirees are assumed to elect coverage for 1 or more dependents

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation. The total pension and OPEB liabilities as of September 30, 2019, are based on the results of an actuarial valuation date of September 30, 2018, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.4977 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.7101 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

Long-term Expected Return on Pension 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, 2019, 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%	5.50%	1.54%
Private equity pools	18.00%	8.60%	1.55%
International equity pools	16.00%	7.30%	1.17%
Fixed income pools	10.50%	1.20%	0.13%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.40%	0.84%
Short-term investment pools	2.00%	0.08%	0.00%
	<u>100.00%</u>		5.65%
Inflation			2.30%
Risk adjustment			<u>-1.15%</u>
Investment rate of return			<u><u>6.80%</u></u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

Long-term Expected Return on OPEB Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2019, 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%	5.50%	1.54%
Private equity pools	18.00%	8.60%	1.55%
International equity pools	16.00%	7.30%	1.17%
Fixed income pools	10.50%	1.20%	0.13%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.40%	0.84%
Short-term investment pools	2.00%	0.08%	0.00%
	<u>100.00%</u>		5.65%
Inflation			2.30%
Risk adjustment			<u>-1.00%</u>
Investment rate of return			<u>6.95%</u>

Rate of Return

For the fiscal year ended September 30, 2019, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 5.14% and 5.37%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan, both of which are hybrid plans provided through non-university employers only) and a discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on pension and OPEB plan investments of 6.80% (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan) and 6.95%, respectively. The projection of cash flows used to determine these discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension and OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

Sensitivity of the 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 6.80% (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 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 point higher:

	1% Decrease (5.80% / 5.80% / 5.00%)	Current Discount Rate (6.80% / 6.80% / 6.00%)	1% Increase (7.80% / 7.80% / 7.00%)
District's proportionate share of the net pension liability	\$ 48,318,562	\$ 37,166,296	\$ 27,920,683

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

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

	1% Decrease (5.95%)	Current Discount Rate (6.95%)	1% Increase (7.95%)
District's proportionate share of the net OPEB liability	\$ 10,527,148	\$ 8,582,028	\$ 6,948,669

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

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

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

	1% Decrease (6.50%)	Current Healthcare Cost Trend Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net OPEB liability	\$ 6,879,421	\$ 8,582,028	\$ 10,526,917

Pension and OPEB Plans Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2020, the District reported a payable of \$511,483 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2020.

Payable to the OPEB Plan

At June 30, 2020, the District reported a payable of \$113,277 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2020.

15. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2020, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 46,749
Capital assets being depreciated, net	<u>31,460,152</u>
	<u>31,506,901</u>
Related debt:	
Total bonds payable	33,190,000
Deduct: Bonds payable refunding SBLF	(13,115,000)
Bond premium	1,554,324
Deferred charge on advance refunding	(992,514)
Installment purchase agreement	<u>1,412,000</u>
	<u>22,048,810</u>
Net investment in capital assets	<u>\$ 9,458,091</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

16. OPERATING LEASES

In the prior year, the District entered into two leases for buildings which are both for a term of five years with options to extend the leases for an additional ten years. The future minimum lease payments for these leases are as follows:

Year Ended June 30,	Amount
2021	\$ 329,304
2022	329,304
2023	329,304
2024	<u>39,484</u>
	<u>\$ 1,027,396</u>

17. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The extent of the ultimate impact of the pandemic on the District's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it will continue to place additional demands on the District as it determines the appropriate methods to deliver education to students in a safe environment. While management reasonably expects the COVID-19 outbreak to negatively impact the District's financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

18. SUBSEQUENT EVENT

State Aid Anticipation Notes

On August 20, 2020, the District borrowed \$2,200,000 in State Aid Anticipation Notes. The notes bear interest at a rate of 0.70% and are due through July 20, 2021.



REQUIRED SUPPLEMENTARY INFORMATION

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Required Supplementary Information

MPERS Cost-Sharing Multiple Employer Plan

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

	Year Ended June 30,		
	2020	2019	2018
District's proportionate share of the net pension liability	\$ 37,166,296	\$ 30,505,070	\$ 25,681,787
District's proportion of the net pension liability	0.11223%	0.10147%	0.09910%
District's covered payroll	\$ 10,453,117	\$ 8,783,693	\$ 8,243,572
District's proportionate share of the net pension liability as a percentage of its covered payroll	355.55%	347.29%	311.54%
Plan fiduciary net position as a percentage of the total pension liability	60.31%	62.36%	64.21%

See notes to required supplementary information.



Year Ended June 30,		
2017	2016	2015
\$ 24,211,986	\$ 22,073,771	\$ 18,711,495
0.09705%	0.09037%	0.08495%
\$ 8,411,638	\$ 7,567,437	\$ 7,239,068
287.84%	291.69%	258.48%
63.27%	63.17%	66.20%

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Required Supplementary Information

MPERS Cost-Sharing Multiple Employer Plan Schedule of the District's Pension Contributions

	Year Ended June 30,		
	2020	2019	2018
Statutorily required contributions	\$ 3,301,298	\$ 2,960,372	\$ 2,779,376
Contributions in relation to the statutorily required contributions	<u>(3,301,298)</u>	<u>(2,960,372)</u>	<u>(2,779,376)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 10,964,522	\$ 10,335,893	\$ 8,817,368
Contributions as a percentage of covered payroll	30.11%	28.64%	31.52%

See notes to required supplementary information.



Year Ended June 30,		
2017	2016	2015
\$ 2,294,856	\$ 2,184,302	\$ 1,624,143
<u>(2,294,856)</u>	<u>(2,184,302)</u>	<u>(1,624,143)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 8,150,359	\$ 8,271,806	\$ 7,362,379
28.16%	26.41%	22.06%

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Required Supplementary Information

MPERS Cost-Sharing Multiple Employer Plan

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

	Year Ended June 30,		
	2020	2019	2018
District's proportionate share of the net OPEB liability	\$ 8,582,028	\$ 8,214,852	\$ 8,768,257
District's proportion of the net OPEB liability	0.11956%	0.10335%	0.09902%
District's covered payroll	\$ 10,453,117	\$ 8,783,693	\$ 8,243,572
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	82.10%	93.52%	106.36%
Plan fiduciary net position as a percentage of the total OPEB liability	48.46%	42.95%	36.39%

See notes to required supplementary information.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Required Supplementary Information

MPERS Cost-Sharing Multiple Employer Plan

Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended June 30,		
	2020	2019	2018
Statutorily required contributions	\$ 871,006	\$ 802,819	\$ 645,839
Contributions in relation to the statutorily required contributions	(871,006)	(802,819)	(645,839)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered payroll	\$ 10,964,522	\$ 10,335,893	\$ 8,817,368
Contributions as a percentage of covered payroll	7.94%	7.77%	7.32%

See notes to required supplementary information.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to Required Supplementary Information

Pension Information

GASB 68 was implemented in fiscal year 2015. The pension plan schedules are being built prospectively. Ultimately, 10 years of date will be presented.

The amounts presented in the schedule of the District's Proportionate Share of the Net Pension Liability were determined as of September 30 of the preceding year (the plan year).

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.80% for the MIP and Basic plans, 6.80% for the Pension Plus Plan, and 6.00% for the Pension Plus 2 Plan.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.05% for the MIP and Basic plans, 7.00% for the Pension Plus plan, and 6.00% for the Pension Plus 2 plan.
- 2018 - The discount rate used in the September 30, 2016 actuarial valuation decreased to 7.50% for the MIP and Basic plans and 7.00% for the Pension Plus plan.

OPEB Information

GASB 75 was implemented in fiscal year 2018. The OPEB plan schedules are being built prospectively. Ultimately, 10 years of date will be presented.

The amounts presented in the schedule of the District's Proportionate Share of the Net OPEB Liability were determined as of September 30 of the preceding year (the plan year).

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.95%.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.15%.

SINGLE AUDIT ACT COMPLIANCE

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

December 1, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated December 1, 2020, 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.

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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, 2020

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
U.S. Department of Agriculture				
Child Nutrition Cluster:				
Cash Assistance:				
National School Breakfast Program	10.553	MDE	191970	\$ 253,834
National School Breakfast Program	10.553	MDE	201970	157,126
Non-Cash Assistance -				
Entitlement Commodities	10.555	MDE	n/a	68,986
Cash Assistance:				
National School Lunch Program	10.555	MDE	191960	941,579
National School Lunch Program	10.555	MDE	201960	540,131
COVID-19 Unanticipated School Closure	10.555	MDE	200902	358,869
Summer Food Service Program	10.559	MDE	190900	39,030
Summer Food Service Program	10.559	MDE	191900	3,314
Total Child Nutrition Cluster				
Child and Adult Care Food Program	10.558	MDE	191920	437,568
Child and Adult Care Food Program	10.558	MDE	192010	12,173
Child and Adult Care Food Program	10.558	MDE	201920	260,413
Child and Adult Care Food Program	10.558	MDE	202010	7,369
Total U.S. Department of Agriculture				
U.S. Department of Education				
Title I:				
Title I, Part A - Improving Basic Programs	84.010	MDE	191530/1819	643,379
Title I, Part A - Improving Basic Programs	84.010	MDE	201530/1920	649,055
Title II:				
Title II, Part A - Improving Teacher Quality	84.367	MDE	190520/1819	124,210
Title II, Part A - School Leader Grant	84.367	MDE	200520/1920	95,724
Title IV, Part A	84.424	MDE	200750/1920	46,619
COVID-19 ESSER/CARES - Formula Regular 19/20	84.425	MDE	203710/1920	523,619

Accrued (Unearned) Revenue at July 1, 2019	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2020	Accrued (Unearned) Revenue at June 30, 2020
\$ 11,598	\$ 41,782	\$ 223,650	\$ 30,184	\$ -
-	157,126	-	157,126	-
<u>11,598</u>	<u>198,908</u>	<u>223,650</u>	<u>187,310</u>	<u>-</u>
-	68,986	-	68,986	-
34,605	157,980	818,204	123,375	-
-	540,131	-	540,131	-
-	297,882	-	358,869	60,987
<u>34,605</u>	<u>1,064,979</u>	<u>818,204</u>	<u>1,091,361</u>	<u>60,987</u>
9,565	39,030	9,565	29,465	-
812	3,314	812	2,502	-
<u>10,377</u>	<u>42,344</u>	<u>10,377</u>	<u>31,967</u>	<u>-</u>
56,580	1,306,231	1,052,231	1,310,638	60,987
15,982	65,271	388,279	49,289	-
504	1,644	11,033	1,140	-
-	260,413	-	260,413	-
-	7,369	-	7,369	-
<u>16,486</u>	<u>334,697</u>	<u>399,312</u>	<u>318,211</u>	<u>-</u>
73,066	1,640,928	1,451,543	1,628,849	60,987
135,228	135,228	643,379	-	-
-	490,654	-	587,491	96,837
<u>135,228</u>	<u>625,882</u>	<u>643,379</u>	<u>587,491</u>	<u>96,837</u>
124,210	124,210	124,210	-	-
-	29,750	-	29,750	-
<u>124,210</u>	<u>153,960</u>	<u>124,210</u>	<u>29,750</u>	<u>-</u>
-	46,619	-	46,619	-
-	365,112	-	365,112	-

continued...

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2020

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
U.S. Department of Education (continued)				
Special Education Cluster:				
I.D.E.A. Flow-Through	84.027A	WCRESA	070460/1819	\$ 449,152
I.D.E.A. Flow-Through	84.027A	WCRESA	070460/1920	506,000
Preschool Incentive	84.173	WCRESA	070460/1819	15,571
Preschool Incentive	84.173	WCRESA	070460/1920	10,755
Total Special Education Cluster				
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, 2019	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2020	Accrued (Unearned) Revenue at June 30, 2020
\$ 246,673	\$ 246,673	\$ 449,152	\$ -	\$ -
-	408,353	-	506,000	97,647
<u>246,673</u>	<u>655,026</u>	<u>449,152</u>	<u>506,000</u>	<u>97,647</u>
7,886	7,886	15,571	-	-
-	8,448	-	10,755	2,307
<u>7,886</u>	<u>16,334</u>	<u>15,571</u>	<u>10,755</u>	<u>2,307</u>
<u>254,559</u>	<u>671,360</u>	<u>464,723</u>	<u>516,755</u>	<u>99,954</u>
<u>513,997</u>	<u>1,862,933</u>	<u>1,232,312</u>	<u>1,545,727</u>	<u>196,791</u>
<u>\$ 587,063</u>	<u>\$ 3,503,861</u>	<u>\$ 2,683,855</u>	<u>\$ 3,174,576</u>	<u>\$ 257,778</u>

concluded.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to Schedule of Expenditures of Federal Awards

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of The School District of the City of Harper Woods (the "District") under programs of the federal government for the year ended June 30, 2020. 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.

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.

2. 10% DE MINIMIS COST RATE

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

3. PASS-THROUGH AGENCIES

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

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



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

December 1, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 1, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs, as item 2020-001 that we consider to be a material weakness.

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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' Responses to the Findings

The District's responses to the 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 the financial statements and, accordingly, we express no opinion on them.

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.

Rehmann Lobson LLC



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

December 1, 2020

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

Report on Compliance for the Major Federal Program

We have audited the compliance of *The School District of the City of Harper Woods* (the "District") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2020. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program 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 audit 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.

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Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

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 2020-002 and -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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2020-002 that we consider to be a significant deficiency.

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

Purpose of this Report

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

Rehman Lohman 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, 2020

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? 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>
10.553, 10.555 and 10.559	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, 2020

SECTION II - FINANCIAL STATEMENT FINDINGS

2020-001 - Material Audit Adjustments (Repeat)

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

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

Condition. During our audit, we identified and proposed material adjustments (which were approved and posted by management) to adjust the District's general ledger to the appropriate balances.

Cause. This condition was the result of a lack of management oversight. Internal controls did not detect all adjustments necessary to properly record year-end balances.

Effect. As a result of this condition, the District's accounting records were initially misstated as follows:

- The District did not record the 2019 refunding bonds activity in their general ledger. As a result, debt service fund other financing sources were initially understated by approximately \$6.9 million, debt service fund other financing uses were initially understated by approximately \$4.6 million, and debt service fund expenditures were initially understated by approximately \$99,000.
- The District did not record adjustments to one of the general fund cash accounts in their general ledger. As a result, cash was originally overstated by approximately \$180,000 and expenditures were initially understated by \$180,000.

Recommendation. For the current year, no further action is required as the adjustments have been posted. In future periods, we recommend that management implement procedures to ensure that all general ledger accounts are appropriately reconciled and adjusted at year end.

View of Responsible Officials. Due to a hasty and partially successful transition, the matter in question was an oversight accentuated by the mitigating circumstances. This would have been rectified were there a better and more successful transition.

Responsible Official. Interim Chief Financial Officer

Estimated Completion Date. June 30, 2021

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

2020-002 - Procurement (Repeat)

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

Federal program(s)

U.S. Department of Agriculture -

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

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

Condition. During our audit procedures over the District's procurement process, it was noted that of the two contract files tested, one did not have the required bid documentation.

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

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

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

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

View of Responsible Officials. PRECISION Human Resources has been grandfathered in the District for over a decade and the contract was not up for renewal yet. The Board did in fact approve the current contract. However, plans are in place for a yearly renewal/bidding process to be instituted.

Responsible Official. Interim Chief Financial Officer

Estimated Completion Date. June 30, 2021

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

2020-003 - Program Income - Food Service Fund Balance

Finding Type. Immaterial Noncompliance

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. As of June 30, 2020, the District's fund balance exceeded three months' average of operating expenses.

Cause. This condition appears to be the result of the District's conservative budgeting of expenditures by management, and additional revenue received in fiscal year 2020 related to COVID-19.

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

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

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

View of Responsible Officials. A meeting is planned for December and monthly meetings will follow to make sure the food budget is appraised monthly and appropriate plans are made to spend the current \$34K excess.

Responsible Official. Interim Chief Financial Officer and Food Service Director

Estimated Completion Date. June 30, 2021



THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2020

Financial Statement Findings

Finding 2019-001 - Material Audit Adjustment (Repeat)

The District had a material adjustment (which was approved and posted by management) to adjust the District's general ledger to the appropriate balances. This finding was not adequately resolved. See finding 2020-001 in the current year Schedule of Findings and Questioned Costs.

2019-002 - Accounting for Capital Assets

The District had not maintained or reconciled accurate reports for capital assets. The amounts recorded as capital asset additions required a \$321,000 adjustment. Additionally, the District had not recorded capital asset disposals since 2014, which was unlikely considering the number of assets the District had on its capital asset detail. This finding was adequately resolved.

Federal Awards Findings

Finding 2019-003 - Allowable Costs/Cost Principles - Payroll Documentation (Repeat)

Federal program(s)

U.S. Department of Education -

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

The District was unable to provide documentation that complied with its policies for four employees charged to the grant. For three of the employees, the District provided lesson plans or class schedules; which are not appropriate documentation per the District's policy. The District did not provide any documentation for the remaining employee. This finding was not adequately resolved.

Corrective Action Plan. The District's policy states that 'time and effort reports are to be supported by a system of internal controls which provide reasonable assurance that the charges are accurate, allowable and properly allocated'. The District is in the process of updating its policies and the Michigan Department of Education is working with the District to ensure that the District's policies align with processes and procedures.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2020

2019-004 - Allowable Costs/Cost Principles; Procurement, Suspension and Debarment - Independent Contractor Documentation

Federal program(s)

U.S. Department of Education -

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

The District allocated a portion of the costs of a contract to the Title I program based on the amount budgeted in the consolidated application, not a reasonable allocation of the portion applicable to the federal program. Additionally, the contractor was not procured in accordance with the District's policy or verified as not being suspended or debarred. This finding was not adequately resolved.

Corrective Action Plan. The District's policy states that 'costs be representative of actual cost, net of all applicable credits or offsets'. It also states that 'sealed, competitive bids shall be obtained when the purchase of, and contract for, single items of supplies, materials, or equipment which amounts to the amount allowed by Michigan statute and when the Board determines to build, repair, enlarge, improve, or demolish a school building/facility the cost of which will exceed the amount allowed by Michigan statute'. The District is in the process of updating its policies and the Michigan Department of Education is working with the District to ensure that the District's policies align with processes and procedures.

Finding 2019-005 - Equipment and Real Property Management (Repeat)

Federal program(s)

U.S. Department of Agriculture:

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

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

Corrective Action Plan. A follow up meeting is planned with an accounting firm to update the inventory system and make the appropriate changes. Moreover, in light of the federal funds being used for current year, appropriate measures will be taken to make sure those assets purchased with those funds will have proper designation.

Finding 2019-006 - Procurement (Repeat)

Federal program(s)

U.S. Department of Agriculture -

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

The District did not have the required bid documentation for three of its vendors. This finding was not adequately resolved. See finding 2020-002 in the current year Schedule of Findings and Questioned Costs.





CORRECTIVE ACTION PLAN

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 ended June 30, 2020, and corrective actions to be completed.

Finding: 2020-001 - Material Audi Adjustments (Repeat)

Auditor Description of Condition and Effect: During our audit, we identified and proposed material adjustments (which were approved and posted by management) to adjust the District's general ledger to the appropriate balances. As a result of this condition, the District's accounting records were initially misstated as follows:

- The District did not record the 2019 refunding bonds activity in their general ledger. As a result, debt service fund other financing sources were initially understated by approximately \$6.9 million, debt service fund other financing uses were initially understated by approximately \$4.6 million, and debt service fund expenditures were initially understated by approximately \$99,000.
- The District did not record adjustments to one of the general fund cash accounts in their general ledger. As a result, cash was originally overstated by approximately \$180,000 and expenditures were initially understated by \$180,000.

Auditor Recommendation: For the current year, no further action is required as the adjustments have been posted. In future periods, we recommend that management implement procedures to ensure that all general ledger accounts are appropriately reconciled and adjusted at year end.

Corrective Action: Due to a hasty and partially successful transition, the matter in question was an oversight accentuated by the mitigating circumstances. This would have been rectified were there a better and more successful transition.

Contact Person: Radu Iacoban, Interim Chief Financial Officer

Due Date: June 30, 2021

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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 Assistant Superintendent at the School District of the City of Harper Woods, 19851 Anita, Harper Woods, MI 48225 or call (586) 209-2400.

Status: In process

Finding: 2020-002 - Procurement (Repeat)

U.S Department of Agriculture - Child Nutrition Cluster (CDFA #10.CNC); Passed through MDE; All project numbers

Auditor Description of Condition and Effect: During our audit procedures over the District's procurement process, it was noted that of the two contract files tested, one did not have the required bid documentation. The District did not follow its own procurement policy that requires open competition for all contracts over \$10,000.

Auditor Recommendation: We recommend that the District enhance its procurement procedures to ensure that all contracts requiring bids are completed and included in the contract file for sufficient audit documentation.

Corrective Action: PRECISION Human Resources has been grandfathered in the District for over a decade and the contract was not up for renewal yet. The Board did in fact approve the current contract. However, plans are in place for a yearly renewal/bidding process to be instituted.

Contact Person: Radu Iacoban, Interim Chief Financial Officer

Due Date: June 30, 2021

Status: In process

Finding: 2020-003 - Program Income - Food Service Fund Balance

U.S Department of Agriculture - Child Nutrition Cluster (CDFA #10.CNC); Passed through MDE; All project numbers

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Auditor Description of Condition and Effect: As of June 30, 2020, the District's fund balance exceeded three months' average of operating expenses. As a result of this condition, the District did not fully comply with USDA fund balance requirements.

Auditor 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.

Corrective Action: A meeting is planned for December and monthly meetings will follow to make sure the food budget is appraised monthly and appropriate plans are made to spend the current \$34K excess.

Contact Person: Radu Iacoban, Interim Chief Financial Officer and Brian Corbett, Food Service Director

Due Date: June 30, 2021

Status: In process

Finding: 2019-003 - Allowable Costs/Cost Principles - Payroll Documentation (Repeat)

U.S Department of Education - Title I, Part A (CDFA #84.010); Passed through MDE; All project numbers

Auditor Description of Condition and Effect: The District was unable to provide documentation that complied with its policies for four employees charged to the grant. For three of the employees, the District provided lesson plans or class schedules; which are not appropriate documentation per the District's policy. The District did not provide any documentation for the remaining employee.

Corrective Action: The District's policy states that 'time and effort reports are to be supported by a system of internal controls which provide reasonable assurance that the charges are accurate, allowable and properly allocated'. The District is in the process of updating its policies and the Michigan Department of Education is working with the District to ensure that the District's policies align with processes and procedures.

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Finding: 2019-004 - Allowable Costs/Cost Principles; Procurement, Suspension and Debarment - Independent Contractor Documentation (Repeat)

U.S Department of Education - Title I, Part A (CDFA #84.010); Passed through MDE; All project numbers

Auditor Description of Condition and Effect: The District allocated a portion of the costs of a contract to the Title I program based on the amount budgeted in the consolidated application, not a reasonable allocation of the portion applicable to the federal program. Additionally, the contractor was not procured in accordance with the District's policy or verified as not being suspended or debarred.

Corrective Action: The District's policy states that 'costs be representative of actual cost, net of all applicable credits or offsets'. It also states that 'sealed, competitive bids shall be obtained when the purchase of, and contract for, single items of supplies, materials, or equipment which amounts to the amount allowed by Michigan statute and when the Board determines to build, repair, enlarge, improve, or demolish a school building/facility the cost of which will exceed the amount allowed by Michigan statute'. The District is in the process of updating its policies and the Michigan Department of Education is working with the District to ensure that the District's policies align with processes and procedures.

Finding: 2019-005 - Equipment and Real Property Management (Repeat)

U.S Department of Agriculture - Child Nutrition Cluster (CDFA #10.CNC); Passed through MDE; All project numbers

Auditor Description of Condition and Effect: The District has not conducted a physical inventory of equipment within the past two fiscal years. In addition, the District's capital asset records do not include a proper designation for those assets purchased with federal funds. This finding was not adequately resolved.

Corrective Action: A follow up meeting is planned with an accounting firm to update the inventory system and make the appropriate changes. Moreover, in light of the federal funds being used for current year, appropriate measures will be taken to make sure those assets purchased with those funds will have proper designation.

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