

The School District of the City of
Harper Woods

Year Ended
June 30, 2019

Financial
Statements &
Single Audit Act
Compliance

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

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INDEPENDENT AUDITORS' REPORT

November 1, 2019

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, the 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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of The School District of the City of Harper Woods as of June 30, 2019, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2019 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.

Rehmann Lobson LLC

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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, 2019. 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 fund - the general fund, with any other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the District acts solely as an agent for the benefit of students.

Overview of the Financial Statements

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

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

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

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

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

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

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

The District as a Whole

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

	Net Position	
	2019	2018
Assets		
Current and other assets	\$ 6,537,611	\$ 6,750,592
Capital assets, net	31,746,429	30,416,432
Total assets	<u>38,284,040</u>	<u>37,167,024</u>
Deferred outflows of resources	<u>14,433,007</u>	<u>9,046,547</u>
Liabilities		
Other liabilities	43,977,705	37,484,150
Long-term debt	38,962,134	37,775,745
Total liabilities	<u>82,939,839</u>	<u>75,259,895</u>
Deferred inflows of resources	<u>4,286,405</u>	<u>1,707,744</u>
Net position		
Net investment in capital assets	8,397,595	7,361,574
Restricted	472,691	612,672
Unrestricted (deficit)	(43,379,483)	(38,728,314)
Total net position (deficit)	<u><u>\$(34,509,197)</u></u>	<u><u>\$(30,754,068)</u></u>

The District had negative net position of \$34,509,197 at June 30, 2019. The district had net investment in capital assets of \$8,397,595, 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 \$472,6919 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 (MPERS) 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, 2019 and 2018.

District's Changes in Net Position

	Change in Net Position	
	2019	2018
Revenue		
Program revenue:		
Charges for services	\$ 193,293	\$ 208,333
Operating grants and contributions	5,245,315	4,585,851
General revenue:		
Property taxes	2,599,191	2,616,825
Unrestricted state aid	21,491,600	17,285,993
Other	1,659,949	1,208,120
Total revenue	31,189,348	25,905,122
Function/Program Expenses		
Instruction	19,120,117	15,407,328
Support services	11,102,571	7,780,430
Community services	195,733	194,394
Food services	2,036,981	1,400,719
Athletics	386,370	336,540
Interest on long-term debt	1,146,331	1,132,006
Unallocated depreciation	956,374	896,753
Total expenses	34,944,477	27,148,170
Change in net position	(3,755,129)	(1,243,048)
Net position, beginning of year	(30,754,068)	(29,511,020)
Net position, end of year	<u>\$(34,509,197)</u>	<u>\$(30,754,068)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$34,944,477. Certain activities were partially funded from those who benefited from the programs (\$193,293) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,245,315). The District paid for the remaining "public benefit" portion of our governmental activities with \$2,599,191 in taxes, \$21,491,600 in state foundation allowance and special education, and with our other revenues, i.e., interest and general entitlements.

The District experienced a decrease in net position of \$3,755,129. The primary reason for the change in net position is an increase of \$7,796,307 in expenses, mainly in instructional services due to the opening of Triumph Middle School and the cost of updating and repairing the building, the hiring of an IB Director, 2 Mandarin teachers, additional district-wide security, expansion of the climate and culture program at the High School, the cost of opening the new College and Career Institute Building (CTE), the hiring of 2 new CTE instructors and 5 CTE paraprofessionals, and the cost of an additional 42 FTE's from our third party alternate school offset by an increase in state from the same third party alternate school (district receives 25% of the per pupil state aid, the alternate school get 75%).

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

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

The District's Funds

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

As the District completed 2019, the governmental funds reported a combined fund balance of \$1,452,881 which is a decrease of \$2,449,263 in comparison with the prior year. The primary reasons for the change are as follows:

In the general fund, our principal operating fund, the fund balance decreased \$2,489,237 to \$1,035,807. This change is compared to the decrease of \$588,858 in the prior year. Part of this decrease in fund balance was attributable to the opening of a separate Middle School and the expenses associated with the opening of the College and Career Institute, as well as the starting of the Mandarin program as an alternate foreign language, the hiring of a third high school counselor and the start up of the International Baccalaureate Program.

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 2018-2019 budget were adopted on December 18, 2018 and June 18, 2019. The significant changes between the original adopted budget and the final amended budget include a net increase of 172 FTE's at the traditional K-12 schools and at Harper Academy (the District's in-house alternate ed school). Changes in expenditures included the hiring of an additional kindergarten teacher, an Academic Engagement Officer at the middle and high school, an additional high school counselor, expenses associated with the opening of the new middle school and College and Career Institute buildings, a District literacy coach, high school instructional coach, balance of the air conditioning projects at Beacon and Tyrone Elementary, hiring of 3 additional CTE teachers and 3 CTE paraprofessionals, additional climate and culture/security officers and an additional special needs bus and driver.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2019, the District had \$31,746,429 invested in a broad range of capital assets, including land, buildings and improvements, vehicles and furniture and equipment. Additional information on the District's capital assets can be found in note 6 in the notes to the financial statements.

	District's Capital Assets (Net of Depreciation)	
	2019	2018
Land	\$ 46,749	\$ 46,749
Construction in process	259,893	343,848
Buildings and improvements	30,842,549	29,394,932
Vehicles	70,767	86,092
Furniture and equipment	526,471	544,811
Total capital assets, net	<u>\$31,746,429</u>	<u>\$ 30,416,432</u>

Debt

At the end of this 2018-2019 fiscal year, the District had \$30,930,000 in bonds outstanding versus \$33,330,000 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	
	2019	2018
General obligation bonds	\$30,930,000	\$ 33,330,000
Notes from direct borrowings and direct placements	1,488,000	-
Bond premium	1,681,128	1,807,932
School bond loan fund	4,574,178	2,339,006
Compensated absences	288,828	298,807
Total	<u>\$38,962,134</u>	<u>\$ 37,775,745</u>

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, 2019 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.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

Economic Factors and Next Year's Budget and Rates

Our elected officials and administration consider many factors when setting the District's 2019-20 fiscal year budget. The 2019-20 fiscal year budget was adopted by the Board of Education in June 2019 as follows:

Estimated July 1, 2019 general fund balance	\$ 1,210,153
Revenue	<u>28,070,112</u>
Total available to appropriate	29,280,265
Expenditures	<u>27,577,802</u>
Estimated June 30, 2020 general fund balance	<u>\$ 1,702,463</u>

The actual July 1, 2019 general fund balance is \$174,346 lower than budgeted. The July 1, 2019 fund balance is 3.3% of the 2018-19 general fund expenditures which were \$31,725,201.

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 2019-2020 fiscal year is 10 percent and 90 percent of the February 2019 and October 2019 student counts, respectively. The 2019-20 budget was adopted in June 2019, based on an estimate of blended students of 2,705 including 813 school of choice students (288 in K-12 and 525 at Diploma Success, Virtual Academy and Dropout Recovery). The budget is based on 2,210 in K-12, 50 at Harper Academy, 200 at the alternate high school, 125 at the cyber school and 200 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 portions under the State Aid Act sections 22(a), 22(b), and the Special Education section 51(a). Under State law, the District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding is validated in October, state law requires the District to amend the budget if actual District resources are not sufficient to fund original appropriations.

Since the District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriations to school districts. The foundation grant per student for the district in 2018-2019 was \$8,409. The budget adopted in June 2019 for the 2019-20 fiscal year assumed a net increase in the foundation allowance of an additional \$100 per FTE (from \$8,409 to \$8,509). The actual increase approved by the State after the 2019-20 budget was due was an additional \$120 per FTE (from \$8,409 to \$8,529).

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, 2019

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 903,321
Receivables	5,396,778
Inventories	30,821
Prepaid items	206,691
Capital assets, not being depreciated	306,642
Capital assets being depreciated, net	<u>31,439,787</u>
Total assets	<u>38,284,040</u>
Deferred outflows of resources	
Deferred charge on refunding	1,075,294
Deferred pension amounts	11,444,480
Deferred other postemployment benefit amounts	<u>1,913,233</u>
Total deferred outflows of resources	<u>14,433,007</u>
Liabilities	
Accounts payable and accrued liabilities	4,996,140
Short-term notes payable	261,643
Long-term liabilities:	
Due within one year	2,706,704
Due in more than one year	36,255,430
Net pension liability (due in more than one year)	30,505,070
Net other postemployment benefits liability (due in more than one year)	<u>8,214,852</u>
Total liabilities	<u>82,939,839</u>
Deferred inflows of resources	
Deferred pension amounts	2,414,132
Deferred other postemployment benefit amounts	<u>1,872,273</u>
Total deferred inflows of resources	<u>4,286,405</u>
Net position	
Net investment in capital assets	8,397,595
Restricted for food service	472,691
Unrestricted (deficit)	<u>(43,379,483)</u>
Total net position	<u><u>\$ (34,509,197)</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, 2019

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 19,120,117	\$ -	\$ 3,457,084	\$ (15,663,033)
Support services	11,102,571	-	-	(11,102,571)
Community services	195,733	56,833	-	(138,900)
Food services	2,036,981	103,610	1,788,231	(145,140)
Athletics	386,370	32,850	-	(353,520)
Interest on long-term debt	1,146,331	-	-	(1,146,331)
Unallocated depreciation	956,374	-	-	(956,374)
Total	\$ 34,944,477	\$ 193,293	\$ 5,245,315	(29,505,869)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,098,306
Property taxes, levied for debt services				1,500,885
Unrestricted state aid				21,491,600
Grants and contributions not restricted to specific programs				1,584,129
Unrestricted investment earnings				75,820
Total general revenues				25,750,740
Change in net position				(3,755,129)
Net position, beginning of year				(30,754,068)
Net position, end of year				\$ (34,509,197)

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, 2019

	General	Nonmajor Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 880,937	\$ 22,384	\$ 903,321
Accounts receivable	4,807	-	4,807
Due from other governments	5,318,905	73,066	5,391,971
Due from other funds	-	469,268	469,268
Inventories	-	30,821	30,821
Prepaid items	161,691	45,000	206,691
Total assets	\$ 6,366,340	\$ 640,539	\$ 7,006,879
Liabilities			
Accounts payable	\$ 2,953,940	\$ 119,150	\$ 3,073,090
Accrued payroll and other liabilities	1,749,997	-	1,749,997
Due to other funds	364,953	104,315	469,268
Short-term notes payable	261,643	-	261,643
Total liabilities	5,330,533	223,465	5,553,998
Fund balances			
Nonspendable for inventories	-	30,821	30,821
Nonspendable for prepaid items	161,691	45,000	206,691
Restricted for food service	-	396,870	396,870
Unassigned (deficit)	874,116	(55,617)	818,499
Total fund balances	1,035,807	417,074	1,452,881
Total liabilities and fund balances	\$ 6,366,340	\$ 640,539	\$ 7,006,879

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, 2019

Fund balances - total governmental funds	\$ 1,452,881
Amounts reported for <i>governmental activities</i> 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	306,642
Capital assets being depreciated	48,165,117
Accumulated depreciation	(16,725,330)
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	(36,992,178)
Unamortized premium	(1,681,128)
Deferred charge on refunding	1,075,294
Accrued interest on bonds payable	(173,053)
Compensated absences	(288,828)
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	(30,505,070)
Net other postemployment benefit liability	(8,214,852)
Deferred outflows related to the net pension liability	11,444,480
Deferred inflows related to the net pension liability	(2,414,132)
Deferred outflows related to the net other postemployment benefit liability	1,913,233
Deferred inflows related to the net other postemployment benefit liability	(1,872,273)
Net position of governmental activities	<u>\$ (34,509,197)</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 Balances

Governmental Funds

For the Year Ended June 30, 2019

	General	Nonmajor Funds	Total Governmental Funds
Revenues			
Local sources	\$ 2,847,791	\$ 1,604,642	\$ 4,452,433
State sources	23,581,162	91,680	23,672,842
Federal sources	1,319,011	1,745,062	3,064,073
Total revenues	27,747,964	3,441,384	31,189,348
Expenditures			
Current:			
Instruction	18,975,223	-	18,975,223
Support services	10,639,847	-	10,639,847
Community services	192,243	-	192,243
Food services	-	2,031,822	2,031,822
Athletics	373,313	-	373,313
Debt service:			
Principal	-	2,400,000	2,400,000
Interest and fiscal charges	-	1,113,075	1,113,075
Capital outlay and maintenance	1,544,575	-	1,544,575
Total expenditures	31,725,201	5,544,897	37,270,098
Revenues under expenditures	(3,977,237)	(2,103,513)	(6,080,750)
Other financing sources			
Issuance of long-term debt	1,488,000	2,143,487	3,631,487
Net change in fund balances	(2,489,237)	39,974	(2,449,263)
Fund balances, beginning of year	3,525,044	377,100	3,902,144
Fund balances, end of year	\$ 1,035,807	\$ 417,074	\$ 1,452,881

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, 2019

Net change in fund balances - total governmental funds \$ (2,449,263)

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

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

Capital assets purchased/constructed	2,286,371
Depreciation expense	(956,374)

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	2,400,000
Proceeds from issuance of long-term debt	(3,631,487)

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	(1,700,369)
Change in net other postemployment benefit liability and related deferred amounts	321,070
Change in accrued interest payable on bonds	(79,080)
Amortization of bond premiums	126,804
Amortization of deferred charge on refunding	(82,780)
Change in the accrual for compensated absences	9,979

Change in net position of governmental activities	<u>\$ (3,755,129)</u>
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The accompanying notes are an integral part of these basic financial statements.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local source	\$ 2,144,721	\$ 2,135,472	\$ 2,847,791	\$ 712,319
State sources	21,091,195	22,392,908	23,581,162	1,188,254
Federal sources	1,172,399	1,283,739	1,319,011	35,272
Total revenues	24,408,315	25,812,119	27,747,964	1,935,845
Expenditures				
Instruction:				
Basic programs	12,536,326	14,328,326	15,512,551	1,184,225
Added needs	2,666,778	3,133,778	3,462,672	328,894
Total instruction	15,203,104	17,462,104	18,975,223	1,513,119
Support services:				
Pupil	1,161,982	1,257,082	1,339,231	82,149
Instructional staff	1,247,698	1,372,700	1,367,736	(4,964)
General administration	752,437	752,437	711,742	(40,695)
School administration	1,326,748	1,579,232	1,648,959	69,727
Business	540,370	540,370	683,064	142,694
Operations and maintenance	2,620,794	3,718,794	4,221,896	503,102
Pupil transportation services	442,100	482,100	557,754	75,654
Central services	139,000	99,000	109,465	10,465
Total support services	8,231,129	9,801,715	10,639,847	838,132
Community services	163,984	163,984	192,243	28,259
Athletics	350,236	375,236	373,313	(1,923)
Capital outlay and maintenance	100,000	324,000	1,544,575	1,220,575
Total expenditures	24,048,453	28,127,039	31,725,201	3,598,162
Revenues over (under) expenditures	359,862	(2,314,920)	(3,977,237)	(1,662,317)
Other financing sources				
Issuance of long-term debt	-	-	1,488,000	1,488,000
Net change in fund balance	359,862	(2,314,920)	(2,489,237)	(174,317)
Fund balance, beginning of year	3,525,044	3,525,044	3,525,044	-
Fund balance, end of year	\$ 3,884,906	\$ 1,210,124	\$ 1,035,807	\$ (174,317)

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, 2019

	Student Activities Agency Fund
Assets	
Cash and cash equivalents	<u>\$ 109,298</u>
Liabilities	
Due to student groups	<u>\$ 109,298</u>

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.

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

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

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

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

Deposits and investments

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

The District's investments in the Michigan Liquid Assets Fund (MLAF) 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 did 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, 2019, 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	\$ 14,328,326	\$ 15,512,551	\$ 1,184,225
Added needs	3,133,778	3,462,672	328,894
Support services:			
Pupil	1,257,082	1,339,231	82,149
School administration	1,579,232	1,648,959	69,727
Business	540,370	683,064	142,694
Operations and maintenance	3,718,794	4,221,896	503,102
Pupil transportation services	482,100	557,754	75,654
Central services	99,000	109,465	10,465
Community services	163,984	192,243	28,259
Capital outlay and maintenance	324,000	1,544,575	1,220,575

General Fund Equity and Budget

The District has spent down approximately 71% of its fund balance in the general fund compared to the prior year. General fund balance is now 3.7% of total revenues which is below the 5% threshold the State uses to determine a District is at risk of fiscal distress. Additionally, the District's expenditures in the general fund were approximately 13% over budget due to the addition of capital expenditures and instruction expenses being much higher than budgeted. These overexpenditures were funded by proceeds from an installment purchase agreement, as well as available fund balance.

Fund Deficit

The District had an unassigned fund deficit in the debt service fund in the amount of \$55,617.

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	\$ 903,321
Statement of Fiduciary Assets and Liabilities	
Cash and cash equivalents	<u>109,298</u>
	<u>\$ 1,012,619</u>

These balances are categorized for note disclosures as follows:

Bank deposits (checking/savings accounts)	\$ 22,181
MILAF investment funds	989,446
Cash on hand	<u>992</u>
	<u>\$ 1,012,619</u>

Statutory Authority

Michigan law authorizes the District to deposit and invest in:

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

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 \$22,181 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, 2019 for the District's individual major funds and nonmajor fund are as follows:

	General Fund	Nonmajor Funds	Total
Receivables:			
Accounts	\$ 4,807	\$ -	\$ 4,807
Due from other governments	5,318,905	73,066	5,391,971
Total	<u>\$ 5,323,712</u>	<u>\$ 73,066</u>	<u>\$ 5,396,778</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, 2019 was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 46,749	\$ -	\$ -	\$ -	\$ 46,749
Construction in progress	343,848	259,893	-	(343,848)	259,893
Total capital assets not being depreciated	<u>390,597</u>	<u>259,893</u>	<u>-</u>	<u>(343,848)</u>	<u>306,642</u>
Capital assets being depreciated:					
Buildings and improvements	42,604,558	1,924,008	-	343,848	44,872,414
Furniture and equipment	2,933,975	102,470	-	-	3,036,445
Vehicles	256,258	-	-	-	256,258
	<u>45,794,791</u>	<u>2,026,478</u>	<u>-</u>	<u>343,848</u>	<u>48,165,117</u>
Less accumulated depreciation for:					
Buildings and improvements	(13,209,626)	(820,239)	-	-	(14,029,865)
Furniture and equipment	(2,389,164)	(120,810)	-	-	(2,509,974)
Vehicles	(170,166)	(15,325)	-	-	(185,491)
	<u>(15,768,956)</u>	<u>(956,374)</u>	<u>-</u>	<u>-</u>	<u>(16,725,330)</u>
Total capital assets being depreciated, net	<u>30,025,835</u>	<u>1,070,104</u>	<u>-</u>	<u>343,848</u>	<u>31,439,787</u>
Governmental activities capital assets, net	<u>\$ 30,416,432</u>	<u>\$ 1,329,997</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,746,429</u>

Depreciation expense of \$956,374 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, 2019 for the District's individual major funds and nonmajor fund are as follows:

	General Fund	Nonmajor Funds	Total
Fund Financial Statements:			
Accounts payable	\$ 2,953,940	\$ 119,150	\$ 3,073,090
Accrued payroll and other liabilities	1,749,997	-	1,749,997
	<u>\$ 4,703,937</u>	<u>\$ 119,150</u>	4,823,087
Government-wide Financial Statements -			
Accrued interest on long-term debt			173,053
			<u>\$ 4,996,140</u>

8. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2019, interfund receivables and payables in the fund financial statements consisted of the following:

	Due From Other Funds	Due To Other Funds
General fund	\$ -	\$ 364,953
Nonmajor governmental funds	469,268	104,315
	<u>\$ 469,268</u>	<u>\$ 469,268</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, 2019:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	\$ 33,330,000	\$ -	\$ (2,400,000)	\$ 30,930,000	\$ 2,475,000
Notes from direct borrowings and direct placements	-	1,488,000	-	1,488,000	76,000
Subtotal	33,330,000	1,488,000	(2,400,000)	32,418,000	2,551,000
Premium on bonds	1,807,932	-	(126,804)	1,681,128	126,804
School bond loan fund	2,339,006	2,235,172	-	4,574,178	-
Compensated absences	298,807	50,489	(60,468)	288,828	28,900
	<u>\$ 37,775,745</u>	<u>\$ 3,773,661</u>	<u>\$ (2,587,272)</u>	<u>\$ 38,962,134</u>	<u>\$ 2,706,704</u>

Compensated absences are typically liquidated by the general fund.

Bonds payable at June 30, 2019, 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%	12,575,000
\$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%	<u>9,675,000</u>
Total general obligation bonds	<u>\$ 30,930,000</u>

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	<u>\$ 1,488,000</u>
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THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

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

Year Ending June 30,	Principal	Interest	Total
2020	\$ 2,475,000	\$ 1,038,315	\$ 3,513,315
2021	2,520,000	989,807	3,509,807
2022	2,580,000	933,047	3,513,047
2023	2,665,000	843,533	3,508,533
2024	2,765,000	747,553	3,512,553
2025-2029	11,745,000	2,443,257	14,188,257
2030-2034	6,180,000	925,800	7,105,800
	<u>\$ 30,930,000</u>	<u>\$ 7,921,312</u>	<u>\$ 38,851,312</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
2020	\$ 76,000	\$ 54,758	\$ 130,758
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
2025-2029	490,000	165,048	655,048
2030-2034	595,000	67,381	662,381
	<u>\$ 1,488,000</u>	<u>\$ 477,591</u>	<u>\$ 1,965,591</u>

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond Loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the debt service requirements on the general obligation bonds. Changes to the School Bond Loan Fund for the year ended June 30, 2019, are as follows:

	Principal	Interest	Total
Beginning balance	\$ 2,300,822	\$ 38,184	\$ 2,339,006
Additions	2,143,487	91,685	2,235,172
Ending balance	<u>\$ 4,444,309</u>	<u>\$ 129,869</u>	<u>\$ 4,574,178</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

10. SHORT-TERM NOTES PAYABLE

The District has a short-term state aid anticipation note totaling \$1,800,000 of which \$261,643 is outstanding and included as a liability in the general fund at June 30, 2019. The note carries an interest rate of 1.75% and is due August 20, 2019.

Short-term debt activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
State aid notes	\$ 143,008	\$ 1,800,000	\$ (1,681,365)	\$ 261,643

11. COMMITMENTS AND CONTINGENCIES

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

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2019.

12. RISK MANAGEMENT

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

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

13. PROPERTY TAXES

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

14. 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.

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.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

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 MPERS 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.

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.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

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, 2017 valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

The table below summarizes pension contribution rates in effect for fiscal year 2019:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	17.89% - 18.25%
Member Investment Plan (MIP)	3.00% - 7.00%	17.89% - 18.25%
Pension Plus	3.00% - 6.40%	16.46% - 16.61%
Pension Plus 2	6.20%	19.59% - 19.74%
Defined Contribution	0.00%	13.39% - 13.54%

For the year ended June 30, 2019, required and actual contributions from the District to the pension plan were \$2,960,372, which included \$1,140,551, 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 2019:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	7.67% - 7.93%
Personal Healthcare Fund (PHF)	0.00%	7.42% - 7.57%

For the year ended June 30, 2019, required and actual contributions from the District to the OPEB plan were \$802,819.

The table below summarizes defined contribution rates in effect for fiscal year 2019:

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%

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

For the year ended June 30, 2019, required and actual contributions from the District for those members with a defined contribution benefit were \$91,994.

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

At June 30, 2019, the District reported a liability of \$30,505,070 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2017. 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, 2018, the District's proportion was 0.10147%, which was an increase of 0.00237% from its proportion measured as of September 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$4,626,581. At June 30, 2019, 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	\$ 141,549	\$ 221,675	\$ (80,126)
Changes in assumptions	7,064,949	-	7,064,949
Net difference between projected and actual earnings on pension plan investments	-	2,085,771	(2,085,771)
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,476,732	106,686	1,370,046
	<u>8,683,230</u>	<u>2,414,132</u>	<u>6,269,098</u>
District contributions subsequent to the measurement date	2,761,250	-	2,761,250
	<u>2,761,250</u>	<u>-</u>	<u>2,761,250</u>
Total	<u>\$ 11,444,480</u>	<u>\$ 2,414,132</u>	<u>\$ 9,030,348</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

The \$2,761,250 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, 2020. 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
2020	\$ 2,722,620
2021	1,892,913
2022	1,184,002
2023	<u>469,563</u>
Total	<u>\$ 6,269,098</u>

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

At June 30, 2019, the District reported a liability of \$8,214,852 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2017. 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, 2018, the District's proportion was 0.10335% which was an increase of 0.00433% from its proportion measured as of September 30, 2017.

For the year ended June 30, 2019, the District recognized OPEB expense of \$466,483. At June 30, 2019, 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	\$ -	\$ 1,528,995	\$ (1,528,995)
Changes in assumptions	869,957	-	869,957
Net difference between projected and actual earnings on OPEB plan investments	-	315,716	(315,716)
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>328,103</u>	<u>27,562</u>	<u>300,541</u>
	1,198,060	1,872,273	(674,213)
District contributions subsequent to the measurement date	<u>715,173</u>	-	<u>715,173</u>
Total	<u>\$ 1,913,233</u>	<u>\$ 1,872,273</u>	<u>\$ 40,960</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

The \$715,173 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, 2020. 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
2020	\$ (175,243)
2021	(175,243)
2022	(175,243)
2023	(111,179)
2024	<u>(37,305)</u>
Total	<u>\$ (674,213)</u>

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, 2017 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)	7.05%
Pension Plus plan (hybrid)	7.00%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	7.15%
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 3.0% Year 12
Mortality	RP-2014 Male and Female Healthy 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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

Other OPEB assumptions:

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

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.5304 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.6018 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, 2018, 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%	5.70%	1.60%
Alternative investment pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.50%	0.05%
Real estate and infrastructure pools	10.00%	3.90%	0.39%
Absolute return pools	15.50%	5.20%	0.81%
Short-term investment pools	2.00%	0.00%	0.00%
	<u>100.00%</u>		<u>5.66%</u>
Inflation			2.30%
Risk adjustment			<u>-0.91%</u>
Investment rate of return			<u>7.05%</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, 2018, 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%	5.70%	1.60%
Private equity pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.50%	0.05%
Real estate and infrastructure pools	10.00%	3.90%	0.39%
Absolute return pools	15.50%	5.20%	0.81%
Short-term investment pools	2.00%	0.00%	0.00%
	<u>100.00%</u>		<u>5.66%</u>
Inflation			2.30%
Risk adjustment			<u>-0.81%</u>
Investment rate of return			<u><u>7.15%</u></u>

Discount Rate

A discount rate of 7.05% was used to measure the total pension liability (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan, both of which are hybrid plans provided through non-university employers only) and a discount rate of 7.15% 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 7.05% (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan) and 7.15%, 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.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

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 7.05% (7.00% 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 higher:

	1% Decrease (6.05% / 6.00% / 5.00%)	Current Discount Rate (7.05% / 7.00% / 6.00%)	1% Increase (8.05% / 8.00% / 7.00%)
District's proportionate share of the net pension liability	\$ 40,050,800	\$ 30,505,070	\$ 22,574,119

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 7.15%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net OPEB liability	\$ 9,861,763	\$ 8,214,852	\$ 6,829,599

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 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	\$ 6,756,625	\$ 8,214,852	\$ 9,887,736

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.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Financial Statements

Payable to the Pension Plan

At June 30, 2019, the District reported a payable of \$439,937 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2019.

Payable to the OPEB Plan

At June 30, 2019, the District reported a payable of \$96,329 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2019.

15. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2019, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 306,642
Capital assets being depreciated, net	<u>31,439,787</u>
	<u>31,746,429</u>
Related debt:	
Total bonds payable	30,930,000
Deduct: Bonds payable refunding SBLF	(9,675,000)
Bond premium	1,681,128
Deferred charge on advance refunding	(1,075,294)
Installment purchase agreement	<u>1,488,000</u>
	<u>23,348,834</u>
Net investment in capital assets	<u><u>\$ 8,397,595</u></u>

16. OPERATING LEASES

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

Year Ended June 30,	Amount
2020	\$ 329,304
2021	329,304
2022	329,304
2023	329,304
2024	<u>39,484</u>
	<u><u>\$ 1,356,700</u></u>



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REQUIRED SUPPLEMENTARY INFORMATION

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Required Supplementary Information
 MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,				
	2015	2016	2017	2018	2019
District's proportion of the net pension liability	\$ 18,711,495	\$ 22,073,771	\$ 24,211,986	\$ 25,681,787	\$ 30,505,070
District's proportionate share of the net pension liability	0.08495%	0.09037%	0.09705%	0.09910%	0.10147%
District's covered payroll	\$ 7,239,068	\$ 7,567,437	\$ 8,411,638	\$ 8,243,572	8,783,693
District's proportionate share of the net pension liability as a percentage of its covered payroll	258.48%	291.69%	287.84%	311.54%	347.29%
Plan fiduciary net position as a percentage of the total pension liability	66.20%	63.17%	63.27%	64.21%	62.36%

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

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

Schedule of the District's Pension Contributions

	Year Ended June 30,				
	2015	2016	2017	2018	2019
Statutorily required contribution	\$ 1,624,143	\$ 2,184,302	\$ 2,294,856	\$ 2,779,376	\$ 2,960,372
Contributions in relation to the statutorily required contribution	(1,624,143)	(2,184,302)	(2,294,856)	(2,779,376)	(2,960,372)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 7,362,379	\$ 8,271,806	\$ 8,150,359	\$ 8,817,368	\$ 10,335,893
Contributions as a percentage of covered payroll	22.06%	26.41%	28.16%	31.52%	28.64%

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Required Supplementary Information MPERS Cost-Sharing Multiple-Employer Plan

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

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

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

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

Schedule of the District's Other Postemployment Benefit Contributions

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

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

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COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2018

	Special Revenue		Total Nonmajor Governmental Funds
	Food Service	Debt Service	
Assets			
Cash and cash equivalents	\$ 22,197	\$ 187	\$ 22,384
Due from other governments	73,066	-	73,066
Due from other funds	420,757	48,511	469,268
Inventories	30,821	-	30,821
Prepaid items	45,000		45,000
Total assets	<u>\$ 591,841</u>	<u>\$ 48,698</u>	<u>\$ 640,539</u>
Liabilities			
Accounts payable	\$ 119,150	\$ -	\$ 119,150
Due to other funds	-	104,315	104,315
Total liabilities	<u>119,150</u>	<u>104,315</u>	<u>223,465</u>
Fund balances			
Nonspendable	75,821	-	75,821
Restricted	396,870	-	396,870
Unassigned (deficit)	-	(55,617)	(55,617)
Total fund balances	<u>472,691</u>	<u>(55,617)</u>	<u>417,074</u>
Total liabilities and fund balances	<u>\$ 591,841</u>	<u>\$ 48,698</u>	<u>\$ 640,539</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2018

	Special Revenue		Total Nonmajor Governmental Funds
	Food Service	Debt Service	
Revenues			
Local sources	\$ 103,610	\$ 1,501,032	\$ 1,604,642
State sources	43,169	48,511	91,680
Federal sources	1,745,062	-	1,745,062
	<u>1,891,841</u>	<u>1,549,543</u>	<u>3,441,384</u>
Total revenues			
Expenditures			
Current -			
Food services	2,031,822	-	2,031,822
Debt service:			
Principal	-	2,400,000	2,400,000
Interest and fiscal charges	-	1,113,075	1,113,075
	<u>2,031,822</u>	<u>3,513,075</u>	<u>5,544,897</u>
Total expenditures			
Revenues under expenditures	(139,981)	(1,963,532)	(2,103,513)
Other financing sources (uses)			
Issuance of long-term debt	-	2,143,487	2,143,487
	<u>-</u>	<u>2,143,487</u>	<u>2,143,487</u>
Net change in fund balances	(139,981)	179,955	39,974
Fund balances, beginning of year	612,672	(235,572)	377,100
	<u>612,672</u>	<u>(235,572)</u>	<u>377,100</u>
Fund balances, end of year	\$ 472,691	\$ (55,617)	\$ 417,074
	<u>\$ 472,691</u>	<u>\$ (55,617)</u>	<u>\$ 417,074</u>

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SINGLE AUDIT ACT COMPLIANCE

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

November 1, 2019

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, the 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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 1, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Rehmann Robson LLC

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THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2019

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	181970	\$ 197,269
National School Breakfast Program	10.553	MDE	191970	223,650
Non-Cash Assistance -				
Entitlement Commodities	10.555	MDE	n/a	90,814
Cash Assistance:				
National School Lunch Program	10.555	MDE	181960	658,082
National School Lunch Program	10.555	MDE	191960	818,204
Summer Food Service Program	10.559	MDE	180900	30,251
Summer Food Service Program	10.559	MDE	181900	2,560
Summer Food Service Program	10.559	MDE	190900	9,565
Summer Food Service Program	10.559	MDE	191900	812
Total Child Nutrition Cluster				
Child and Adult Care Food Program	10.558	MDE	181920	373,271
Child and Adult Care Food Program	10.558	MDE	182010	12,610
Child and Adult Care Food Program	10.558	MDE	191920	388,279
Child and Adult Care Food Program	10.558	MDE	192010	11,033
Total U.S. Department of Agriculture				
U.S. Department of Education				
Title I:				
Title I, Part A - Improving Basic Programs	84.010	MDE	181530/1718	715,175
Title I, Part A - Improving Basic Programs	84.010	MDE	191530/1819	643,379

Accrued (Unearned) Revenue at July 1, 2018	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2019	Accrued (Unearned) Revenue at June 30, 2019
\$ 10,779	\$ 36,462	\$ 171,586	\$ 25,683	\$ -
-	212,052	-	223,650	11,598
<u>10,779</u>	<u>248,514</u>	<u>171,586</u>	<u>249,333</u>	<u>11,598</u>
-	90,814	-	90,814	-
30,724	140,648	548,158	109,924	-
-	783,599	-	818,204	34,605
<u>30,724</u>	<u>1,015,061</u>	<u>548,158</u>	<u>1,018,942</u>	<u>34,605</u>
6,037	30,251	6,037	24,214	-
511	2,560	511	2,049	-
-	-	-	9,565	9,565
-	-	-	812	812
<u>6,548</u>	<u>32,811</u>	<u>6,548</u>	<u>36,640</u>	<u>10,377</u>
<u>48,051</u>	<u>1,296,386</u>	<u>726,292</u>	<u>1,304,915</u>	<u>56,580</u>
19,026	58,877	333,420	39,851	-
624	1,608	11,626	984	-
-	372,297	-	388,279	15,982
-	10,529	-	11,033	504
<u>19,650</u>	<u>443,311</u>	<u>345,046</u>	<u>440,147</u>	<u>16,486</u>
<u>67,701</u>	<u>1,739,697</u>	<u>1,071,338</u>	<u>1,745,062</u>	<u>73,066</u>
156,350	156,350	715,175	-	-
-	508,151	-	643,379	135,228
<u>156,350</u>	<u>664,501</u>	<u>715,175</u>	<u>643,379</u>	<u>135,228</u>

continued...

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2019

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
U.S. Department of Education (continued)				
Title II:				
Title II, Part A - Improving Teacher Quality	84.367	MDE	190520/1819	\$ 124,210
Title II, Part A - School Leader Grant	84.367	MDE	180532/1819	40,000
Title IV, Part A	84.424	MDE	190750/1819	46,699
Special Education Cluster:				
I.D.E.A. Flow-Through	84.027A	WCRESA	070460/1718	444,834
I.D.E.A. Flow-Through	84.027A	WCRESA	070460/1819	449,152
Preschool Incentive	84.173	WCRESA	070460/1819	15,571
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, 2018	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2019	Accrued (Unearned) Revenue at June 30, 2019
\$ -	\$ -	\$ -	\$ 124,210	\$ 124,210
-	40,000	-	40,000	-
-	40,000	-	164,210	124,210
-	46,699	-	46,699	-
198,315	198,315	444,834	-	-
-	202,479	-	449,152	246,673
198,315	400,794	444,834	449,152	246,673
-	7,685	-	15,571	7,886
198,315	408,479	444,834	464,723	254,559
354,665	1,159,679	1,160,009	1,319,011	513,997
\$ 422,366	\$ 2,899,376	\$ 2,231,347	\$ 3,064,073	\$ 587,063

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, 2019. 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*

November 1, 2019

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, the 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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 1, 2019.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-002 to be a significant deficiency.

Compliance and Other Matters

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

The School District of the City of Harper Woods' 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.

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

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

November 1, 2019

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of *The School District of the City of Harper Woods* (the "District") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Independent Auditors' Responsibility

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

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

Basis for Qualified Opinion on the Child Nutrition Cluster (CFDAs 10.553, 10.555 and 10.559)

As described in item 2019-006 in the accompanying schedule of findings and questioned costs, the District did not comply with the Procurement requirement applicable to its Child Nutrition Cluster program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to this program.

Basis for Qualified Opinion on the Title I program (CFDA 84.010)

As described in item 2019-003 in the accompanying schedule of findings and questioned costs, the District did not comply with the Allowable Costs/Cost Principles requirement applicable to its Title I program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to this program.

Qualified Opinion on the Child Nutrition Cluster and Title I program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraphs, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its Child Nutrition Cluster and Title I programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-004 and 2019-005. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2019-003, 2019-004 and 2019-006 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2019-005 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.

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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, 2019

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? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? X yes none reported

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

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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion</u>
10.553, 10.555 and 10.559 84.010	Child Nutrition Cluster Title I, Part A	Qualified Qualified

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

Auditee qualified as low-risk auditee? yes X no

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

2019-001 - Material Audit Adjustment (Repeat)

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

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

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

Cause. This condition was the result of oversights in the process of properly recording expenditures in the fund related to a leased property.

Effect. As a result of this condition, prepaids was initially overstated by approximately \$524,000 and expenditures were understated by the same amount.

Recommendation: We recommend that the District verify that only items that are for future periods are recorded in prepaids.

View of Responsible Officials. Similar to last year's audit, there was a misunderstanding between the CFO and the auditors as to the handling of the expenses to the new CCI building, officially opened in September of 2019. All other prepaid expenses were properly recorded.

Responsible Official. James Dennis, Chief Financial Officer

Anticipated Completion Date. September 13, 2019

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

2019-002 - Accounting for Capital Assets

Finding Type. Significant Deficiency in Internal Controls over Financial Reporting

Criteria. The District should maintain complete and accurate capital assets records. The records should be updated and reviewed by the District for completeness and conformity to generally accepted accounting principles (GAAP).

Condition. The amounts recorded as capital asset additions required adjustment for approximately \$321,000. Additionally, there have not been any capital asset disposals since 2014 which is unlikely considering the number of assets the District has on its capital asset detail.

Cause. Internal controls did not detect all of the necessary items to be capitalized and depreciated. In addition, policies and procedures are not in place to require a capital asset inventory be done and assets written off that are no longer in service.

Effect. The District has not maintained or reconciled accurate reports for capital assets in recent years. The District also exposes itself to potential misstatements due to fraud or error when not properly monitoring capital asset inventory.

Recommendation. We recommend that the District implement procedures to verify that all capital asset additions are properly included and depreciated. We also recommend that the District implement policies and procedures to ensure that capital asset records are accurate, which should include periodic inventories and other procedures to verify the existence of assets.

View of Responsible Officials. All capital purchases will be properly reviewed to determine if they are depreciable. A fixed asset audit will be performed and all assets that have been retired or disposed of will be deleted from the capital asset detail.

Responsible Official. James Dennis, Chief Financial Officer

Anticipated Completion Date. June 30, 2020

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

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

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

Federal program(s)

U.S. Department of Education -

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

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

Condition. The District was unable to provide 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.

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

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

Questioned Costs. The total amount charged for salaries and fringes with lesson plans or class schedules amounted to \$216,714. The total amount charged for salaries and fringes for the individual with no documentation amounted to \$25,240.

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

View of Responsible Officials. All required documentation for staff members charged to federally funded programs will be reviewed and maintained by the school district's Grant Coordinator in accordance with district policies and grant requirements.

Responsible Official. James Dennis, Chief Financial Officer

Anticipated Completion Date. November 1, 2019

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2019

SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

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

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

Federal program(s)

U.S. Department of Education -

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

Criteria. The Uniform Guidance requires governments charge amounts to grants based on actual, not budgeted amounts.

Condition. 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.

Cause. While the District has adopted policies that comply with the requirements of the Uniform Guidance for procuring contractors and allocating costs to the grant, the District is not following those policies.

Effect. The District did not comply with the requirements of the Uniform Guidance.

Questioned Costs. The total amount charged to the grant for the budgeted portion of this contractor's time amounted to \$100,000.

Recommendation. We recommend the District procure contractors and charge their time to the grant based on reasonable allocations in accordance with its federal policies and procedures.

View of Responsible Officials. All Title I and Title II expenses and appropriate paperwork and contracts are approved by the MDE prior to funds being made available and expenses being submitted for reimbursement. The vendor referenced was in the second year of assisting/working for the district, and the amount charged to the grant was approved as part of the Consolidated Application. They were a unique contractor and there was no discussion during the audit whatsoever of non-procurement or not verifying them as being disbarred or suspended. Going forward, all outside vendors will be reviewed by the school district's grant coordinator and/or the CFO prior and expenses charged accordingly.

Responsible Official. James Dennis, Chief Financial Officer

Anticipated Completion Date. November 1, 2019

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

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

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

Federal program(s)

U.S. Department of Agriculture:

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

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

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

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

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

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

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

View of Responsible Officials. Capital assets purchased with federal funds are coded to unique general ledger accounts which indicate which grant/fund the monies came from. That process will continue with all future capital asset purchases.

Responsible Official. James Dennis, Chief Financial Officer

Anticipated Completion Date. November 1, 2019

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

2019-006 - Procurement (Repeat)

Finding Type. Material Noncompliance; Material Weakness 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 four contract files tested, three 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 projects requiring bids are completed and included in the project file for sufficient audit documentation.

View of Responsible Officials. The district has been procuring at least 3 bids for any individual expense over \$3,000 unless it is a unique vendor or product. We will continue to review and follow all district policies and grant guidelines and requirements.

Responsible Official. James Dennis, Chief Financial Officer

Anticipated Completion Date. June 30, 2020



THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2019

Finding 2018-001 - 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 2019-001 in the current year Schedule of Findings and Questioned Costs.

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

The District was unable to provide proper documentation for four employees charged through the payroll system and for two employees that were journalized into the grant from other functions. This finding was not adequately resolved. See finding 2019-003 in the current year Schedule of Findings and Questioned Costs.

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

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

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

The District has not conducted a physical inventory of equipment within the past two fiscal years. In addition, the District's capital asset records do not include a proper designation for those assets purchased with federal funds. This finding was not adequately resolved. See finding 2019-005 in the current year Schedule of Findings and Questioned Costs.

Finding 2018-005 - Procurement

The District did not have the required bid documentation for four of its vendors. This finding was not adequately resolved. See finding 2019-006 in the current year Schedule of Findings and Questioned Costs.

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

The District's fund balance exceeded three months' average of operating expenses. This finding was adequately resolved.

