

The School District of the City of Harper Woods

Financial Statements

June 30, 2021



Table of Contents

Section		Page
1	Members of the Board of Education and Administration	1 - 1
2	Independent Auditors' Report	2 - 1
3	Management's Discussion and Analysis	3 - 1
4	Basic Financial Statements	
	District-wide Financial Statements	
	Statement of Net Position	4 - 1
	Statement of Activities	4 - 3
	Fund Financial Statements	
	Governmental Funds	
	Balance Sheet	4 - 4
	Reconciliation of the Balance Sheet of	
	Governmental Funds to the Statement of Net Position	4 - 6
	Statement of Revenues, Expenditures and Changes in Fund Balances	4 - 7
	Reconciliation of the Statement of Revenues, Expenditures and	
	Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 - 9
	Notes to the Financial Statements	4 - 10
5	Required Supplementary Information	
	Budgetary Comparison Schedule - General Fund	5 - 1
	Schedule of the School District's Proportionate Share of the Net Pension Liability	5 - 3
	Schedule of the School District's Pension Contributions	5 - 4
	Schedule of the School District's Proportionate Share of the Net OPEB Liability	5 - 5
	Schedule of the School District's OPEB Contributions	5 - 6

**The School District of the City of Harper Woods
Members of the Board of Education and Administration
June 30, 2021**

Members of the Board of Education

Alicia McKay	President
Terry Hughes	Vice President
Stacey White	Secretary
William Murphy	Treasurer
Ramona Dell Dunn-Simmons	Trustee
Kayetta Holly	Trustee
M. Joan Mannino	Trustee

Administration

Steven McGhee	Superintendent
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Independent Auditors' Report

Management and the Board of Education
The School District of the City of Harper Woods
Harper Woods, MI

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The School District of the City of Harper Woods, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the School 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.

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, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Account Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2021, the School District adopted GASB Statement No. 84, *Fiduciary Activities*. Our opinions are not modified with respect to this matter.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2021 on our consideration of The School District of the City of Harper Woods' 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 solely 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 the effectiveness of The School District of the City of Harper Woods' 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 School District of the City of Harper Woods' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Auburn Hills, MI
October 27, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The School District of the City of Harper Woods

Management's Discussion and Analysis

June 30, 2021

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, 2021. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District financially as a whole. The *government-wide financial statements* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the District's operations in more detail than the government-wide financial statements by providing information about the District's most significant funds – the general fund and debt service fund, with any other funds presented in one column as non-major 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 year's activities?" The statement of net position and the statement of activities, which appear first in the District's financial statements, report information on the District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

The School District of the City of Harper Woods
Management's Discussion and Analysis
June 30, 2021

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.

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:

The School District of the City of Harper Woods
Management's Discussion and Analysis
June 30, 2021

	Net Position	
	2021	2020
Assets		
Current and other assets	\$ 13,336,397	\$ 7,325,090
Capital assets	30,378,819	31,506,901
Total Assets	43,715,216	38,831,991
Deferred Outflows of Resources	17,770,935	18,394,664
Total Assets and Deferred Outflows of Resources	61,486,151	57,226,655
Liabilities		
Other liabilities	52,444,239	51,351,547
Long-term liabilities	37,769,727	38,563,062
Total Liabilities	90,213,966	89,914,609
Deferred Inflows of Resources	6,712,533	4,844,216
Net Position		
Net investment in capital assets	7,312,856	9,458,091
Restricted	716,202	623,638
Unrestricted	(43,469,406)	(47,613,899)
Total Net Position	\$ (35,440,348)	\$ (37,532,170)

The District had negative net position of \$35,440,348 at June 30, 2021. The district had net investment in capital assets of \$7,312,856, 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 \$716,202 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 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, 2021 and 2020.

The School District of the City of Harper Woods
Management's Discussion and Analysis
June 30, 2021

	Changes in Net Position	
	2021	2020
Revenues		
Program revenue:		
Charges for services	\$ 85,963	\$ 117,122
Operating grants and contributions	10,040,071	6,224,050
General revenue:		
Property taxes	3,913,159	2,811,354
State aid - unrestricted	22,642,794	22,757,719
Interest and investment earnings	9,078	-
Other	174,998	1,808,186
Total revenue	36,866,063	33,718,431
Functions/Program Expenses		
Instruction	22,595,509	21,417,740
Supporting services	9,185,045	11,304,087
Student activities	37,929	-
Food services	759,976	1,632,898
Community services	83,726	162,334
Interest and fiscal charges on long-term debt	1,122,476	1,131,604
Unallocated depreciation	1,112,230	1,092,741
Total functions/program expenses	34,896,891	36,741,404
Change in Net Position	\$ 1,969,172	\$ (3,022,973)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$34,896.891. Certain activities were partially funded from those who benefited from the programs (\$85,963) or by other governments and organizations that subsidized certain programs with grants and contributions (\$10,040,071). The District paid for the remaining "public benefit" portion of our governmental activities with \$3,913.159 in taxes, \$22,642,794 in state foundation allowance and special education funding, and with our other revenues, i.e., interest and general entitlements.

The District experienced an increase in net position of \$1,969,172. The primary reason for the change in net position is a decrease of \$1,844,513 in expenses, mainly in the cost of not running the buildings, not running as many community services, less students eating and less student support services required by the students who were not attending school in person.

The School District of the City of Harper Woods
Management's Discussion and Analysis
June 30, 2021

Also contributing to this increase in net position is the increased is increased property tax revenue and federal grants related to COVID relief.

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 2021, the governmental funds reported a combined fund balance of \$8,968,488 which is an increase of \$6,938,611 in comparison with the prior year. The primary reasons for the change are as follows:

In the general fund, the principal operating fund, the fund balance increased \$7,192,539 to \$8,290,768. This change is compared to an increase of \$62,422 in the prior year.

The debt service fund shows a fund balance decrease of \$358,106 from a fund balance of \$233,527 to a negative fund balance of (\$124,579). The millage rate is 13.0 mills (funding a combined debt service fund for the 2006, 2012, 2016 and 2019 refunding bonds). The millage rate is determined annually to ensure that the District accumulates sufficient resources to pay annual bond issue-related debt service. Due to a mandate from the State of Michigan, the millage rate was set at 13.0 mills, and will remain the same for several years.

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 adjustment to the 2019-2020 budget were adopted on January 21, 2020 and May 19, 2020. The significant changes between the original adopted budget and the final amended budget include a 173 FTE reduction, an increase of \$20 per FTE in State Aid, and additional Title I, Title II, Title IV, IDEA, and GSRP funding. Changes in expenditures included additional custodians, technology equipment, CCI building costs, virtual Spanish/Mandarin classes, new elementary reading and writing program, and building subs to fill teacher vacancies partially offset by unfilled full time teacher wages and benefits.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2021, the District had \$30,378,819 (net of accumulated depreciation) invested in a broad range of capital assets, including land, buildings and improvements, vehicles and furniture and equipment. The only purchase this year was uniforms for the football team of 30,897. Additional information on the District's capital assets can be found in note 6 in the notes to the financial statements.

The School District of the City of Harper Woods
Management's Discussion and Analysis
June 30, 2021

	District's Capital Assets	
	(Net of Depreciation)	
	<u>2021</u>	<u>2020</u>
Land	\$ 46,749	\$ 46,749
Buildings and improvements	29,920,360	31,009,923
Equipment and furniture	347,310	365,779
Buses and other vehicles	64,400	84,450
Total capital assets, net	<u>\$ 30,378,819</u>	<u>\$ 31,506,901</u>

Long-term Debt

At the end of the 2020-2021 fiscal year, the District had \$33,585,000 in bonds outstanding versus \$33,190,000 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	
	<u>2021</u>	<u>2020</u>
General obligation bonds	\$ 33,585,000	\$ 33,190,000
Notes from direct borrowings and direct placements	1,335,000	1,412,000
Bond premium	1,108,859	1,554,324
School bond loan fund	1,488,301	2,174,154
Compensated absences	252,567	232,584
Total	<u>\$ 37,769,727</u>	<u>\$ 38,563,062</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, 2021 and therefore below the statutorily imposed limit.

The School District of the City of Harper Woods
Management's Discussion and Analysis
June 30, 2021

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

Economic Factors and Next Year's Budget and Rates

Our elected officials and administration consider many factors when setting the District's 2021-22 fiscal year budget. The 2021-22 fiscal year budget was adopted by the Board of Education in June 2021 as follows:

Estimated July 1, 2021 General Fund balance	\$ 2,547,977
Revenue	<u>28,896,192</u>
Total available to appropriate	31,444,169
Expenditures	<u>28,786,345</u>
Estimated June 30, 2022 General Fund balance	<u>\$ 2,657,824</u>

The actual July 1, 2021 general fund balance is \$8,290,768. The July 1, 2021 fund balance is 31% of the 2020-2021 general fund expenditures which were \$27,159,724.

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

One of the most important factors affecting the budget is our student count and foundation allowance from the State. State revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2020-2021 fiscal year is 10 percent and 90 percent of the February 2020 and October 2020 student counts, respectively. The 2020-2021 budget was adopted in June 2020, based on an estimate of blended students. Approximately 80 percent of the total general fund revenue is from the foundation allowance including the 18 mills local tax portion and the State Aid portion under the State Aid Act sections 22(a), 22(b), and the Special Education section 51(a). Under State law, the District cannot assess additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding is validated in October, state law requires the District to amend the budget if actual District resources are not sufficient to fund original appropriations.

The School District of the City of Harper Woods
Management's Discussion and Analysis
June 30, 2021

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 2020-2021 was \$8,529. The budget adopted in June 2021 for the 2021-2022 fiscal year assumed no increase in the foundation allowance.

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS

The School District of the City of Harper Woods
Statement of Net Position
June 30, 2021

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 6,158,620
Accounts receivable	1,000
Due from other governmental units	6,934,178
Inventory	41,097
Prepaid items	201,502
Capital assets not being depreciated	46,749
Capital assets - net of accumulated depreciation	<u>30,332,070</u>
 Total assets	 <u>43,715,216</u>
 Deferred Outflows of Resources	
Deferred amount relating to the net pension liability	12,275,167
Deferred amount relating to the net OPEB liability	4,327,872
Deferred amount on debt refunding	<u>1,167,896</u>
 Total deferred outflows of resources	 <u>17,770,935</u>

See Accompanying Notes to the Financial Statements

The School District of the City of Harper Woods
Statement of Net Position
June 30, 2021

	Governmental Activities
Liabilities	
Accounts payable	\$ 1,716,912
State aid anticipation note payable	314,286
Due to other governmental units	13,841
Payroll deductions and withholdings	633,990
Accrued expenditures	302,143
Accrued salaries payable	1,564,698
Long-term liabilities	
Net pension liability	41,318,045
Net OPEB liability	6,562,917
Due within one year	2,887,000
Due in more than one year	<u>34,882,727</u>
Total liabilities	<u>90,213,966</u>
Deferred Inflows of Resources	
Deferred amount relating to the net pension liability	1,779,304
Deferred amount relating to the net OPEB liability	<u>4,933,229</u>
Total deferred inflows of resources	<u>6,712,533</u>
Net Position	
Net investment in capital assets	7,312,856
Restricted for:	
Food service	582,434
Student activities	133,768
Unrestricted (deficit)	<u>(43,469,406)</u>
Total net position	<u>\$ (35,440,348)</u>

See Accompanying Notes to the Financial Statements

The School District of the City of Harper Woods
Statement of Activities
For the Year Ended June 30, 2021

	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Position
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Functions/Programs				
Governmental activities				
Instruction	\$ 22,595,509	\$ -	\$ 3,711,040	\$ (18,884,469)
Supporting services	9,185,045	59,038	5,567,888	(3,558,119)
Student activities	37,929	-	49,049	11,120
Food services	759,976	13,454	712,094	(34,428)
Community services	83,726	13,491	-	(70,235)
Unallocated depreciation expense	1,112,230	-	-	(1,112,230)
Interest and fiscal charges on long-term debt	1,122,476	-	-	(1,122,476)
	<u>\$ 34,896,891</u>	<u>\$ 85,983</u>	<u>\$ 10,040,071</u>	<u>(24,770,837)</u>
Total governmental activities				
General revenues				
				1,141,914
				1,611,819
				1,159,426
				22,642,794
				9,078
				<u>174,998</u>
				<u>26,740,029</u>
				1,969,192
				<u>(37,409,540)</u>
				<u>\$ (35,440,348)</u>

See Accompanying Notes to the Financial Statements

The School District of the City of Harper Woods
Governmental Funds
Balance Sheet
June 30, 2021

	General Fund	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 4,248,290	\$ 1,680,369	\$ 229,961	\$ 6,158,620
Accounts receivable	1,000	-	-	1,000
Due from other funds	1,252,921	-	647,050	1,899,971
Due from other governmental units	6,934,178	-	-	6,934,178
Inventory	-	-	41,097	41,097
Prepaid items	156,502	-	45,000	201,502
	<u>12,592,891</u>	<u>1,680,369</u>	<u>963,108</u>	<u>15,236,368</u>
Total assets	<u>\$ 12,592,891</u>	<u>\$ 1,680,369</u>	<u>\$ 963,108</u>	<u>\$ 15,236,368</u>
Liabilities				
Accounts payable	\$ 1,651,126	\$ -	\$ 65,786	\$ 1,716,912
State aid anticipation note payable	314,286	-	-	314,286
Due to other funds	-	1,804,948	95,023	1,899,971
Due to other governmental units	13,841	-	-	13,841
Payroll deductions and withholdings	633,990	-	-	633,990
Accrued expenditures	106,775	-	-	106,775
Accrued salaries payable	1,564,698	-	-	1,564,698
Unearned revenue	17,407	-	-	17,407
	<u>4,302,123</u>	<u>1,804,948</u>	<u>160,809</u>	<u>6,267,880</u>
Total liabilities	<u>4,302,123</u>	<u>1,804,948</u>	<u>160,809</u>	<u>6,267,880</u>

See Accompanying Notes to the Financial Statements

The School District of the City of Harper Woods
Governmental Funds
Balance Sheet
June 30, 2021

	General Fund	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances				
Non-spendable				
Inventory	\$ -	\$ -	\$ 41,097	\$ 41,097
Prepaid items	156,502	-	45,000	201,502
Restricted for				
Food service	-	-	582,434	582,434
Student activities	-	-	133,768	133,768
Unassigned (deficit)	<u>8,134,266</u>	<u>(124,579)</u>	<u>-</u>	<u>8,009,687</u>
Total fund balances (deficit)	<u>8,290,768</u>	<u>(124,579)</u>	<u>802,299</u>	<u>8,968,488</u>
Total liabilities and fund balances	<u>\$ 12,592,891</u>	<u>\$ 1,680,369</u>	<u>\$ 963,108</u>	<u>\$ 15,236,368</u>

See Accompanying Notes to the Financial Statements

The School District of the City of Harper Woods
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2021

Total fund balances for governmental funds	\$ 8,968,488
Total net position for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	46,749
Capital assets - net of accumulated depreciation	30,332,070
Deferred outflows (inflows) of resources	
Deferred outflows of resources resulting from debt refunding	1,167,896
Deferred outflows of resources resulting from the net pension liability	12,275,167
Deferred outflows of resources resulting from the net OPEB liability	4,327,872
Deferred inflows of resources resulting from the net pension liability	(1,779,304)
Deferred inflows of resources resulting from the net OPEB liability	(4,933,229)
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(195,368)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities.	
Net pension liability	(41,318,045)
Net OPEB liability	(6,562,917)
Compensated absences	(252,567)
Bonds payable	(34,693,859)
School bond loan payable	(1,488,301)
Other loans payable and liabilities	<u>(1,335,000)</u>
Net position of governmental activities	<u>\$ (35,440,348)</u>

See Accompanying Notes to the Financial Statements

The School District of the City of Harper Woods
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2021

	General Fund	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 1,349,168	\$ 1,612,121	\$ 62,503	\$ 3,023,792
State sources	27,871,849	-	109,774	27,981,623
Federal sources	3,869,148	-	712,094	4,581,242
Interdistrict sources	1,279,426	-	-	1,279,426
	<u>34,369,591</u>	<u>1,612,121</u>	<u>884,371</u>	<u>36,866,083</u>
Expenditures				
Current				
Education				
Instruction	17,773,671	-	-	17,773,671
Supporting services	9,127,116	-	-	9,127,116
Student activities	-	-	37,911	37,911
Food services	-	-	759,610	759,610
Community services	83,685	-	-	83,685
Capital outlay	44,291	-	-	44,291
Debt service				
Principal	77,000	2,520,000	-	2,597,000
Interest and other expenditures	53,961	926,967	-	980,928
Bond issuance costs	-	181,662	-	181,662
Payment to bond refunding escrow agent	-	12,090,638	-	12,090,638
	<u>27,159,724</u>	<u>15,719,267</u>	<u>797,521</u>	<u>43,676,512</u>
Excess (deficiency) of revenues over expenditures	<u>7,209,867</u>	<u>(14,107,146)</u>	<u>86,850</u>	<u>(6,810,429)</u>

See Accompanying Notes to the Financial Statements

The School District of the City of Harper Woods
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2021

	General Fund	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)				
Proceeds from issuance of bonds	\$ -	\$ 12,270,000	\$ -	\$ 12,270,000
Proceeds from school bond loan fund	-	1,479,040	-	1,479,040
Transfers in	922	-	18,250	19,172
Transfers out	(18,250)	-	(922)	(19,172)
 Total other financing sources (uses)	 (17,328)	 13,749,040	 17,328	 13,749,040
 Net change in fund balances	 7,192,539	 (358,106)	 104,178	 6,938,611
 Fund balances - beginning, as restated	 1,098,229	 233,527	 698,121	 2,029,877
 Fund balances (deficit) - ending	 <u>\$ 8,290,768</u>	 <u>\$ (124,579)</u>	 <u>\$ 802,299</u>	 <u>\$ 8,968,488</u>

See Accompanying Notes to the Financial Statements

The School District of the City of Harper Woods
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2021

Net change in fund balances - Total governmental funds	\$ 6,938,611
Total change in net position reported for governmental activities in the statement of activities is 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.	
Depreciation expense	(1,112,230)
Capital outlay	30,897
Loss on disposal (net book value)	(46,749)
Expenses are recorded when incurred in the statement of activities.	
Interest	(58,095)
Compensated absences	(19,983)
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	(4,151,749)
Net change in deferrals of resources related to the net pension liability	(1,347,498)
The statement of net position reports the net OPEB liability and deferred outflows of resources and deferred inflows related to the net OPEB liability and OPEB expense. However, the amount recorded on the governmental funds equals actual OPEB contributions.	
Net change in net OPEB liability	2,019,111
Net change in deferrals of resources related to the net OPEB liability	(1,319,930)
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Debt issued	(13,749,040)
Repayments of long-term debt	14,687,638
Deferred amount on debt refunding	15,590
Amortization of premiums	82,619
Change in net position of governmental activities	<u>\$ 1,969,192</u>

See Accompanying Notes to the Financial Statements

The School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

Note 1 - Summary of Significant Accounting Policies

The accounting policies of The School District of the City of Harper Woods (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain

intergovernmental revenues). The statement of activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net position resulting from current year activities.

Fund Financial Statements

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

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

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

The School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

The School District reports the following major governmental funds:

General Fund - The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Debt Service Fund - The Debt Service Fund is used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include the Food Service Fund and Student Activity Fund. Operating deficits generated by these activities are generally transferred from the General Fund.

Assets, Liabilities and Net Position or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - Generally, outstanding amounts owed between funds are classified as "due from/to other funds." These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2021, the rates are as follows per \$1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.00000
Commercial personal property	6.00000
Debt Service Fund	13.00000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. The entire tax roll of the School District lies within Wayne County.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by Wayne County and remitted to the School District by May 15.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets - Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their acquisition value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

The School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

Buildings and improvements	20 - 50 years
Equipment and furniture	5 - 10 years
Buses and other vehicles	5 - 10 years

fund types recognize bond premiums and discounts during the current period.

Deferred Outflows of Resources - A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Deferred amounts on bond refundings are included in the district-wide financials statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. The School District also reported deferred outflows of resources for pension and OPEB contributions made after the measurement date. This amount will reduce the net pension and OPEB liabilities in the following year.

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

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental

In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

Pension - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. 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.

Postemployment Benefits Other Than Pensions - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. 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.

Deferred Inflows of Resources - A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan

The School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPSERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

Fund Balance - In the fund financial statements, governmental funds report fund balances in the following categories:

Non-spendable - amounts that are not available in a spendable form.

Restricted - amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed - amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned - amounts intended to be used for specific purposes, as determined by the board of education or finance committee. The Board of Education has granted the finance committee the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned - all other resources; the remaining fund balances after non-spendable, restrictions, commitments, and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable: (1) pension (and other employee

The School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria.

Upcoming Accounting and Reporting Changes

Statement No. 87, *Leases* increases the usefulness of the District's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2022.

Statement No. 96, *Subscription-Based Information Technology Arrangements*, is based on the standards established in Statement No. 87 *Leases*. This statement (1) defines a SBITA as a contract that conveys control of the right to use a SBITA vendor's IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction (2) requires governments with SBITAs to recognize a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability, and (3) provides guidance related to outlays other than subscription payments, including implementation costs, and requirements for note disclosures related to a SBITA. This statement is effective for the year ending June 30, 2023.

The School District is evaluating the impact that the above GASB statements will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

The School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Basic programs	\$ 14,179,696	\$ 14,544,673	\$ 364,977
Pupil	1,479,578	1,601,087	121,509
Instructional staff	672,598	767,817	95,219
General administration	690,544	740,297	49,753
Business	833,998	903,384	69,386
Central	115,200	343,152	227,952
Community services	78,679	83,685	5,006
Capital outlay	41,654	44,291	2,637
Debt - principal	-	77,000	77,000
Debt - interest and fiscal charges	-	53,961	53,961
Transfers out	-	18,250	18,250

Note 3 - Deposits and Investments

The School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities
Cash and cash equivalents	<u>\$ 6,158,620</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 30,765
Investments in securities, mutual funds, and similar vehicles	6,124,363
Petty cash and cash on hand	<u>3,492</u>
Total	<u>\$ 6,158,620</u>

As of year end, the School District had the following investments:

Investment	Carrying Value	Maturities	Rating	Rating Organization
External investment pools:				
Michigan Liquid Asset Fund (MILAF):				
Cash Management Class & MAX Class	<u>\$ 6,124,363</u>	<60 days	AAAm	Standard and Poor's

The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is discussed below.

As of June 30, 2021, the net asset value of the School District's investment in MILAF + Portfolio was \$6,124,363. Participation in the investment pool has not resulted in any unfunded commitments. Shares are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made provided the District has sufficient shares to meet the redemption request. In the event of an emergency that would make the determination of net asset value not reasonably practical, the Trust's Board of Trustees may suspend the right of withdrawal or postpone the date of payment. The net asset value ("NAV") per share of the MILAF+ Portfolio is calculated as of the close of business each business day by dividing the net position of that Portfolio by the number of its outstanding shares. It is the MILAF+ Portfolio's objective to maintain a NAV of \$1.00 per share, however, there is no assurance that this objective will be achieved. The exact price for share transactions will be determined based on the NAV next

The School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

calculated after receipt of a properly executed order. The number of shares purchased or redeemed will be determined by the NAV.

Interest rate risk - The School District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk - State statutes authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk - The School District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk - deposits - In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year end, none of the School District's bank balance of \$30,780 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments - For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of year end, none of the School District's investments were exposed to custodial credit risk.

Note 4 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 46,749	\$ -	\$ -	\$ 46,749
Capital assets being depreciated				
Buildings and improvements	45,977,934	-	46,749	45,931,185
Equipment and furniture	842,166	30,897	-	873,063
Buses and other vehicles	272,338	-	-	272,338
Total capital assets being depreciated	<u>47,092,438</u>	<u>30,897</u>	<u>46,749</u>	<u>47,076,586</u>
Less accumulated depreciation for				
Buildings and improvements	14,968,011	1,042,814	-	16,010,825
Equipment and furniture	476,387	49,366	-	525,753
Buses and other vehicles	187,888	20,050	-	207,938
Total accumulated depreciation	<u>15,632,286</u>	<u>1,112,230</u>	<u>-</u>	<u>16,744,516</u>
Net capital assets being depreciated	<u>31,460,152</u>	<u>(1,081,333)</u>	<u>46,749</u>	<u>30,332,070</u>
Net capital assets	<u>\$31,506,901</u>	<u>\$ (1,081,333)</u>	<u>\$ 46,749</u>	<u>\$ 30,378,819</u>

The School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

Note 5 - Interfund Receivables, Payables, and Transfers

Individual interfund receivable and payable balances at year end were:

<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>
Debt Fund	General Fund	\$ 1,252,921
Debt Fund	Nonmajor governmental funds	552,027
Nonmajor governmental funds	Nonmajor governmental funds	<u>95,023</u>
		<u>\$ 1,899,971</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers consist of the following:

	<u>Transfers Out</u>		<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor governmental funds</u>	
<u>Transfers in</u>			
General Fund	\$ -	\$ 922	\$ 922
Nonmajor governmental funds	<u>18,250</u>	<u>-</u>	<u>18,250</u>
	<u>\$ 18,250</u>	<u>\$ 922</u>	<u>\$ 19,172</u>

These transfers were made to cover the costs of School District programs that were in excess of revenues generated from those activities.

Note 6 - Leases

Operating Leases

The School District leases two buildings under non-cancelable operating leases. Total costs for such leases were \$380,892 for the year. The future minimum lease payments for these leases are as follows:

<u>Year ending June 30,</u>	
2022	\$ 329,304
2023	329,304
2024	<u>39,484</u>
	<u>\$ 698,092</u>

Note 7 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th. The School District is required to pledge 100% of their state school aid, October through August, or until the note is repaid, whichever is longer. The State has discretion to accelerate repayment terms if they have cause for concern. If the note is in default status, there is a penalty interest rate that may apply.

Short-term debt activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Ending Balance</u>
State aid anticipation note	<u>\$ 318,372</u>	<u>\$ 2,200,000</u>	<u>\$ 2,204,086</u>	<u>\$ 314,286</u>

Note 8 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major

The School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. The State can withhold state aid if it has to make a bond payment on behalf of the School District related to qualified bonds. For the School Loan Revolving Fund, the State may withhold state aid if the School District is in default or apply late charges in an instance of default or fails to appropriately levy debt mills. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Bonds and notes payable					
General obligation bonds	\$33,190,000	\$12,270,000	\$11,875,000	\$33,585,000	\$2,765,000
Premium on bonds	<u>1,554,324</u>	<u>-</u>	<u>445,465</u>	<u>1,108,859</u>	<u>-</u>
Total bonds payable	34,744,324	12,270,000	12,320,465	34,693,859	2,765,000
Notes from direct borrowings and direct placements					
School Bond Loan	2,161,421	1,479,040	2,200,267	1,440,194	-
Accrued interest - SLRF	12,733	48,107	12,733	48,107	-
Installment purchase agreement	<u>1,412,000</u>	<u>-</u>	<u>77,000</u>	<u>1,335,000</u>	<u>80,000</u>
Total notes from direct borrowings and direct placements	3,586,154	1,527,147	2,290,000	2,823,301	80,000
Other liabilities					
Compensated absences	<u>232,584</u>	<u>62,085</u>	<u>42,102</u>	<u>252,567</u>	<u>42,000</u>
Total	<u>\$38,563,062</u>	<u>\$13,859,232</u>	<u>\$14,652,567</u>	<u>\$37,769,727</u>	<u>\$2,887,000</u>

For governmental activities, compensated absences and retirement incentives are primarily liquidated by the General Fund.

General obligation bonds payable at year end, consist of the following:

\$18,730,000 2012 Refunding Bond due in annual installments of \$165,000 to \$1,445,000 through 2029, interest at 2.000% to 5.000%	\$ 1,225,000
\$8,295,000 2016 Refunding Bond due in annual installments of \$605,000 to \$1,545,000 through 2034, interest at 4.000%	8,320,000
\$12,380,000 2016 Refunding Bond due in annual installments of \$250,000 to \$1,510,000 through 2026, interest at 1.100% to 2.750%	7,060,000
\$4,735,000 2019 Refunding Bond due in annual installments of \$1,000,000 to \$1,335,000 through 2030, interest at 2.505% to 2.655%	4,735,000
\$12,245,000 2021 Refunding Bond due in annual installments of \$210,000 to \$1,510,000 through 2032, interest at 0.300% to 2.000%	<u>12,245,000</u>
Total general obligation bonded debt	<u>\$33,585,000</u>

Future principal and interest requirements for bonded debt and direct borrowings and direct placements are as follows:

Year Ending June 30,	Bonds		Notes from direct borrowings and direct placements	
	Principal	Interest	Principal	Interest
2022	\$ 2,765,000	\$ 864,073	\$ 80,000	\$ 49,128
2023	2,870,000	742,652	83,000	46,184
2024	2,915,000	706,730	87,000	43,130
2025	2,960,000	663,682	90,000	39,928
2026	3,010,000	613,880	94,000	36,616
2027 - 2031	13,300,000	2,203,970	530,000	128,248
2032	<u>5,765,000</u>	<u>394,800</u>	<u>371,000</u>	<u>27,637</u>
	<u>\$33,585,000</u>	<u>\$6,189,787</u>	<u>\$1,335,000</u>	<u>\$ 370,871</u>

The general obligation bonds are payable from the Debt Service Funds. As of year end, the fund had a deficit balance of \$(124,579) in this fund. Future debt and interest will be payable from future tax levies.

Interest expenditures for the fiscal year in the General Fund and Debt Service Funds were \$53,961 and \$926,967, respectively.

The School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

State School Loan Revolving Fund

The School District has borrowed from the Michigan School Bond Qualification and Loan Program. Repayment is due when the School District has funds available as determined by the State of Michigan. Interest accrues on the unpaid balance. During the year the interest rate was 3 percent for the School Loan Revolving Fund.

During the year, the School District borrowed \$1,479,040 and had an outstanding balance at year-end of \$1,440,194, from the State School Loan Revolving Fund. Accrued interest at year end was \$48,107. The School District has agreed to repay the loan amount with interest at rates and at times to be determined by the State Treasurer.

Compensated Absences

Accrued compensated absences at year end, consist of \$252,567 in accrued sick time benefits. The amount anticipated to be paid out over the next year is included within the amounts listed as due within one year.

Current Refinancing

In 2021, the School District issued general obligation bonds of \$12,245,000 (par value) with an interest rate of 0.3% to 2.0% to refinance the School Bond Loan and Revolving Funds and the 2016 and 2019 term bonds. The net proceeds from the issuance of the general obligation bonds were deposited with an escrow agent to provide debt service payments. The refunding resulted in savings of \$649,209 and an economic gain of \$626,963.

Deferred Amount on Refunding

The 2004, 2012, 2016 and 2021 refunding bonds have resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,167,896. This amount is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2034.

Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers'

compensation) and certain medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

Note 10 - Pension Plan

Plan Description

The Michigan Public School Employees' Retirement System (System or MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (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 on the ORS website at www.michigan.gov/orsschools

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

The School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

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 percent to 1.50 percent. 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 plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Contributions

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 19-year period beginning Oct. 1, 2019 and ending Sept. 30, 2038.

The schedule below summarizes pension contribution rates in effect for plan year ended September 30, 2020.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	18.25%
Member Investment Plan	3.0 - 7.0%	18.25%
Pension Plus	3.0 - 6.4%	16.46%
Pension Plus 2	6.2%	19.59%
Defined Contribution	0.0%	13.39%

Required contributions to the pension plan from the School District were \$3,305,496 for the year ending September 30, 2020.

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

At June 30, 2021, the School District reported a liability of \$41,318,045 for its proportionate share of the MPERS net pension liability. The net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2019. The School 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, 2020, the School District's proportion was .1203 percent, which was an increase of .0081 percent from its proportion measured as of September 30, 2019.

For the plan year ending September 30, 2020, the School District recognized pension expense of \$7,530,595 for the measurement period. For the reporting period ending June 30, 2021, the School District recognized total pension contribution expense of \$3,611,476.

The School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

At June 30, 2021, the School 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	Total
Difference between expected and actual experience	\$ 631,306	\$ (88,187)	\$ 543,119
Changes of assumptions	4,578,438	-	4,578,438
Net difference between projected and actual earnings on pension plan investments	173,600	-	173,600
Changes in proportion and differences between the School District contributions and proportionate share of contributions	<u>3,490,185</u>	<u>(108,782)</u>	<u>3,381,403</u>
Total to be recognized in future	8,873,529	(196,969)	8,676,560
School District contributions subsequent to the measurement date	<u>3,401,638</u>	<u>(1,582,335)</u>	<u>1,819,303</u>
Total	<u>\$12,275,167</u>	<u>\$ (1,779,304)</u>	<u>\$10,495,863</u>

Contributions subsequent to the measurement date 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 ending June 30, 2022. The District will offset the contribution expense in the year ended June 30, 2022 with the 147c supplemental income received subsequent to the measurement date which is included in the deferred inflows of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows during the following plan years:

Deferred Outflow of Resources by Year (To Be Recognized in Future Pension Expenses)	
Year	Amount
2021	\$ 3,653,969
2022	2,826,636
2023	1,676,727
2024	<u>519,228</u>
	<u>\$ 8,676,560</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.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2019
- Actuarial Cost Method: Entry Age, Normal

The School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

- Wage inflation rate: 2.75%
- Investment Rate of Return:
 - MIP and Basic Plans: 6.80% net of investment expenses
 - Pension Plus Plan: 6.80% net of investment expenses
 - Pension Plus 2 Plan: 6.00% net of investment expenses
- Projected Salary Increases: 2.75 - 11.55%, including wage inflation at 2.75%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Mortality:
 - Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
 - Active Members: Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

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, 2020, is based on the results of an actuarial valuation date of September 30, 2019, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees is 4.4892 years.

Recognition period for assets is 5 years.

Full actuarial assumptions are available in the 2020 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2020, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of
Domestic Equity Pools	25.0 %	5.6 %
Alternative Investment Pools	16.0	9.3
International Equity	15.0	7.4
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	4.9
Absolute Return Pools	9.0	3.2
Real Return/Opportunistic Pools	12.5	6.6
Short Term Investment Pools	2.0	(0.1)
	100.0%	

**Long-term rates of return are net of administrative expenses and 2.1% inflation.*

Rate of Return

For the plan year ended September 30, 2020, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 5.37%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2, hybrid plans provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 6.80% (6.80% for the Pension plus plan, 6.0% for the Pension Plus 2 plan), as well as what the School 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 *	Current Single Discount Rate Assumption *	1% Increase *
5.80% / 5.80% / 5.00%	6.80% / 6.80% / 6.00%	7.80% / 7.80% / 7.00%
<u>\$ 53,479,200</u>	<u>\$ 41,318,045</u>	<u>\$ 31,239,158</u>

**Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2.*

Michigan Public School Employees' Retirement System (MPERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS Comprehensive Annual Financial Report, available on the ORS website at www.michigan.gov/orsschools.

Payables to the Michigan Public School Employees' Retirement System (MPERS)

There were no significant payables to the pension plan that are not ordinary accruals to the School District.

Note 11 - Postemployment Benefits Other Than Pensions (OPEB)

Plan Description

The Michigan Public School Employees' Retirement System (System or MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (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 health plan provides all eligible 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 School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

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

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 with 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.

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 OPEB 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 19-year period beginning Oct. 1, 2019 and ending Sept. 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2020.

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.0%	8.09%
Personal Healthcare Fund (PHF)	0.0%	7.57%

The School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

Required contributions to the OPEB plan from the School District were \$865,528 for the year ended September 30, 2020.

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

At June 30, 2021, the School District reported a liability of \$6,562,917 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2019. The School 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, 2020, the School District's proportion was .1225 percent, which was an increase of .0029 percent from its proportion measured as of September 30, 2019.

For the plan year ending September 30, 2020, the School District recognized OPEB expense of \$171,581 for the measurement period. For the reporting period ending June 30, 2021, the School District recognized total OPEB contribution expense of \$870,287.

At June 30, 2021, the School 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	Total
Difference between expected and actual experience	\$ -	\$ (4,889,987)	\$ (4,889,987)
Changes of assumptions	2,163,924	-	2,163,924
Net difference between projected and actual earnings on OPEB plan investments	54,775	-	54,775
Changes in proportion and differences between the School District contributions and proportionate share of contributions	<u>1,333,104</u>	<u>(43,242)</u>	<u>1,289,862</u>
Total to be recognized in future	3,551,803	(4,933,229)	(1,381,426)
School District contributions subsequent to the measurement date	<u>776,069</u>	<u>-</u>	<u>776,069</u>
Total	<u>\$ 4,327,872</u>	<u>\$ (4,933,229)</u>	<u>\$ (605,357)</u>

The School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

Contributions subsequent to the measurement date 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows during the following plan years:

Deferred Inflow of Resources by Year (To Be Recognized in Future OPEB Expenses)	
2021	\$ (372,366)
2022	(296,356)
2023	(203,945)
2024	(207,501)
2025	<u>(301,258)</u>
	<u>\$ (1,381,426)</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.

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2019
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 2.75%
- Investment Rate of Return: 6.95% net of investment expenses
- Projected Salary Increases: 2.75 – 11.55%, including wage inflation of 2.75%
- Healthcare Cost Trend Rate: 7.0% Year 1 graded to 3.5% Year 15; 3.0% Year 12

- Mortality:
 - Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
 - Active Members: Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Other 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 OPEB liability as of September 30, 2020, is based on the results of an actuarial valuation date of September 30, 2019, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees is 5.6018 years.

Recognition period for assets is 5 years

Full actuarial assumptions are available in the 2020 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

The School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

Long-Term Expected Return on 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, 2020, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of
Domestic Equity Pools	25.0 %	5.6 %
Alternative Investment Pools	16.0	9.3
International Equity	15.0	7.4
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	4.9
Absolute Return Pools	9.0	3.2
Real Return/Opportunistic Pools	12.5	6.6
Short Term Investment Pools	2.0	(0.1)
	<u>100.0%</u>	

**Long-term rates of return are net of administrative expenses and 2.1% inflation.*

Rate of Return

For the plan year ended September 30, 2020, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 5.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 6.95%, as well as what the School 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 5.95%	Current Discount Rate 6.95%	1% Increase 7.95%
<u>\$ 8,430,813</u>	<u>\$ 6,562,917</u>	<u>\$ 4,990,306</u>

The School District of The City of Harper Woods
Notes to the Financial Statements
June 30, 2021

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

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

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 4,930,093	\$ 6,562,917	\$ 8,420,053

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued MPSERS Comprehensive Annual Financial Report, available on the ORS website at www.michigan.gov/orsschools.

Note 12 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial.

Note 13 - Change in Accounting Principle

As indicated in Note 1, Governmental Accounting Standards Board Statement No, 84, *Fiduciary Activities* has been adopted. The standard requires this change be applied retroactively. The impact of this change is to increase beginning fund balance as of July 1, 2020 by \$122,630 in the nonmajor governmental funds, restating it from \$575,491 to \$698,121 and beginning net position in the statement of activities, restating it from \$(37,532,170) to \$(37,409,540).

REQUIRED SUPPLEMENTARY INFORMATION

The School District of the City of Harper Woods
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2021

	<u>Budgeted Amounts</u>		Actual	Over (Under) Budget
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources	\$ 1,377,000	\$ 1,326,757	\$ 1,349,168	\$ 22,411
State sources	24,036,187	25,110,875	27,871,849	2,760,974
Federal sources	1,355,718	1,428,108	3,869,148	2,441,040
Interdistrict sources	1,150,000	1,115,000	1,279,426	164,426
Total revenues	<u>27,918,905</u>	<u>28,980,740</u>	<u>34,369,591</u>	<u>5,388,851</u>
Expenditures				
Instruction				
Basic programs	14,321,704	14,179,696	14,544,673	364,977
Added needs	3,689,576	4,011,276	3,228,998	(782,278)
Supporting services				
Pupil	1,744,720	1,479,578	1,601,087	121,509
Instructional staff	577,077	672,598	767,817	95,219
General administration	490,193	690,544	740,297	49,753
School administration	2,020,021	1,576,087	1,546,327	(29,760)
Business	872,358	833,998	903,384	69,386
Operations and maintenance	3,210,166	3,291,007	2,721,461	(569,546)
Pupil transportation services	445,665	333,675	253,904	(79,771)
Central	115,000	115,200	343,152	227,952
Athletic activities	284,050	262,000	249,687	(12,313)
Community services	81,516	78,679	83,685	5,006
Capital outlay	100,000	41,654	44,291	2,637
Debt service				
Principal	-	-	77,000	77,000
Interest and fiscal charges	-	-	53,961	53,961
Total expenditures	<u>27,952,046</u>	<u>27,565,992</u>	<u>27,159,724</u>	<u>(406,268)</u>
Excess (deficiency) of revenues over expenditures	<u>(33,141)</u>	<u>1,414,748</u>	<u>7,209,867</u>	<u>5,795,119</u>

The School District of the City of Harper Woods
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2021

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Transfers in	\$ 35,000	\$ 35,000	\$ 922	\$ (34,078)
Transfers out	-	-	(18,250)	(18,250)
Total other financing sources (uses)	<u>35,000</u>	<u>35,000</u>	<u>(17,328)</u>	<u>(52,328)</u>
Net change in fund balances	1,859	1,449,748	7,192,539	5,742,791
Fund balance - beginning	<u>1,098,229</u>	<u>1,098,229</u>	<u>1,098,229</u>	<u>-</u>
Fund balance - ending	<u>\$ 1,100,088</u>	<u>\$ 2,547,977</u>	<u>\$ 8,290,768</u>	<u>\$ 5,742,791</u>

The School District of the City of Harper Woods
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th, of Each June Fiscal Year)

	June 30,									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
A. School District's proportion of net pension liability (%)	0.1203%	0.1122%	0.1015%	0.0991%	0.0971%	0.0904%	0.0850%			
B. School District's proportionate share of net pension liability	\$ 41,318,045	\$ 37,166,296	\$ 30,505,070	\$ 25,681,787	\$ 24,211,986	\$ 22,073,771	\$ 18,711,495			
C. School District's covered payroll	\$ 10,874,785	\$ 10,453,117	\$ 8,783,693	\$ 8,243,572	\$ 8,411,638	\$ 7,567,437	\$ 7,239,068			
D. School District's proportionate share of net pension liability as a percentage of its covered payroll	379.94%	355.55%	347.29%	311.54%	287.84%	291.69%	258.48%			
E. Plan fiduciary net position as a percentage of total pension liability	59.72%	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%			

Note Disclosures

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2020.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2020.

**The School District of the City of Harper Woods
Required Supplementary Information
Schedule of the School District's Pension Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years**

	For the Years Ended June 30,									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
A. Statutorily required contributions	\$ 3,611,476	\$ 3,301,298	\$ 2,960,372	\$ 2,779,376	\$ 2,294,856	\$ 2,184,302	\$ 1,624,143			
B. Contributions in relation to statutorily required contributions	<u>3,611,476</u>	<u>3,301,298</u>	<u>2,960,372</u>	<u>2,779,376</u>	<u>2,294,856</u>	<u>2,184,302</u>	<u>1,624,143</u>			
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>			
D. School District's covered payroll	10,603,447	10,964,522	10,335,893	8,817,368	8,150,359	8,271,806	7,362,379			
E. Contributions as a percentage of covered payroll	34.06%	30.11%	28.64%	31.52%	28.16%	26.41%	22.06%			

The School District of the City of Harper Woods
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net OPEB Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th, of Each June Fiscal Year)

	June 30,									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
A. School District's proportion of the net OPEB liability (%)	0.1225%	0.1196%	0.1034%	0.0990%						
B. School District's proportionate share of the net OPEB liability	\$ 6,562,917	\$ 8,582,028	\$ 8,214,852	\$ 8,768,257						
C. School District's covered payroll	\$ 10,874,785	\$ 10,453,117	\$ 8,783,693	\$ 8,243,572						
D. School District's proportionate share of the net OPEB liability as a percentage of its covered payroll	60.35%	82.10%	93.52%	106.36%						
E. Plan fiduciary net position as a percentage of total OPEB liability	59.44%	48.46%	42.95%	36.39%						

Note Disclosures

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2020.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2020.

The School District of the City of Harper Woods
Required Supplementary Information
Schedule of the School District's OPEB Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

	For the Years Ended June 30,									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
A. Statutorily required contributions	\$ 870,287	\$ 871,006	\$ 802,819	\$ 645,839						
B. Contributions in relation to statutorily required contributions	<u>870,287</u>	<u>871,006</u>	<u>802,819</u>	<u>645,839</u>						
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>						
D. School District's covered payroll	10,603,447	10,964,522	10,335,893	8,817,368						
E. Contributions as a percentage of covered payroll	8.21%	7.94%	7.77%	7.32%						