

The School District of the City of
Harper Woods

Year Ended
June 30, 2012

Financial
Statements &
Single Audit Act
Compliance

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

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INDEPENDENT AUDITORS' REPORT

October 4, 2012

Board of Education

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *The School District of the City of Harper Woods (the "District")* as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2012, and the respective changes in financial position thereof and the budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United State of America require that the management's discussion and analysis 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 accounting standards generally accepted in the United State 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 assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Lehmann Lobson".

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

This section of The School District of the City of Harper Woods' annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2012. 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 *District-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 District-wide financial statements by providing information about the District's most significant funds - the general fund and the debt service fund, with any other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the District acts solely as an agent for the benefit of students.

Overview of the Financial Statements

One of the most important questions asked about the District is, "As a whole, what is the District's financial condition as a result of the years activities?" The statement of net assets 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 assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets - 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 assets and the statement of activities report the governmental activities for the District, which encompass all of the District's services, including instruction, supporting services, food services, athletics and community services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

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

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

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole and over time, may serve a useful indicator of a government's financial position. Below is a summary of the District's net assets (deficit) as of June 30, 2012 and 2011.

	Governmental Activities	
	2012	2011
Assets		
Current and other assets	\$ 3,932,392	\$ 3,282,407
Capital assets - Net of accumulated depreciation	<u>35,233,921</u>	<u>36,261,784</u>
Total assets	<u>39,166,313</u>	<u>39,544,191</u>
Liabilities		
Other Liabilities	3,267,804	3,106,944
Long-term liabilities	<u>36,086,370</u>	<u>35,659,054</u>
Total liabilities	<u>39,354,174</u>	<u>38,765,998</u>
Net Assets (Deficit)		
Invested in capital assets - net of related debt	(459,011)	979,118
Restricted	238,888	-
Unrestricted	<u>32,262</u>	<u>(200,925)</u>
Total net assets (deficit)	<u>\$ (187,861)</u>	<u>\$ 778,193</u>

The District's net assets (deficit) were (\$.2 million) at June 30, 2012. Capital assets, net of related debt, compares the original cost, less 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. The remaining balance of net unrestricted deficit is required to meet the government's ongoing obligations to its programs.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

The (\$.2) million in unrestricted net deficits of governmental activities represent the accumulated results of all past years' operations. The operating results of the general fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the District as a whole are reported in the statement of activities. Below is a summary of the District's changes in net assets for the years ended June 30, 2012 and 2011.

District's Changes in Net Assets

	Governmental Activities	
	2012	2011
Revenue		
Program revenue:		
Charges for services	\$ 234,715	\$ 238,835
Operating grants and contributions	4,226,468	2,356,797
General revenue:		
Property taxes	2,714,698	3,151,005
State foundation allowance	8,434,150	8,494,620
Other	423,370	183,192
Total revenue	16,033,401	14,424,449
Function/Program Expenses		
Instruction	7,810,739	7,242,757
Support services	5,526,157	4,558,338
Food services	972,266	646,571
Athletic activities	164,416	158,426
Community services	111,990	50,139
Depreciation (unallocated) and other	2,413,887	2,682,572
Total expenses	16,999,455	15,338,803
Change in net assets	(966,054)	(914,354)
Net assets, beginning of year	778,193	1,692,547
Net assets (deficit), end of year	\$ (187,861)	\$ 778,193

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$17.0 million. Certain activities were partially funded from those who benefited from the programs (\$.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4.2 million). We paid for the remaining "public benefit" portion of our governmental activities with \$2.7 million in taxes, \$8.4 million in state foundation allowance and special education, and with our other revenues, i.e., interest and general entitlements.

The District experienced a decrease in net assets of \$1.0 million. The key reason for the change in net assets is an increase of \$1.7 million in expenses. Expense includes approximately \$1,054,000 of depreciation expense.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

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

The District's Funds

As we 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 2012, the governmental funds reported a combined fund balance of \$1,257,391 which is an increase from the \$1,003,317 as of June 30, 2011. The primary reasons for the change are as follows:

In the general fund, our principal operating fund, the fund balance increased \$284,017 to \$1,018,503. This change is compared to the increase of \$109,062 in the prior year. Part of this increase in fund balance was attributable to employee concessions, cost containments, and lower utilities because of the milder weather. The District also received a larger amount during 2011-12 for Medicaid Outreach revenue.

Our special revenue fund for the food service program showed a net increase of \$24,566.

The debt service fund shows a fund balance decrease of \$54,509 (from \$92,792 to \$38,283). The millage rate is 7.4 mills (funding a combined debt service fund for both the 2004 bonds and the 2006 and 2012 Refunding bonds). The millage rate is determined annually to ensure that the District accumulates sufficient resources to pay annual bond issue-related debt service. Because the District participates in the State School Bond Loan Fund, it is anticipated that the millage rate of 7.4 mills will remain the same for several years, until the State School Bond Loan Fund is fully repaid. Debt service funds fund balances are restricted since they can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The first adjustment to the 2011-12 budgets adopted in June, 2011 occurred in November 2011, the second adjustment in April 2012, and a final budget adjustment occurred June, 2012. The significant changes between the original adopted budget and the final amended budget include the ARRA School Improvement Grant (SIG) awarded to the District, reduced utility cost because of milder weather, and reduced insurance rates. The district also received a large invoice for delinquent tax settlements after the final budget was adopted.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2012, the District had \$35.2 million invested in a broad range of capital assets, including land, buildings and improvements, vehicles and furniture and equipment.

	District's Capital Assets (Net of Depreciation)	
	2012	2011
Land	\$ 46,749	\$ 46,749
Buildings and improvements	34,328,845	35,231,073
Vehicles	77,750	92,627
Furniture and equipment	780,577	891,335
Total capital assets, net	<u>\$35,233,921</u>	<u>\$36,261,784</u>

Debt

At the end of this 2011-2012 fiscal year, the District had \$30.4 million in bonds outstanding versus \$30.1 million in the previous year. The outstanding bonds consist of the following:

2004 School Building and Site Bonds	\$ 1,875,000
2006 Refunding Bonds	9,800,000
2012 Refunding Bonds	<u>18,730,000</u>
Total	<u>\$30,405,000</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 2012 and therefore below the statutorily imposed limit.

Other obligations include amounts owed to the State School Bond Loan Fund, bond premiums recognized from the issuance of the 2004 bond issuance and the 2006 and 2012 bond refundings, which will be amortized over the life of the bonds, compensated absences and a vehicle installment loan. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the District's 2012-13 fiscal year budget. The 2012-13 fiscal year budget was adopted by the Board of Education in June 2012 as follows:

Estimated July 1, 2012 general fund balance	\$ 112,409
Revenue	<u>14,430,462</u>
Total available to appropriate	14,542,871
Expenditures	<u>14,490,472</u>
Estimated June 30, 2013 general fund balance	<u>\$ 52,399</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Management's Discussion and Analysis

The actual July 1, 2012 general fund balance is \$906,094 higher than estimated. The July 1, 2012 fund equity is 8.4% of the 2010-11 general fund expenditures which were \$12,155,135. This fund balance is out of compliance with the Board of Education policy of maintaining a general fund balance greater than 15% of the previous year's expenditures.

One of the most important factors affecting the budget is our student count and foundation grant allocation from the state. State revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2012-2013 fiscal year is 10 percent and 90 percent of the February 2012 and Fall 2012 student counts, respectively. The 2012-13 budget was adopted in June 2012, based on an estimate of blended students of 1402 including 177 school of choice students. Approximately 80 percent of total general fund revenue is from the foundation allowance including the 18 mills local tax portion and the State Aid portions under the State Aid Act sections 22(a), 22(b) and the Special Education section 51(a). Under State law, the District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the state's ability to fund local school operations. Based on enrollment data at the start of the 2012-13 school year, the preliminary fall student count is about 1332 which is 69 students lower than the estimate used in creating the 2012-13 budget. Once the final student count and related per pupil funding is validated, state law requires the District to amend the budget if actual District resources are not sufficient to fund original appropriations.

Since the District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The foundation grant per student for the District in 2010-11 was \$8,019. The budget adopted in June 2011 for the 2011-12 fiscal year assumed a restoration in the foundation allowance of \$316 for the foundation grant restoration of HB6212. This restored seven 20J, Hold Harmless Districts, to the maximum foundation allowance, resulting in the District having a funding level of \$8,489. However, the School State Aid Bill that was passed by the legislature for FY 2011-12 cut funding by \$470 per student, with a one-year reprieve of \$200 to offset the MSPERS (Michigan Public School Employee Retirement System) rate. This resulted in a projected foundation grant per student for District in the FY 2011-12 of \$8,219; and what was used to develop the budget that was adopted in June 2011.

The full per pupil allocation is based on the District receiving the 18 mills of Non-Homestead taxes each year. The expiration date of the 18 mill levy is December, 2014, subject to potential Headlee Rollbacks in the future if the District's State Equalized Value (SEV) increases faster than the inflation rate.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Statement of Net Assets

June 30, 2012

	Governmental Activities
Assets	
Cash and investments	\$ 1,381,723
Receivables	2,251,390
Inventories	13,101
Prepaid costs	47,350
Other assets	238,828
Capital assets, not being depreciated	46,749
Capital assets being depreciated, net	<u>35,187,172</u>
Total assets	<u><u>39,166,313</u></u>
Liabilities	
Accounts payable	1,378,662
Accrued payroll and other liabilities	953,432
Note payable	742,857
Unearned revenue	192,853
Long-term liabilities:	
Due within one year	1,240,278
Due in more than one year	<u>34,846,092</u>
Total liabilities	<u><u>39,354,174</u></u>
Net Assets (deficit)	
Invested in capital assets, net of related debt	(459,011)
Restricted for debt service	38,283
Restricted for other purposes	200,605
Unrestricted	<u>32,262</u>
Total net assets (deficit)	<u><u>\$ (187,861)</u></u>

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Statement of Activities

For the Year Ended June 30, 2012

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 7,810,739	\$ -	\$ 3,375,018	\$ (4,435,721)
Support services	5,526,157	-	-	(5,526,157)
Food services	972,266	145,382	851,450	24,566
Athletics	164,416	26,043	-	(138,373)
Community services	111,990	63,290	-	(48,700)
Interest on long-term debt	1,360,282	-	-	(1,360,282)
Unallocated depreciation	1,053,605	-	-	(1,053,605)
Total	\$ 16,999,455	\$ 234,715	\$ 4,226,468	(12,538,272)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,459,848
Property taxes, levied for debt services				1,254,850
Unrestricted state aid				8,434,150
Grants and contributions not restricted to specific programs				415,735
Unrestricted investment earnings (loss)				7,635
Total general revenues				11,572,218
Change in net assets				(966,054)
Net assets, beginning of year				778,193
Net assets (deficit), end of year				\$ (187,861)

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

FUND FINANCIAL STATEMENTS

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Balance Sheet Governmental Funds June 30, 2012

	General	Debt Service Fund	Nonmajor Governmental Fund Special Revenue Food Service	Total Governmental Funds
Assets				
Cash and investments	\$ 1,222,914	\$ 520	\$ 158,289	\$ 1,381,723
Receivables	2,210,863	-	40,527	2,251,390
Due from other funds	577	94,076	-	94,653
Inventories	1,893	-	11,208	13,101
Prepaid items	2,350	-	45,000	47,350
Total assets	\$ 3,438,597	\$ 94,596	\$ 255,024	\$ 3,788,217
Liabilities				
Accounts payable	\$ 443,372	\$ 56,313	\$ 47,346	\$ 547,031
Accrued payroll and other liabilities	953,432	-	-	953,432
Due to other funds	87,580	-	7,073	94,653
State aid note payable	742,857	-	-	742,857
Deferred revenue	192,853	-	-	192,853
Total liabilities	2,420,094	56,313	54,419	2,530,826
Fund balances				
Nonspendable for inventories	1,893	-	11,208	13,101
Nonspendable for prepaid items	2,350	-	45,000	47,350
Restricted for debt service	-	38,283	-	38,283
Restricted for food service	-	-	144,397	144,397
Unassigned	1,014,260	-	-	1,014,260
Total fund balances	1,018,503	38,283	200,605	1,257,391
Total liabilities and fund balances	\$ 3,438,597	\$ 94,596	\$ 255,024	\$ 3,788,217

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Reconciliation

Fund Balances for Governmental Funds
to Net Assets of Governmental Activities
June 30, 2012

Fund balances - total governmental funds	\$ 1,257,391
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	46,749
Capital assets being depreciated	44,958,765
Accumulated depreciation	(9,771,593)
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds payable, installment loan, and related deferred amounts	(35,692,932)
Unamortized issuance costs	238,828
Accrued interest on bonds payable	(831,631)
Compensated absences	(393,438)
Net assets (deficit) of governmental activities	<u>\$ (187,861)</u>

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Statement of Revenue, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2012

	General	Debt Service Fund	Nonmajor Governmental Fund Special Revenue Food Service	Total Governmental Funds
Revenues				
Local sources	\$ 1,972,425	\$ 1,254,976	\$ 145,382	\$ 3,372,783
State sources	9,466,336	-	38,782	9,505,118
Federal sources	2,342,832	-	812,668	3,155,500
Total revenue	13,781,593	1,254,976	996,832	16,033,401
Expenditures				
Current:				
Instruction	7,793,689	-	-	7,793,689
Support services	5,406,232	-	-	5,406,232
Community services	111,990	-	-	111,990
Food services	-	-	972,266	972,266
Athletics	164,416	-	-	164,416
School store	-	-	-	-
Debt service:				
Principal	19,351	900,000	-	919,351
Interest and fiscal charges	1,898	1,383,144	-	1,385,042
Bond issuance costs	-	238,828	-	238,828
Other	-	143,769	-	143,769
Total expenditures	13,497,576	2,665,741	972,266	17,135,583
Revenues over (under) expenditures	284,017	(1,410,765)	24,566	(1,102,182)
Other financing sources (uses)				
Issuance of long-term debt	-	19,847,428	-	19,847,428
Premium on bond issuance	-	751,139	-	751,139
Payment to bond escrow agent	-	(19,242,311)	-	(19,242,311)
Total other financing sources (uses)	-	1,356,256	-	1,356,256
Net change in fund balances	284,017	(54,509)	24,566	254,074
Fund balances, beginning of year	734,486	92,792	176,039	1,003,317
Fund balances, end of year	\$ 1,018,503	\$ 38,283	\$ 200,605	\$ 1,257,391

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Assets of Governmental Activities
For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds	\$ 254,074
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p>	
<p>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.</p>	
Capital outlay	25,742
Depreciation expense	(1,053,605)
<p>Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net assets.</p>	
Principal payments on long-term liabilities	919,351
Proceeds from issuance of long-term liabilities	(19,847,428)
Payment to refunding bond escrow agent	19,242,311
Premium on refunding	(751,139)
Bond issuance costs	238,828
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.</p>	
Change in accrued interest payable on bonds	(3,777)
Amortization of bond deferred amounts	26,639
Change in the accrual for compensated absences and retirement incentives	(17,050)
	<hr/>
Change in net assets of governmental activities	<u>\$ (966,054)</u>

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Statement of Revenue, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund
For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local source	\$ 1,954,735	\$ 1,922,203	\$ 1,972,425	\$ 50,222
State sources	9,829,877	9,356,420	9,466,336	109,916
Federal sources	720,225	2,469,043	2,342,832	(126,211)
Total revenues	12,504,837	13,747,666	13,781,593	33,927
Expenditures				
Instruction:				
Basic programs	6,307,879	6,754,912	6,249,785	(505,127)
Added needs	1,640,984	2,014,876	1,543,904	(470,972)
Total instruction	7,948,863	8,769,788	7,793,689	(976,099)
Supporting services:				
Pupil	807,352	728,454	686,887	(41,567)
Instructional staff	471,552	1,238,543	1,287,639	49,096
General administration	412,234	406,080	340,639	(65,441)
School administration	776,577	700,979	716,712	15,733
Business	357,990	350,881	624,494	273,613
Operations and maintenance	1,519,166	1,542,980	1,406,362	(136,618)
Pupil transportation services	277,701	279,040	247,860	(31,180)
Central services	69,907	85,149	95,639	10,490
Total supporting services	4,692,479	5,332,106	5,406,232	74,126
Community service	54,109	120,508	111,990	(8,518)
Athletics	170,068	170,068	164,416	(5,652)
Debt service:				
Principal	21,300	19,351	19,351	-
Interest	-	1,898	1,898	-
Total debt service	21,300	21,249	21,249	-
Total expenditures	12,886,819	14,413,719	13,497,576	(916,143)
Net change in fund balance	(381,982)	(666,053)	284,017	950,070
Fund balance, beginning of year	734,486	734,486	734,486	-
Fund balance, end of year	\$ 352,504	\$ 68,433	\$ 1,018,503	\$ 950,070

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Statement of Fiduciary Assets and Liabilities

Agency Fund
June 30, 2012

	Student Activities Agency Fund
Assets	
Cash	\$ 85,222
Liabilities	
Due to student groups	\$ 85,222

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

NOTES TO THE FINANCIAL STATEMENTS

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The School District of the City of Harper Woods (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2012.

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

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

Measurement focus, basis of accounting, and financial statement presentation

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

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to Financial Statements

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

The District reports the following major governmental funds:

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

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

Additionally, the District reports the following fund types:

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

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

Assets, liabilities and equity

Deposits and investments

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

Investments for the District are reported at fair value.

Receivables and payables

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

Inventories and prepaid items

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

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to Financial Statements

Capital assets

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

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

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

Compensated absences

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

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

Long-term obligations

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

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to Financial Statements

Fund equity

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

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

2. BUDGETARY INFORMATION

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

Variances from the final amended budget are shown in the Statement of Revenues, Expenditures and Changes in Fund Balance for the General Fund.

All annual appropriations lapse at fiscal year end.

3. DEPOSITS AND INVESTMENTS

Deposits and investments

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

Statement of Net Assets	
Cash and investments	\$ 1,381,723
Statement of Fiduciary Assets and Liabilities	
Cash and cash equivalents	<u>85,222</u>
	<u>\$ 1,466,945</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to Financial Statements

These balances are categorized for note disclosures as follows:

MILAF investment funds	\$ 1,426,344
Deposits	<u>40,601</u>
	<u>\$ 1,466,945</u>

Statutory Authority

Michigan law authorizes the District to deposit and invest in:

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

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

Investments

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

Investment	Maturity	Fair Value	Rating
Michigan Liquid Asset Fund	n/a	1,426,344	S&P-AAAm

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to Financial Statements

Deposit and investment risk

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

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District’s investment policy does not have specific limits in excess of state law on investment credit risk. The rating for investments is identified above for investments held at year end.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, all of the District’s bank balance of \$40,601 was insured.

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

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

4. RECEIVABLES

	General Fund	Nonmajor Funds	Total
Receivables:			
Accounts	\$ 13,450	\$ -	\$ 13,450
Intergovernmental	2,197,413	40,527	2,237,940
Total	<u>\$ 2,210,863</u>	<u>\$ 40,527</u>	<u>\$ 2,251,390</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to Financial Statements

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated -				
Land	\$ 46,749	\$ -	\$ -	\$ 46,749
Capital assets being depreciated:				
Buildings and improvements	42,284,161	-	-	42,284,161
Vehicles	129,953	-	-	129,953
Furniture and equipment	2,518,909	25,742	-	2,544,651
Total capital assets being depreciated	44,933,023	25,742	-	44,958,765
Less accumulated depreciation for:				
Buildings and improvements	(7,053,088)	(902,228)	-	(7,955,316)
Vehicles	(37,326)	(14,877)	-	(52,203)
Furniture and equipment	(1,627,574)	(136,500)	-	(1,764,074)
Total accumulated depreciation	(8,717,988)	(1,053,605)	-	(9,771,593)
Total capital assets being depreciated, net	36,215,035	(1,027,863)	-	35,187,172
Governmental activities capital assets, net	\$ 36,261,784	\$ (1,027,863)	\$ -	\$ 35,233,921

Depreciation expense of \$1,053,605 was charged to the function "unallocated depreciation".

6. PAYABLES

Accounts payable as of June 30, 2012 for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General Fund	Debt Service Fund	Nonmajor Funds	Total
Fund Financial Statements -				
Accounts Payable	\$ 443,372	\$ 56,313	\$ 47,346	\$ 547,031
District-Wide Financial Statements -				
Accrued interest on long-term debt				831,631
				<u>\$ 1,378,662</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to Financial Statements

7. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2012, interfund receivables and payables in the fund financial statements consisted of the following:

	Due From Other Funds	Due To Other Funds
General fund	\$ 577	\$ 87,580
Food service fund	-	7,073
Debt service fund	94,076	-
	<u>\$ 94,653</u>	<u>\$ 94,653</u>

The School District of the City of Harper Woods

Notes to Financial Statements

8. LONG-TERM DEBT

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2012:

	Beginning Balance	Additions	Refunding	Reductions	Ending Balance	Due Within One Year
Governmental activities						
General obligation bonds	\$ 30,145,000	\$ 18,730,000	\$ 17,570,000	\$ 900,000	\$ 30,405,000	\$ 1,185,000
Deferred amounts	314,833	(921,172)	-	26,639	(632,978)	-
Installment loan	39,629	-	-	19,351	20,278	20,278
School bond loan fund	4,783,204	1,117,428	-	-	5,900,632	-
Compensated absences	376,388	52,950	-	35,900	393,438	35,000
	<u>\$ 35,659,054</u>	<u>\$ 18,979,206</u>	<u>\$ 17,570,000</u>	<u>\$ 981,890</u>	<u>\$ 36,086,370</u>	<u>\$ 1,240,278</u>

Compensated absences are typically liquidated by the general fund.

Bonds payable at June 30, 2012, are comprised of the following issues:

General Obligation Bonds:

\$35,825,000 2004 Building & Site Bonds, due in annual installments of \$925,000 to \$950,000 through the year 2014; plus interest at 3.75%	\$ 1,875,000
\$9,950,000 2006 Refunding Bonds, due in annual installments of \$50,000 to \$1,785,000 through year 2034; plus interest at 4.0% to 4.125%	9,800,000
\$18,730,000 2012 Refunding Bonds, due in annual installments of \$165,000 to \$1,445,000 through year 2029; plus interest at 2.0% to 5.0%	<u>18,730,000</u>
	<u>\$ 30,405,000</u>

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to Financial Statements

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

Year Ending June 30,	Principal	Interest	Total
2013	\$ 1,205,278	\$ 1,034,256	\$ 2,239,534
2014	1,115,000	1,098,772	2,213,772
2015	1,145,000	1,059,846	2,204,846
2016	1,135,000	1,025,496	2,160,496
2017	1,145,000	991,446	2,136,446
2018-2022	5,935,000	4,433,300	10,368,300
2023-2027	7,005,000	3,158,855	10,163,855
2028-2032	8,180,000	1,749,893	9,929,893
2033-2034	3,560,000	220,481	3,780,481
	<u>\$ 30,425,278</u>	<u>\$ 14,772,345</u>	<u>\$ 45,197,623</u>

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond Loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the Debt Service requirements on the general obligation bonds. Changes to the School Bond Loan Fund for the year ended June 30, 2012, are as follows:

	Principal	Interest	Total
Beginning balance	\$ 4,783,204	\$ 596,179	\$ 5,379,383
Additions	1,117,428	167,234	1,284,662
Ending balance	<u>\$ 5,900,632</u>	<u>\$ 763,413</u>	<u>\$ 6,664,045</u>

Advance Refunding. In 2007, the District issued \$9,950,000 of general obligation refunding bonds to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$9,155,000 of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The balance of these defeased bonds outstanding as of June 30, 2012 was \$9,155,000.

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to Financial Statements

The current year refunding was undertaken to reduce total debt service expenditures over the next 17 years by \$1,157,928 and resulted in an economic gain of \$896,567.

The District has two short-term state aid notes totaling \$741,000 included as a liability in the general fund at June 30, 2012. The notes carry interest rates of 0.311% and .600% and are due August 20, 2012.

Short-term debt activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
State aid notes	\$ 216,734	\$ 988,857	\$ 462,734	\$ 742,857

9. COMMITMENTS AND CONTINGENCIES

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

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2012.

10. RISK MANAGEMENT

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

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

11. PROPERTY TAXES

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to Financial Statements

12. DEFINED BENEFIT PENSION PLAN

Plan Description

The School District of the City of Harper Woods contributes to the Michigan Public School Employees Retirement System (MPSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member contribution rates vary based on date of hire and certain voluntary elections. Member Investment Plan ("MIP") members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 through June 30, 2008 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Members first hired July 1, 2008 through June 30, 2010 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000. Basic Plan members make no contributions. Members first enrolled on or after July 1, 2010 are enrolled in the Pension Plus Plan which contains a defined contribution component. Member contributions are matched at a rate of 50 percent by the employer, up to a maximum of one percent. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The rates for the year ended June 30, 2012 as a percentage of payroll ranged from 20.66 to 24.46 percent for the MIP members and 19.16 to 23.23 percent for the Pension Plus members. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS under all retirement plans for the years ended June 30, 2012, 2011, and 2010 were \$1,647,351, \$1,344,376, and \$1,236,599, respectively, equal to the required contributions for each year.

13. OTHER POSTEMPLOYMENT BENEFITS

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage's for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to Financial Statements

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

14. SUBSEQUENT EVENT

The District borrowed \$1,200,000 on State Aid Notes due on August 20, 2013 for cash flow purposes.

15. INVESTED IN CAPITAL ASSETS NET OF RELATED DEBT

The composition of net assets invested in capital assets net of related debt as of June 30, 2012, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 46,749
Capital assets not being depreciated, net	<u>35,187,172</u>
	35,233,921
Related debt -	
Total bonds payable, installment loans and related deferred amounts	<u>35,692,932</u>
Invested in capital assets, net of related debt	<u>\$ (459,011)</u>



SINGLE AUDIT ACT COMPLIANCE

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Schedule of Expenditures of Federal Awards
June 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount	Accrued (Deferred) Revenue at July 1, 2011	Cash Received/ Payments In-Kind	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2012
U.S. Department of Agriculture								
Child Nutrition Cluster:								
Non-Cash Assistance -								
Food Distribution								
Entitlement Commodities	10.555	MDE	n/a	\$ -	\$ -	\$ 38,403	\$ 38,403	\$ -
Bonus Commodities	10.555	MDE	n/a	-	-	19,357	19,357	-
					-	57,760	57,760	-
Cash Assistance:								
National School Breakfast Program	10.553	MDE	111970	13,063	-	13,063	13,063	-
National School Breakfast Program	10.553	MDE	121970	132,150	9,727	134,220	132,150	7,657
National School Lunch Program	10.555	MDE	111960	11,906	17,799	29,705	11,906	-
National School Lunch Program	10.555	MDE	111980	3,293	-	3,293	3,293	-
National School Lunch Program	10.555	MDE	121960	300,476	-	285,666	300,476	14,810
National School Snack Program	10.555	MDE	121980	60,542	1,454	59,113	60,542	2,883
Supper Program	10.558	MDE	121920	182,061	-	174,658	182,113	7,455
Supper Program	10.558	MDE	122010	14,298	-	14,028	14,028	-
Summer Food Service Program	10.559	MDE	110900	24,713	3,732	30,723	34,713	7,722
Summer Food Service Program	10.559	MDE	111900	2,625	-	2,625	2,625	-
					32,712	747,094	754,909	40,527
Total U.S. Department of Agriculture					32,712	804,854	812,669	40,527
U.S. Department of Education								
Title I Cluster:								
Title I, Part A - Improving Basic Programs	84.010	MDE	111530/1011	-	22,622	22,622	-	-
Title I, Part A - Improving Basic Programs	84.010	MDE	121530/1112	266,550	-	186,107	266,550	80,443
ARRA - Title I:								
ARRA - Title I - 4% School Improvement	84.389A	MDE	101555/0910	358,422	109,021	333,031	224,010	-
ARRA - Title I - 4% School Improvement	84.389A	MDE	111555/1011	56,848	-	-	27,737	27,737
					131,643	541,760	518,297	108,180
Safe and Supportive Schools	84.184	MDE	122790/SS2012	125,000	-	44,994	57,240	12,246
Safe and Drug Free Tobacco Grant	84.186	MDE	112861/S3201	5,995	-	5,185	5,185	-
Title II:								
Title II, Part A - Improving Teacher Quality	84.367	MDE	110520/1011	75,549	16,490	16,542	52	-
Title II, Part A - Improving Teacher Quality	84.367	MDE	120520/1112	74,949	-	17,718	62,066	44,348
					16,490	34,260	62,118	44,348

continued...

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Schedule of Expenditures of Federal Awards
June 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount	Accrued (Deferred) Revenue at July 1, 2011	Cash Received/ Payments In-Kind	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2012
U.S. Department of Education (continued)								
School Improvement Grant	84.377	MDE	111760/1112	\$ 1,326,228	\$ -	\$ 1,091,438	\$ 1,259,653	\$ 168,215
Education Jobs Fund	84.410A	MDE	112545/11-12	11,233	-	11,233	11,233	-
Special Education Cluster:								
I.D.E.A. Flow-Through	84.027A	WCRESA	070460/1011	349,843	1,101	54,499	53,398	-
I.D.E.A. Flow-Through	84.027A	WCRESA	070460/1212	369,720	-	241,385	353,063	111,678
					<u>1,101</u>	<u>295,884</u>	<u>406,461</u>	<u>111,678</u>
Preschool Incentive	84.173	WCRESA	070460/1212	22,644	-	9,778	22,644	12,866
Total U.S. Department of Education					<u>149,234</u>	<u>2,034,532</u>	<u>2,342,831</u>	<u>457,533</u>
Total Expenditures of Federal Awards					<u>\$ 181,946</u>	<u>\$ 2,839,386</u>	<u>\$ 3,155,500</u>	<u>\$ 498,060</u>

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Notes to the Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of The School District of the City of Harper Woods (the "District") under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

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

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

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

3. PASS-THROUGH AGENCIES

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

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



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

October 4, 2012

To The Board of Education

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The School District of the City of Harper Woods, as of and for the year ended June 30, 2012, which collectively comprise the District's financial statements, and have issued our report thereon dated October 4, 2012. 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.

Internal Control Over Financial Reporting

Management of The School District of the City of Harper Woods is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

In addition, we noted certain other matters that we reported to management of the District in a separate letter dated October 4, 2012.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 4, 2012

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

Compliance

We have audited the compliance of The School District of the City of Harper Woods with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, The School District of the City of Harper Woods complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? _____ yes X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.377 84.010 & 84.389	School Improvement Grant Title I, Part A Cluster

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

Auditee qualified as low-risk auditee? X yes _____ no

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported

SECTION III - FEDERAL AWARD FINDING AND QUESTIONED COSTS

No matters were reported

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THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

■ Schedule of Prior Audit Findings For the Year Ended June 30, 2012

No matters were reported

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