

The School District of the City of  
Harper Woods

Year Ended  
June 30, 2015

Financial  
Statements &  
Single Audit Act  
Compliance

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# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

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# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

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**INDEPENDENT AUDITORS' REPORT**

November 2, 2015

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *The School District of the City of Harper Woods* (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Independent Auditors' Responsibility***

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

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

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

*Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of The School District of the City of Harper Woods as of June 30, 2015, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Implementation of GASB Statement No. 68*

As described in Note 17, the District implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. Accordingly, beginning net position of governmental activities was restated. Our opinion is not modified with respect to this matter.

*Other Matters*

*Required Supplementary Information*

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

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Management's Discussion and Analysis

This section of The School District of the City of Harper Woods' annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2015. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District financially as a whole. The *government-wide financial statements* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the District's operations in more detail than the government-wide financial statements by providing information about the District's most significant funds - the general fund and the debt service fund, with any other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the District acts solely as an agent for the benefit of students.

### Overview of the Financial Statements

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

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

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

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

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Management's Discussion and Analysis

**Governmental Funds.** All of the District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in 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 a useful indicator of a government's financial position. Below is a summary of the District's net position as of June 30, 2015 and 2014.

	Governmental Activities	
	2015	2014
<b>Assets</b>		
Current and other assets	\$ 5,915,407	\$ 5,041,470
Capital assets - net of accumulated depreciation	<u>32,535,266</u>	<u>33,448,900</u>
<b>Total assets</b>	<u>38,450,673</u>	<u>38,490,370</u>
<b>Deferred outflows of resources</b>	<u>4,579,407</u>	<u>1,882,608</u>
<b>Liabilities</b>		
Other liabilities	23,002,311	3,938,347
Long-term liabilities	<u>37,872,662</u>	<u>38,191,550</u>
<b>Total liabilities</b>	<u>60,874,973</u>	<u>42,129,897</u>
<b>Deferred inflows of resources</b>	<u>2,072,643</u>	<u>-</u>
<b>Net position</b>		
Net investment in capital assets	6,125,603	5,921,784
Restricted	416,161	335,540
Unrestricted (deficit)	<u>(26,459,300)</u>	<u>(8,014,243)</u>
<b>Total net position</b>	<u><u>\$(19,917,536)</u></u>	<u><u>\$(1,756,919)</u></u>

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Management's Discussion and Analysis

The District had negative net position of \$19.9 million at June 30, 2015. The net investment in capital assets deficit of \$6,125,603, 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 \$416,161 is restricted for food service expenses. The remaining balance of net unrestricted deficit is required to meet the government's ongoing obligations to its programs.

The District implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions, in the current year. In addition to expanded disclosure requirements, the District is required to report its proportionate share of the Michigan Public School Employee Retirement System (MPERS) net pension liability on the statement of net position. This change has resulted in a negative total net position of governmental activities of (\$19.9 million). The negative net position of \$19.9 million of governmental activities represents the accumulated results of all past years' operations. The operating results of the general fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the District as a whole are reported in the statement of activities. Below is a summary of the District's changes in net position for the years ended June 30, 2015 and 2014.

### District's Changes in Net Position

	Governmental Activities	
	2015	2014
Revenue		
Program revenue:		
Charges for services	\$ 178,452	\$ 168,453
Operating grants and contributions	4,438,427	4,995,042
General revenue:		
Property taxes	2,631,047	2,215,785
Unrestricted state aid	13,664,039	11,333,825
Other	345,012	285,018
<b>Total revenue</b>	<b>21,256,977</b>	<b>18,998,123</b>
Function/Program Expenses		
Instruction	11,281,203	9,836,104
Support services	5,764,516	6,215,046
Food services	1,220,347	1,115,126
Athletics	198,799	186,166
Community services	123,479	159,950
Interest on long-term debt	1,422,505	1,414,566
Unallocated depreciation	1,047,902	1,063,071
<b>Total expenses</b>	<b>21,058,751</b>	<b>19,990,029</b>
Change in net position	198,226	(991,906)
Net position, beginning of year	(1,756,919)	(765,013)
Restatement for implementation of GASB 68	(18,358,843)	-
<b>Net position, end of year</b>	<b>\$(19,917,536)</b>	<b>\$(1,756,919)</b>

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Management's Discussion and Analysis

As reported in the statement of activities, the cost of all of our governmental activities this year was \$21.1 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 (\$4.4 million). The District paid for the remaining "public benefit" portion of our governmental activities with \$2.6 million in taxes, \$13.7 million in state foundation allowance and special education, and with our other revenues, i.e., interest and general entitlements.

The District experienced an increase in net position of \$198,226. The primary reason for the change in net position is an increase in state aid revenues.

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

### The District's Funds

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

As the District completed 2015, the governmental funds reported a combined fund balance of \$3,412,374 which is an increase of \$856,582 in comparison with the prior year. The primary reasons for the change are as follows:

In the general fund, our principal operating fund, the fund balance increased \$675,183 to \$2,742,308. This change is compared to the increase of \$89,176 in the prior year. Part of this increase in fund balance was attributable to cost containment and the success of the Dropout Recovery program by the district's partner organization Diploma Success.

The debt service fund shows a fund balance increase of \$100,778 (from \$153,127 to \$253,905). The millage rate is 7.4 mills (funding a combined debt service fund for both the 2006 and 2012 refunding bonds). The millage rate is determined annually to ensure that the District accumulates sufficient resources to pay annual bond issue-related debt service. Due to a mandate from the State of Michigan, the millage rate was increased to 13.0 mills for the current year and will remain the same for several years, until the State School Bond Loan Fund is fully repaid. Debt service funds fund balances are restricted since they can only be used to pay debt service obligations.

The special revenue fund for the food service program showed a net increase of \$80,621.

### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. Three adjustments to the 2014-15 budget were adopted on October 21, 2014, February 24, 2015 and June 16, 2015. The significant changes between the original adopted budget and the final amended budget include an increase of 19 FTE's at the traditional K-12 schools, 5 FTE's at Harper Academy (the district's in-house alternate ed school), and 33 FTE's at the alternate high school run by a third party operator where the district receives 25% of the per pupil state funding. Changes in expenditures included the corresponding increase in payments to the third party operator and carryover grant expenses.

# 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, 2015, the District had \$32.5 million invested in a broad range of capital assets, including land, buildings and improvements, vehicles and furniture and equipment. Additional information on the District's capital assets can be found in note 6 in the notes to the financial statements.

	District's Capital Assets (Net of Depreciation)	
	2015	2014
Land	\$ 46,749	\$ 46,749
Buildings and improvements	31,886,862	32,700,834
Vehicles	21,783	135,370
Furniture and equipment	579,872	565,947
<b>Total capital assets, net</b>	<b><u>\$32,535,266</u></b>	<b><u>\$ 33,448,900</u></b>

#### Debt

At the end of this 2014-2015 fiscal year, the District had \$27.0 million in bonds outstanding versus \$28.1 million in the previous year. The District also had a school bond loan fund and compensated absences. See summary of the District's debt below:

	Long-term Debt	
	2015	2014
General obligation bonds	\$26,960,000	\$ 28,105,000
Net bond premium/discount	1,212,477	1,304,724
School bond loan fund	9,356,224	8,429,156
Compensated absences	343,961	352,670
<b>Total</b>	<b><u>\$37,872,662</u></b>	<b><u>\$ 38,191,550</u></b>

The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the District's boundaries. If the District issues "Qualified Debt", i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The District's outstanding unqualified general obligation debt is zero as of June 2015 and therefore below the statutorily imposed limit.

Other obligations include amounts owed to the State School Bond Loan Fund, bond premiums and discounts recognized from the issuance of the 2006 and 2012 bond refundings, which will be amortized over the life of the bonds, and compensated absences. More detailed information about the long-term liabilities is included in Note 9 of the notes to the financial statements.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Management's Discussion and Analysis

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

Our elected officials and administration consider many factors when setting the District's 2015-16 fiscal year budget. The 2015-16 fiscal year budget was adopted by the Board of Education in June 2015 as follows:

Estimated July 1, 2015 general fund balance	\$ 2,742,308
Revenue	<u>18,431,335</u>
Total available to appropriate	21,173,643
Expenditures	<u>17,917,940</u>
Estimated June 30, 2016 general fund balance	<u>\$ 3,255,703</u>

The actual July 1, 2015 general fund balance is \$318,517 higher than estimated. The July 1, 2015 fund equity is 15.3% of the 2014-15 general fund expenditures which were \$17,899,955.

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 2015-2016 fiscal year is 10 percent and 90 percent of the February 2015 and October 2015 student counts, respectively. The 2015-16 budget was adopted in June 2015, based on an estimate of blended students of 1942 including 631 school of choice students (156 in k-12 and 475 at Diploma Success and the Virtual Academy). The budget is based on 1367 in k-12, 300 at the alternate high school, 175 at the cyber school, 40 at Harper Academy and 60 in the Credit Recovery Program. Approximately 80 percent of total general fund revenue is from the foundation allowance including the 18 mills local tax portion and the State Aid portions under the State Aid Act sections 22(a), 22(b) and the Special Education section 51(a). Under State law, the District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the state's ability to fund local school operations. Once the final student count and related per pupil funding is validated in October, state law requires the District to amend the budget if actual District resources are not sufficient to fund original appropriations.

Since the District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The foundation grant per student for the District in 2014-15 was \$8,099. The budget adopted in June 2015 for the 2015-16 fiscal year assumed a net increase in the foundation allowance of \$20: an additional \$70 per FTE allowance (from \$8,099 to \$8,169), partially offset by the elimination of the \$50 per FTE Best Practices and Pupil Performance.

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

### Requests for Information

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

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## BASIC FINANCIAL STATEMENTS

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Statement of Net Position

June 30, 2015

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 2,446,832
Receivables	3,387,204
Inventories	17,176
Prepaid items	64,195
Capital assets, not being depreciated	46,749
Capital assets being depreciated, net	<u>32,488,517</u>
<b>Total assets</b>	<u>38,450,673</u>
<b>Deferred outflows of resources</b>	
Deferred charge on refunding	1,762,814
Deferred pension amounts	<u>2,816,593</u>
<b>Total deferred outflows of resources</b>	<u>4,579,407</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	4,153,237
Short-term notes payable	114,323
Unearned revenue	23,256
Long-term liabilities:	
Due within one year	1,229,818
Due in more than one year	36,642,844
Net pension liability	<u>18,711,495</u>
<b>Total liabilities</b>	<u>60,874,973</u>
<b>Deferred inflows of resources</b>	
Deferred pension amounts	<u>2,072,643</u>
<b>Net position</b>	
Net investment in capital assets	6,125,603
Restricted for food service	416,161
Unrestricted (deficit)	<u>(26,459,300)</u>
<b>Total net position</b>	<u><u>\$ (19,917,536)</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, 2015

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
<b>Governmental activities:</b>				
Instruction	\$ 11,281,203	\$ -	\$ 3,228,615	\$ (8,052,588)
Support services	5,764,516	-	-	(5,764,516)
Community services	123,479	69,014	-	(54,465)
Food services	1,220,347	93,073	1,209,812	82,538
Athletics	198,799	16,365	-	(182,434)
Interest on long-term debt	1,422,505	-	-	(1,422,505)
Unallocated depreciation	1,047,902	-	-	(1,047,902)
<b>Total</b>	<b>\$ 21,058,751</b>	<b>\$ 178,452</b>	<b>\$ 4,438,427</b>	<b>(16,441,872)</b>
<b>General revenues:</b>				
Taxes:				
Property taxes, levied for general purposes				1,252,094
Property taxes, levied for debt services				1,378,953
Unrestricted state aid				13,664,039
Grants and contributions not restricted to specific programs				338,819
Unrestricted investment earnings				6,193
<b>Total general revenues</b>				<b>16,640,098</b>
<b>Change in net position</b>				<b>198,226</b>
<b>Net position, beginning of year, as restated</b>				<b>(20,115,762)</b>
<b>Net position, end of year</b>				<b>\$ (19,917,536)</b>

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

## FUND FINANCIAL STATEMENTS

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Balance Sheet

Governmental Funds

June 30, 2015

	General	Debt Service Fund	Nonmajor Governmental Fund Special Revenue Food Service	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 2,110,618	\$ 178,535	\$ 157,679	\$ 2,446,832
Accounts receivable	17,230	-	-	17,230
Taxes receivable	121,271	-	-	121,271
Due from other governments	3,195,658	-	53,045	3,248,703
Due from other funds	-	75,370	193,269	268,639
Inventories	-	-	17,176	17,176
Prepaid items	19,195	-	45,000	64,195
<b>Total assets</b>	<b>\$ 5,463,972</b>	<b>\$ 253,905</b>	<b>\$ 466,169</b>	<b>\$ 6,184,046</b>
<b>Liabilities</b>				
Accounts payable	\$ 1,009,368	\$ -	\$ 50,008	\$ 1,059,376
Accrued payroll and other liabilities	1,306,078	-	-	1,306,078
Due to other funds	268,639	-	-	268,639
Short-term notes payable	114,323	-	-	114,323
Unearned revenue	23,256	-	-	23,256
<b>Total liabilities</b>	<b>2,721,664</b>	<b>-</b>	<b>50,008</b>	<b>2,771,672</b>
<b>Fund balances</b>				
Nonspendable for inventories	-	-	17,176	17,176
Nonspendable for prepaid items	19,195	-	45,000	64,195
Restricted for debt service	-	253,905	-	253,905
Restricted for food service	-	-	353,985	353,985
Unassigned	2,723,113	-	-	2,723,113
<b>Total fund balances</b>	<b>2,742,308</b>	<b>253,905</b>	<b>416,161</b>	<b>3,412,374</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,463,972</b>	<b>\$ 253,905</b>	<b>\$ 466,169</b>	<b>\$ 6,184,046</b>

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Reconciliation

Fund Balances for Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2015

Fund balances - total governmental funds \$ 3,412,374

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets not being depreciated	46,749
Capital assets being depreciated	45,424,132
Accumulated depreciation	(12,935,615)

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

Bonds payable and school bond loan fund	(36,316,224)
Unamortized discount	111,224
Unamortized premium	(1,323,701)
Deferred loss on refunding	1,762,814
Accrued interest on bonds payable	(1,787,783)
Compensated absences	(343,961)

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

Net pension liability	(18,711,495)
Deferred outflows related to the net pension liability	2,816,593
Deferred inflows related to the net pension liability	(2,072,643)

Net position of governmental activities \$ (19,917,536)

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2015

	General	Debt Service Fund	Nonmajor Governmental Fund Special Revenue Food Service	Total Governmental Funds
<b>Revenues</b>				
Local sources	\$ 1,682,484	\$ 1,378,954	\$ 93,073	\$ 3,154,511
State sources	15,287,388	-	48,199	15,335,587
Federal sources	1,605,266	-	1,161,613	2,766,879
<b>Total revenues</b>	<b>18,575,138</b>	<b>1,378,954</b>	<b>1,302,885</b>	<b>21,256,977</b>
<b>Expenditures</b>				
Current:				
Instruction	11,559,365	-	-	11,559,365
Support services	5,952,153	-	-	5,952,153
Community services	125,797	-	-	125,797
Food services	-	-	1,222,264	1,222,264
Athletics	204,107	-	-	204,107
Debt service:				
Principal	-	1,145,000	-	1,145,000
Interest and fiscal charges	-	1,060,244	-	1,060,244
Capital outlay and maintenance	58,533	-	-	58,533
<b>Total expenditures</b>	<b>17,899,955</b>	<b>2,205,244</b>	<b>1,222,264</b>	<b>21,327,463</b>
Revenues over (under) expenditures	675,183	(826,290)	80,621	(70,486)
Other financing sources				
Issuance of long-term debt	-	927,068	-	927,068
<b>Net change in fund balances</b>	<b>675,183</b>	<b>100,778</b>	<b>80,621</b>	<b>856,582</b>
Fund balances, beginning of year	2,067,125	153,127	335,540	2,555,792
<b>Fund balances, end of year</b>	<b>\$ 2,742,308</b>	<b>\$ 253,905</b>	<b>\$ 416,161</b>	<b>\$ 3,412,374</b>

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended June 30, 2015

Net change in fund balances - total governmental funds	\$ 856,582
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	134,268
Depreciation expense	(1,047,902)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net position.	
Principal payments on long-term liabilities	1,145,000
Proceeds from issuance of long-term debt	(927,068)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in net pension liability and related deferred amounts	391,298
Change in accrued interest payable on bonds	(335,114)
Amortization of bond discounts	(6,178)
Amortization of bond premiums	98,425
Amortization of deferred charge on refunding	(119,794)
Change in the accrual for compensated absences	8,709
	<hr/>
Change in net position of governmental activities	<u>\$ 198,226</u>

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Local source	\$ 1,614,761	\$ 1,552,794	\$ 1,682,484	\$ 129,690
State sources	12,604,637	14,927,568	15,287,388	359,820
Federal sources	1,604,819	1,688,299	1,605,266	(83,033)
<b>Total revenues</b>	<b>15,824,217</b>	<b>18,168,661</b>	<b>18,575,138</b>	<b>406,477</b>
<b>Expenditures</b>				
<b>Instruction:</b>				
Basic programs	8,170,081	9,502,246	9,497,635	(4,611)
Added needs	1,822,598	2,299,229	2,061,730	(237,499)
<b>Total instruction</b>	<b>9,992,679</b>	<b>11,801,475</b>	<b>11,559,365</b>	<b>(242,110)</b>
<b>Support services:</b>				
Pupil	869,971	882,879	1,001,429	118,550
Instructional staff	1,396,766	1,454,577	1,342,985	(111,592)
General administration	463,394	467,000	400,747	(66,253)
School administration	826,273	938,332	967,496	29,164
Business	300,885	301,671	327,655	25,984
Operations and maintenance	1,283,120	1,337,087	1,528,220	191,133
Pupil transportation services	226,286	231,163	309,486	78,323
Central services	82,664	114,464	74,135	(40,329)
<b>Total support services</b>	<b>5,449,359</b>	<b>5,727,173</b>	<b>5,952,153</b>	<b>224,980</b>
Community services	96,868	98,722	125,797	27,075
Athletics	155,000	176,716	204,107	27,391
Capital outlay and maintenance	-	58,533	58,533	-
<b>Total expenditures</b>	<b>15,693,906</b>	<b>17,862,619</b>	<b>17,899,955</b>	<b>37,336</b>
<b>Net change in fund balance</b>	<b>130,311</b>	<b>306,042</b>	<b>675,183</b>	<b>369,141</b>
Fund balance, beginning of year	2,067,125	2,067,125	2,067,125	-
<b>Fund balance, end of year</b>	<b>\$ 2,197,436</b>	<b>\$ 2,373,167</b>	<b>\$ 2,742,308</b>	<b>\$ 369,141</b>

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

THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

Statement of Fiduciary Assets and Liabilities

Agency Fund  
June 30, 2015

	Student Activities Agency Fund
Assets	
Cash and cash equivalents	\$ 66,644
Liabilities	
Due to student groups	\$ 66,644

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

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## NOTES TO THE FINANCIAL STATEMENTS

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting entity

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

#### Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the year ended June 30, 2015.

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

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

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

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

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

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

The District reports the following major governmental funds:

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

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

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

### *Deposits and investments*

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

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 the Financial Statements

### *Capital assets*

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

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

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

### *Deferred outflows of resources*

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

### *Compensated absences*

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

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### *Deferred inflows of resources*

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

### *Long-term obligations*

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

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

### *Fund equity*

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

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

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### *Pensions*

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

## 2. BUDGETARY INFORMATION

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

## 3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year ended June 30, 2015, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	Final Budget	Actual	Variance
General fund			
Support services:			
Pupil	\$ 882,879	\$ 1,001,429	\$ 118,550
School administration	938,332	967,496	29,164
Business	301,671	327,655	25,984
Operations and maintenance	1,337,087	1,528,220	191,133
Pupil transportation services	231,163	309,486	78,323
Community services	98,722	125,797	27,075
Athletics	176,716	204,107	27,391

## 4. DEPOSITS AND INVESTMENTS

### Deposits and investments

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

Statement of Net Position	
Cash and cash equivalents	\$ 2,446,832
Statement of Fiduciary Assets and Liabilities	
Cash and cash equivalents	<u>66,644</u>
	<u>\$ 2,513,476</u>

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

These balances are categorized for note disclosures as follows:

Deposits	\$ 3,985
MILAF investment funds	<u>2,509,491</u>
	<u>\$ 2,513,476</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.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 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	\$ 2,509,491	S&P-AAAm

### Deposit and investment risk

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

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

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, all of the District’s bank balance of \$3,985 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.

## 5. RECEIVABLES

	General Fund	Nonmajor Funds	Total
Receivables:			
Accounts	\$ 17,230	\$ -	\$ 17,230
Taxes	121,271	-	121,271
Due from other governments	3,195,658	53,045	3,248,703
Total	<u>\$ 3,334,159</u>	<u>\$ 53,045</u>	<u>\$ 3,387,204</u>

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015 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	42,465,129	97,304	-	42,562,433
Vehicles	219,497	-	-	219,497
Furniture and equipment	2,605,238	36,964	-	2,642,202
Total capital assets being depreciated	45,289,864	134,268	-	45,424,132
Less accumulated depreciation for:				
Buildings and improvements	(9,764,295)	(911,276)	-	(10,675,571)
Vehicles	(84,127)	(113,587)	-	(197,714)
Furniture and equipment	(2,039,291)	(23,039)	-	(2,062,330)
Total accumulated depreciation	(11,887,713)	(1,047,902)	-	(12,935,615)
Total capital assets being depreciated, net	33,402,151	(913,634)	-	32,488,517
Governmental activities capital assets, net	\$ 33,448,900	\$ (913,634)	\$ -	\$ 32,535,266

Depreciation expense of \$1,047,902 was charged to the function "unallocated depreciation".

### 7. PAYABLES

Accounts payable as of June 30, 2015 for the District's individual major funds and nonmajor fund are as follows:

	General Fund	Nonmajor Funds	Total
Fund Financial Statements:			
Accounts payable	\$ 1,009,368	\$ 50,008	\$ 1,059,376
Accrued payroll and other liabilities	1,306,078	-	1,306,078
	<u>\$ 2,315,446</u>	<u>\$ 50,008</u>	
Government-wide Financial Statements -			
Accrued interest on long-term debt			<u>1,787,783</u>
			<u>\$ 4,153,237</u>

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 8. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2015, interfund receivables and payables in the fund financial statements consisted of the following:

	Due From Other Funds	Due To Other Funds
General fund	\$ -	\$ 268,639
Debt service fund	75,370	-
Food service fund	193,269	-
	<u>\$ 268,639</u>	<u>\$ 268,639</u>

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

There were no transfers reported.

### 9. LONG-TERM DEBT

The following is a summary of bond, note, and compensated absence activity for the year ended June 30, 2015:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities					
General obligation					
bonds	\$ 28,105,000	\$ -	\$ (1,145,000)	\$ 26,960,000	\$ 1,135,000
Net bond premium/ discount	1,304,724	-	(92,247)	1,212,477	60,418
School bond loan fund	8,429,156	927,068	-	9,356,224	-
Compensated absences	352,670	41,495	(50,204)	343,961	34,400
	<u>\$ 38,191,550</u>	<u>\$ 968,563</u>	<u>\$ (1,287,451)</u>	<u>\$ 37,872,662</u>	<u>\$ 1,229,818</u>

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

Compensated absences are typically liquidated by the general fund.

Bonds payable at June 30, 2015, are comprised of the following issues:

General Obligation Bonds:

\$9,950,000 2006 Refunding Bonds, due in annual installments of \$50,000 to \$1,785,000 through year 2034; plus interest at 4.0% to 4.125%

\$ 9,800,000

\$18,730,000 2012 Refunding Bonds, due in annual installments of \$165,000 to \$1,445,000 through year 2029; plus interest at 2.0% to 5.0%

17,160,000

\$ 26,960,000

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

Year Ending June 30,	Principal	Interest	Total
2016	\$ 1,135,000	\$ 1,025,496	\$ 2,160,496
2017	1,145,000	991,446	2,136,446
2018	1,155,000	957,096	2,112,096
2019	1,150,000	933,996	2,083,996
2020	1,180,000	876,496	2,056,496
2021-2025	6,530,000	3,731,180	10,261,180
2026-2030	7,665,000	2,335,905	10,000,905
3031-3034	7,000,000	727,856	7,727,856
	<u>\$ 26,960,000</u>	<u>\$ 11,579,471</u>	<u>\$ 38,539,471</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, 2015, are as follows:

	Principal	Interest	Total
Beginning balance	\$ 8,429,156	\$ 1,276,071	\$ 9,705,227
Additions	927,068	340,795	1,267,863
Ending balance	<u>\$ 9,356,224</u>	<u>\$ 1,616,866</u>	<u>\$ 10,973,090</u>

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 10. SHORT-TERM NOTES PAYABLE

The District has one short-term state aid anticipation note totaling \$802,243 of which \$114,323 is outstanding and included as a liability in the general fund at June 30, 2015. The note carries an interest rate of .420% and is due July 20, 2015.

Short-term debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
State aid notes	\$ 160,059	\$ 802,243	\$ (847,979)	\$ 114,323

### 11. COMMITMENTS AND CONTINGENCIES

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

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2015.

### 12. RISK MANAGEMENT

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

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

### 13. PROPERTY TAXES

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 14. RETIREMENT PLAN

#### *General Information about the Pension Plan*

*Plan Description.* The District contributes to the Michigan Public School Employees Retirement System (“MPSERS”), a cost-sharing multiple-employer pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Services with oversight from a 12-member board. Benefit provisions are established and may be amended by state statute. The Office of Retirement Services issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report can be obtained by writing to Michigan Public School Employees Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

Plan Name	Plan Type	Plan Status
Member Investment Plan (MIP)	Defined Benefit	Closed
Basic	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Benefit	Open

*The Member Investment Plan (MIP)* includes additional subgroups based on hire date. The *MIP Fixed* plan includes members hired prior to January 1, 1990. The *MIP Graded* plan includes members first hired from January 1, 1990 through June 30, 2008. The *MIP Plus* plan includes members first hired from July 1, 2008 through June 30, 2010. Members who initially enrolled in the MIP plan and made a voluntary election to contribute a higher rate are participants in the *MIP 7%* plan.

Members hired between July 1, 2010 and September 3, 2012 were enrolled in the *Pension Plus* plan. Members hired on or after September 4, 2012 are automatically enrolled in this plan unless an election is made to participate in the defined contribution plan. The plan includes a pension component as well as a savings component. Member contributions to the savings component are match at a rate of 50% by the employer (up to a maximum of 1%) and invested in a 401(k) plan.

Effective February 1, 2013, members that initially enrolled in MIP were provided the option to convert to a defined contribution plan (*Basic 4%*). In these instances, any service credit accumulated under the defined benefit plan before February 1, 2013 is retained. For service performed after this date, the converted plan member receives 4% employer contributions to a personal 401(k) account.

A member first enrolling in MPSERS on or after September 4, 2012 may elect to enroll in the *defined contribution* plan. Employer and employee contribution rates and vesting requirements are consistent with the defined contribution component of the Pension Plus plan as described above.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

*Benefits Provided.* MPSERS provides retirement, death, disability and postemployment benefits to eligible participants. Retirement benefits are calculated as a percentage of the employee's final average compensation times the employee's years of service. All participants qualify for a benefit multiplier of 1.5% for the first 30 years of service. Certain benefit groups receive a reduced rate of 1.25% for service above 30 years. Disability benefits are calculated the same as regular service retirement. Participants are eligible to receive full retirement benefits upon reaching the age and years of service requirements below. Most plans offer additional options for early retirement if certain stipulations have been met. Voluntary contributions vest immediately.

Plan	Eligibility Based on Years of Service	Vesting
Member Investment Plan (MIP)	Age 46 with 30 years or age 60 with 10 years	10 years
Basic	Age 55 with 30 years or Age 60 with 10 years	10 years
Pension Plus	Age 60 with 10 years	4 years
Defined Contribution	Age 46 with 30 years or age 60 with 10 years	4 years

*Contributions.* Employer contributions to the plans are based on a percentage of covered payroll that has been actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Member contributions are determined based on date of hire and the plan selected. In addition, the District is invoiced monthly an amount that approximates 7.63% of covered payroll for "MPSERS UAAL Stabilization." This additional contribution is offset by monthly State aid payments equal to the amounts actually billed by the Office of Retirement Services. For the plan year ended September 30, 2015, an additional 1.13% MPSERS liability prepayment was invoiced as a one-time cost. Employer contribution requirements for pension, inclusive of the MPSERS UAAL Stabilization and one-time prepayment rates, range from 27.52% to 31.83% of covered payroll. Plan member contributions range from 0.0% to 7.0% of covered payroll.

The District's contribution to MPSERS under all pension plans for the year ended June 30, 2015, inclusive of the MPSERS UAAL Stabilization and one-time prepayment, was \$2,238,312.

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

At June 30, 2015, the District reported a liability of \$18,711,495 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2014, the District's proportion (as calculated by MPSERS) was 0.08495%.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

For the year ended June 30, 2015, the District recognized pension expense of \$1,515,623. At June 30, 2015, the District reported pension-related deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Changes in assumptions	\$ 690,414	\$ -	\$ 690,414
Net difference between projected and actual earnings on pension plan investments	-	2,068,563	(2,068,563)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	4,080	(4,080)
	<u>690,414</u>	<u>2,072,643</u>	<u>(1,382,229)</u>
District contributions subsequent to the measurement date	<u>2,126,179</u>	-	<u>2,126,179</u>
<b>Total</b>	<b><u>\$ 2,816,593</u></b>	<b><u>\$ 2,072,643</u></b>	<b><u>\$ 743,950</u></b>

The amount of deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as pension-related deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2016	\$ (338,673)
2017	(338,673)
2018	(338,673)
2019	<u>(366,210)</u>
<b>Total</b>	<b><u>\$ (1,382,229)</u></b>

*Actuarial Assumptions.* The total pension liability in the September 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.5%
Salary increases	3.5% to 12.3%, including wage inflation at 3.5%
Investment rate of return	8.0% (7.0% for the Pension Plus plan)
Cost of living adjustments	3.0% annual, non-compounded for MIP members
Healthcare cost trend rate	8.5% year 1 graded to 3.5% year 12

The mortality table used in this valuation was the RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	4.80%	1.34%
Alternative investment pools	18.00%	8.50%	1.53%
International equity	16.00%	6.10%	0.98%
Fixed income pools	10.50%	1.50%	0.16%
Real estate and infrastructure pools	10.00%	5.30%	0.53%
Absolute return pools	15.50%	6.30%	0.98%
Short-term investment pools	2.00%	-0.20%	-0.02%
	<u>100.00%</u>		5.50%
Inflation			<u>2.50%</u>
Investment rate of return			<u>8.00%</u>

*Discount Rate.* The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that District contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following presents the net pension liability of the District, calculated using the discount rate of 8.0%, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District’s proportionate share of the net pension liability	\$ 24,669,476	\$ 18,711,495	\$ 13,691,807

*Pension Plan Fiduciary Net Position.* Detailed information about the pension plan’s fiduciary net position is available in the separately issued MPERS financial statements available on the State of Michigan Office of Retirement Services website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

*Payable to the Pension Plan.* At June 30, 2015, the District reported a payable of \$297,398 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2015.

### *Other Postemployment Benefits*

Retirees enrolled in MPERS before September 4, 2012 have the option of participating in the *Premium Subsidy* plan, a defined benefit postemployment healthcare plan, which is funded by employers on a cash disbursement basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension. Employer contributions range from 2.20% to 2.71% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

Plan members enrolled on or after September 4, 2012 participate in the *Personal Healthcare Fund*. This defined contribution other postemployment benefits plan includes a required 2% employee contribution into a personal tax-deferred account, which is matched by an additional 2% employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3% employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual’s Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 are pending a Supreme Court resolution.

The District’s contributions to MPERS for other postemployment benefits amounted to \$225,550 for the year ended June 30, 2015.

## 15. SUBSEQUENT EVENT

On August 4, 2015, the District borrowed \$679,570 in State Aid Notes due on July 20, 2016 for cash flow purposes.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to the Financial Statements

### 16. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2015, was as follows:

Capital assets:	
Capital assets not being depreciated	\$ 46,749
Capital assets being depreciated, net	<u>32,488,517</u>
	<u>32,535,266</u>
Related debt:	
Total bonds payable	26,960,000
Net bond premium/discount	1,212,477
Deferred loss on advance refunding	<u>(1,762,814)</u>
	<u>26,409,663</u>
Net investment in capital assets	<u>\$ 6,125,603</u>

### 17. RESTATEMENT

The District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result of this change, beginning net position of governmental activities was decreased by \$18,358,843.



## REQUIRED SUPPLEMENTARY INFORMATION

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Required Supplementary Information MPSERS Cost-Sharing Multiple-Employer Plan

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

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

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

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

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Required Supplementary Information MPERS Cost-Sharing Multiple-Employer Plan

### Schedule of District Contributions

	Year Ended June 30, 2015
Contractually required contribution	\$ 2,238,312
Contributions in relation to the contractually required contribution	<u>(2,238,312)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered-employee payroll	\$ 7,362,379
Contributions as a percentage of covered employee payroll	30.4%

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

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## SINGLE AUDIT ACT COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY OMB CIRCULAR A-133

November 2, 2015

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *The School District of the City of Harper Woods* (the "District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 2, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



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# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2015

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
<b>U.S. Department of Agriculture</b>				
Child Nutrition Cluster:				
Cash Assistance:				
National School Breakfast Program	10.553	MDE	141970	\$ 169,727
National School Breakfast Program	10.553	MDE	151970	162,328
National School Lunch Program	10.555	MDE	141960	487,088
National School Lunch Program	10.555	MDE	151960	469,955
Summer Food Service Program	10.559	MDE	140900	43,417
Summer Food Service Program	10.559	MDE	141900	3,676
Summer Food Service Program	10.559	MDE	150900	5,740
Summer Food Service Program	10.559	MDE	151900	490
Non-Cash Assistance -				
Entitlement Commodities	10.555	MDE	n/a	48,462
Child and Adult Care Food Program	10.558	MDE	141920	329,146
Child and Adult Care Food Program	10.558	MDE	142010	14,103
Child and Adult Care Food Program	10.558	MDE	151920	288,629
Child and Adult Care Food Program	10.558	MDE	152010	12,413
<b>Total U.S. Department of Agriculture</b>				
<b>U.S. Department of Education</b>				
Title I Cluster:				
Title I, Part A - Improving Basic Programs	84.010	MDE	141530/1314	401,190
Title I, Part A - Improving Basic Programs	84.010	MDE	151530/1415	540,138
Safe and Supportive Schools	84.184	MDE	142790/SSS2014	125,500
Safe and Supportive Schools	84.184	MDE	152790/SSS2015	100,400

Accrued (Unearned) Revenue at July 1, 2014	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Adjustments	Expenditures Year Ended June 30, 2015	Accrued (Unearned) Revenue at June 30, 2015
\$ 7,256	\$ 30,208	\$ 146,775	\$ -	\$ 22,952	\$ -
-	153,468	-	-	162,328	8,860
19,281	90,030	416,339	-	70,749	-
-	448,385	-	-	469,955	21,570
5,097	43,417	5,097	-	38,320	-
434	3,676	434	-	3,242	-
-	-	-	-	5,740	5,740
-	-	-	-	490	490
-	48,462	44,552	-	48,462	-
<u>32,068</u>	<u>817,646</u>	<u>613,197</u>	<u>-</u>	<u>822,238</u>	<u>36,660</u>
16,132	53,051	292,227	-	36,919	-
738	2,152	12,689	-	1,414	-
-	272,930	-	-	288,629	15,699
-	11,728	-	-	12,413	685
<u>16,870</u>	<u>339,861</u>	<u>304,916</u>	<u>-</u>	<u>339,375</u>	<u>16,384</u>
<u>48,938</u>	<u>1,157,507</u>	<u>918,113</u>	<u>-</u>	<u>1,161,613</u>	<u>53,044</u>
61,230	61,230	321,691	-	-	-
-	154,161	-	-	360,679	206,518
<u>61,230</u>	<u>215,391</u>	<u>321,691</u>	<u>-</u>	<u>360,679</u>	<u>206,518</u>
18,021	18,021	120,974	-	-	-
-	75,890	-	-	94,837	18,947
<u>18,021</u>	<u>93,911</u>	<u>120,974</u>	<u>-</u>	<u>94,837</u>	<u>18,947</u>

continued...

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2015

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
U.S. Department of Education (continued)				
Title II:				
Title II, Part A - Improving Teacher Quality	84.367	MDE	140520/1314	\$ 53,885
Title II, Part A - Improving Teacher Quality	84.367	MDE	150520/1415	51,894
School Improvement Grant Cluster:				
ARRA School Improvement Grant, Recovery	84.388	MDE	131765/1314	1,999,242
Special Education Cluster:				
I.D.E.A. Flow-Through	84.027A	WCRESA	070460/1314	387,208
I.D.E.A. Flow-Through	84.027A	WCRESA	070460/1415	417,294
Preschool Incentive	84.173	WCRESA	070460/1314	19,809
Preschool Incentive	84.173	WCRESA	070460/1415	17,253
Total U.S. Department of Education				
Total Federal Financial Assistance				

See notes to schedule of expenditures of federal awards.

Accrued (Unearned) Revenue at July 1, 2014	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Adjustments	Expenditures Year Ended June 30, 2015	Accrued (Unearned) Revenue at June 30, 2015
\$ 9,243	\$ 3,166	\$ 53,885	\$ (6,077)	\$ -	\$ -
-	33,413	-	-	48,266	14,853
<u>9,243</u>	<u>36,579</u>	<u>53,885</u>	<u>(6,077)</u>	<u>48,266</u>	<u>14,853</u>
<u>170,654</u>	<u>843,668</u>	<u>1,326,228</u>	<u>-</u>	<u>673,014</u>	<u>-</u>
198,658	198,658	387,208	-	-	-
-	312,125	-	-	417,294	105,169
-	-	-	-	-	-
11,321	11,321	19,809	-	-	-
-	10,277	-	-	17,253	6,976
<u>209,979</u>	<u>532,381</u>	<u>407,017</u>	<u>-</u>	<u>434,547</u>	<u>112,145</u>
<u>469,127</u>	<u>1,721,930</u>	<u>2,229,795</u>	<u>(6,077)</u>	<u>1,611,343</u>	<u>352,463</u>
<u>\$ 518,065</u>	<u>\$ 2,879,437</u>	<u>\$ 3,147,908</u>	<u>\$ (6,077)</u>	<u>\$ 2,772,956</u>	<u>\$ 405,507</u>

concluded.

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Notes to Schedule of Expenditures of Federal Awards

### 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “schedule”) includes the federal grant activity of The School District of the City of Harper Woods (the “District”) under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of 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 position 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 actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

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

### 3. RECONCILIATION OF BASIC FINANCIAL STATEMENTS

The following schedule reconciles federal sources reported in the financial statements to the expenditures reported on the schedule of expenditures of federal awards:

Expenditures reported in the schedule of expenditures of federal awards	\$ 2,772,956
Adjustments to prior year federal expenditures	(6,077)
Federal sources reported in the financial statements	<u>\$ 2,766,879</u>

### 4. PASS-THROUGH AGENCIES

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

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



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

November 2, 2015

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *The School District of the City of Harper Woods* (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 2, 2015.

#### Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

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

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

Purpose of this Report

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



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

November 2, 2015

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of *The School District of the City of Harper Woods* (the "District") with the types of compliance requirements described in the *2 CFR 200 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

*Independent Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and *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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

### *Opinion on Each of the Major Federal Programs*

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

### *Other Matters*

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-002, 2015-003, and 2015-004. Our opinion on each major federal program is not modified with respect to these matters.

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

### *Report on Internal Control Over Compliance*

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 a combination of deficiencies, in internal control over compliance such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2015-002, 2015-003, and 2015-004 that we consider to be significant deficiencies.

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

*Purpose of this Report*

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Rehmann Lobson LLC*

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# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes  X  no

Significant deficiency(ies) identified?  X  yes \_\_\_\_\_ none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes  X  no

#### Federal Awards

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes  X  no

Significant deficiency(ies) identified?  X  yes \_\_\_\_\_ none reported

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

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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion</u>
10.553, 10.555 & 10.559	Child Nutrition Cluster	Unmodified
84.388	School Improvement Grant Cluster	Unmodified
84.027A & 84.173	Special Education Cluster	Unmodified

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

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes  X  no

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

### SECTION II - FINANCIAL STATEMENT FINDINGS

#### 2015-001 - Significant Audit Adjustment

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

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

**Condition.** During our audit, we identified and proposed a significant adjustment (which was approved and posted by management) to adjust the District's general ledger to the appropriate balances.

**Cause.** This condition was the result of oversights in the process of properly recording short-term insurance payable and the related expense on the District's books and records.

**Effect.** As a result of this condition, the District's accounting records were initially misstated by amounts significant to certain individual opinion units.

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

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

**Responsible Official.** James Dennis, Business Manager

**Estimated Completion Date.** August 22, 2015

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

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

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

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

Federal program(s)

*U.S. Department of Education:*

- School Improvement Grant (SIG) Cluster (CFDA# 84.388); Passed through MDE; All project numbers

Criteria. Per OMB Circular A-87, the District is required to support payroll charges to federal cost objectives with adequate documentation including semi-annual payroll certifications for employees charged 100% to a single federal cost objective and with Personnel Activity Reports for those who split their time between multiple cost objectives.

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

Cause. This condition appears to be the result of an administrative oversight by the District in preparing and maintaining time and effort documentation.

Effect. As a result of this condition, the District does not have appropriate payroll support for one employee.

Questioned Costs. Known questioned costs identified during our testing were as follows:

- School Improvement Grant Cluster - \$2,029

Recommendation. We recommend the District prepare and retain payroll documentation in accordance with A-87 for all federal awards.

View of Responsible Officials. Required documentation/certifications are currently being maintained for all district employees and are being reviewed quarterly.

Responsible Official. James Dennis, Business Manager

Estimated Completion Date. July 1, 2015

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

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

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

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

Federal program(s)

*U.S. Department of Education:*

- School Improvement Grant (SIG) Cluster (CFDA# 84.388); Passed through MDE; All project numbers

Criteria. The District's purchasing policy states, "No purchase shall be made for goods or nonteaching services performed by other than the District's employees in a single transaction costing \$10,000 or more unless competitive bids for those goods and services are obtained and the purchase is approved by the Board." The District is also required to document whether a vendor appears to be suspended or debarred.

Condition. During our audit procedures over the District's procurement process it was noted that four out of five contract files tested did not have the required bid documentation. Also, four out of five files selected did not have documentation of the District verifying that the vendor is not suspended or debarred.

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

Effect. The District did not follow its own procurement policy that requires open competition for all contracts over \$10,000 and did not follow requirements to check whether a vendor is suspended or debarred.

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

Recommendation. We recommend that the District enhance its procurement procedures to ensure that all projects requiring bids are completed and included in the project file for sufficient audit documentation. Also, the District should develop procedures to ensure that any vendors or contractors selected are verified as being neither suspended or debarred per the SAM.gov website.

View of Responsible Officials. Procedures are in place to ensure that district policies are followed regarding competitive bidding and that all vendors/contractors selected are on the approved via the SAM.gov website.

Responsible Official. James Dennis, Business Manager

Estimated Completion Date. July 1, 2015

# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

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

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

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

- Special Education Cluster (CFDA# 84.173); Passed through WRESA; All project numbers

Criteria. Per OMB Circular A-87, charges to grants should be for actual costs (not based on estimated, budgeted or projected amounts).

Condition. The District charged certain costs to IDEA based only on remaining budgeted amounts for indirect costs.

Cause. This condition appears to be the result of the District using budgeted rates to charge costs to the grant rather than charging based on actual costs.

Effect. As a result of this condition, the District did not fully comply with A-87 cost principals for charging indirect costs to the grant.

Questioned Costs. Known questioned costs identified during our testing were as follows:

- Special Education Cluster - \$4,443

Recommendation. We recommend the District modify its method for charging indirect costs to grants and ensure that all indirect allocations are based on actual costs.

View of Responsible Officials. Proper procedures are in place to ensure that all requirements of the District's grants are adhered to as it applies to the coding and review of applicable invoices/expenses.

Responsible Official. James Dennis, Business Manager

Estimated Completion Date. July 1, 2015



# THE SCHOOL DISTRICT OF THE CITY OF HARPER WOODS

## Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2015

### Finding 2014-FS-01 - Material Audit Adjustment

During our audit, we identified and proposed material adjustments (which were approved and posted by management) to adjust the District's general ledger to the appropriate balances. This finding was not adequately resolved. See finding 2015-001 in the current year Schedule of Findings and Questioned Costs.

### Finding 2014-SA-01 - Allowable Costs/Cost Principles - Payroll Documentation

The District was unable to provide semi-annual certifications for 11 employees and one employee was not paid the correct rate. This finding was not adequately resolved. See finding 2015-002 in the current year Schedule of Findings and Questioned Costs.

### Finding 2014-SA-02 - Procurement, Suspension and Debarment

Three out of four contract files tested did not have the required bid documentation. Also, two out of four files selected did not have documentation of the District verifying that the vendor is not suspended or debarred. This finding was not adequately resolved. See finding 2015-003 in the current year Schedule of Findings and Questioned Costs.

