



**THE SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK**  
**OFFICE OF THE EMERGENCY MANAGER**  
12360 Woodward Avenue  
Highland Park, Michigan 48203

Kevin A. Smith  
Emergency Manager

April 14, 2017

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State Treasurer  
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**RE: Quarterly Report Regarding Financial Condition**

Dear Distinguished Stakeholders:

Enclosed for your review and consideration is my Quarterly Report regarding the financial condition of the School District of the City of Highland Park (the "District"), that I'm submitting in accordance with Section 9(5) of Public Act 436 of 2012, as amended ("PA 436").

This report includes a current (unaudited) cashflow historical statement and projection ("Cash Flow") for this fiscal year ending June 30, 2017, and a statement of the debt obligations of the District. These are two of the important financial indicators for the District and our efforts to understand its financial health. Based on review of those statements, this report summarizes the current assessment of the District's financial condition based on: (1) current cash position, (2) debt obligations and (3) the challenges that need be addressed to return the District to financial stability.

**Overview**

**Cash Flow**

The District's goal has been to balance cash to properly manage funds for necessary operational costs and debt service payments. The attached cash flow statement shows the movement of cash in the general fund. Below are highlights and challenges to managing cash at the District.

- **Balance of District Operations (annual operating cash surplus)** – As a result of decisions and cost cutting measures implemented since 2012, the District’s annual expenditures for operations no longer exceed annual revenues. For fiscal year ending June 30, 2017, the District projects a cash surplus after operating costs of approximately \$823,000.
- **Unfunded Debt Obligations results in sustained structural deficit**– Scheduled annual debt service payments, if made, would result in a general fund cash deficit for the fiscal year. The District currently projects making payments on approximately \$1,688,000 in outstanding debt this fiscal year ending June 30, 2017. If all payments are made, the District’s general fund cash balance decreases approximately \$254,000 this fiscal year. This estimate does not take into consideration outstanding ORS payments, which have been deferred to date.
- **Accuracy of Historical Data** – The District is in the process of reconciling historical account data to accelerate completion of the District’s outstanding Certified Audited Financial Statements (the “Audits”) for fiscal years ended 2015 and 2016. Subject to completion of those audits, certain assumptions were made regarding historical data.
- **Status of Fund Balance** – As of the end of the 3rd quarter of this fiscal year, the District hasn’t completed the outstanding Audits for fiscal years ended June 30, 2015 and 2016. With financial support from the Michigan Department of Treasury (“Treasury”), the District has engaged the certified public accounting firm, The Clairmount Group, PLC, to complete a forensic reconciliation of the District’s accounts and fund balances. By investing the resources to reconcile all accounts, the District has the ability now to expedite completion of the outstanding prior year audits. The District’s independent auditing firm, Yeo & Yeo, expects to have outstanding prior year Audits completed before June 30 of this year.

The benefits of investing these resources now are: (1) the District will then be current on all statutorily required audits, (2) would be prepared to finalize and approve its budget for fiscal year 2017-18, and (3) will be in position to start preparing the Audit for this fiscal year 2016-17 that will be due in November 2017.

### **Debt Service Statements**

The attached debt service documents show the District’s obligations as of March 31, 2017. The Emergency Manager is working with the District’s debtors to reduce the amount of the outstanding obligations.

### **Other Highlights**

Over the past six (6) months the District has taken the following actions to begin the process towards the optimal goal of becoming solvent:

- Secured a no cost settlement with Robert Davis for dismissal of all claims against the District, resulting in elimination of approximately \$240,000 in annual legal expenses.
- Assessed the current operations of the District with the goal of reducing the number of non-critical administrative staffing hours and staffing costs. Eliminated additional bookkeeper staff position.
- Reduced the District’s budgeted annual labor costs by employing all District contract employees through a new staffing company charging 50% lower commission rates.

- Initiated negotiations with unsecured creditors (vendors, utility providers) with the possibility that the Emergency Manager may impose reductions on unsecured amounts by authority of Public Act 436.
- Undertaken review of all settlement options for ORS and UIA obligations.
- Replaced the District's bookkeeping and accounting staff with a contract for onsite accounting and back office and bookkeeping support from CPA firm, The Clairmount Group. We expect this change will result in greater bookkeeping integrity and efficiency, better compliance, lower administrative costs, and ultimately more accurate and current financial information that will help us negotiate and make informed decisions to address the debt obligations that remain for the District before my term expires.

Respectfully submitted,



Kevin A. Smith  
Emergency Manager

Enclosures

cc: Eric Scorsone, Senior Deputy State Treasurer  
Paul Connors, Director, Office of School Review and Fiscal Accountability

The School District of Highland Park  
Cash Flow  
General Fund Only  
Fiscal Year 2016-2017

	July	August	September	October	November	December	January	February	March	April	May	June	Total
<b>Cash beginning balance</b>	1,366,206	1,476,456	1,727,710	2,516,988	1,404,890	1,393,988	1,217,972	1,145,720	1,195,614	1,130,340	1,050,676	844,417	1,166,708
<b>Cash received</b>													
Property taxes	\$ 119,378	\$ 316,677	\$ 807,662	\$ 637,988	\$ 112,901	\$ 73,789	\$ 9,216	\$ 84,692	\$ -	\$ -	\$ 23,794	\$ 317,764	\$ 2,029,660
Authorizations	94,452	22,598	242	7,421	7,410	6,516	7,865	7,811	7,911	6,982	6,982	6,982	66,579
Administrative	16,019	242	502	611	655	30	262	217	-	30,000	41,500	24,900	157,650
Interest	57	41	63	80	80	80	112	114	-	300	300	300	2,753
Total Cash Receipts	335,866	897,227	897,227	719,910	126,295	89,455	13,395	92,734	7,811	37,282	73,556	354,025	2,327,498
<b>Cash disbursements</b>													
Support services	\$ 6,670	\$ 16,902	\$ 54,654	\$ 20,604	\$ 24,817	\$ 17,192	\$ 10,951	\$ 990	\$ -	\$ 19,161	\$ 20,000	\$ 20,000	\$ 230,141
General Administration	1,579	3,000	421	-	271	519	5,000	410	-	12,000	15,000	10,000	66,579
Board of education expenses, Total General Administration	\$ 8,449	\$ 19,902	\$ 55,075	\$ 30,604	\$ 25,088	\$ 17,710	\$ 24,131	\$ 1,410	\$ -	\$ 31,161	\$ 35,180	\$ 50,180	\$ 209,070
Business Services	\$ 3,291	\$ -	\$ 14,270	\$ 13,981	\$ 13,981	\$ 13,981	\$ 29,155	\$ 18,910	\$ 6,990	\$ 19,048	\$ 17,198	\$ 17,198	\$ 157,274
Administrative Staff	32,888	48,851	12,212	9,863	9,220	9,566	14,026	2,370	39,455	30,000	41,500	24,000	274,451
Charter Oversight Services	591	3,410	2,330	570	199	123	176	-	1,419	9,500	4,500	4,500	18,500
Emergency maintenance response	6306	4,469	711	2,088	711	5,637	1,014	1,945	880	1,768	1,768	1,768	5,534
Office Administration	43,076	57,271	33,441	26,502	24,111	29,357	38,971	18,295	47,774	60,117	65,066	47,586	487,598
Total Business Services	\$ 57,200	\$ 2,600	\$ 2,600	\$ 2,600	\$ 2,600	\$ 2,600	\$ 2,600	\$ 2,600	\$ 2,600	\$ 2,600	\$ 2,600	\$ 2,600	\$ 23,000
Operations and Maintenance	\$ 604	\$ 1,509	\$ 1,370	\$ 910	\$ 1,084	\$ 1,104	\$ 1,105	\$ 1,105	\$ 1,105	\$ 1,105	\$ 1,105	\$ 1,105	\$ 11,824
Utilities	2,901	2,462	63	638	633	580	687	719	862	800	800	800	7,091
Repairs and Maintenance	1,520	6,571	3,031	4,178	4,517	4,938	4,621	4,524	4,315	15,789	15,789	15,789	1,840
Total Operations and Maintenance	\$ 60,720	\$ 76,744	\$ 97,849	\$ 61,284	\$ 57,134	\$ 51,461	\$ 67,134	\$ 24,229	\$ 57,699	\$ 108,916	\$ 115,935	\$ 115,935	\$ 979,802
Total Cash Disbursements before debt fees	\$ 320,150	\$ 349,864	\$ 798,776	\$ 106,666	\$ 73,369	\$ 20,004	\$ 149,275	\$ 68,565	\$ 65,088	\$ 60,684	\$ 69,919	\$ 210,931	\$ 1,336,616
Supplies (debt) before debt fee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service (short and long)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Principals and Interest - Emergency Loan #1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Principals and Interest - Emergency Loan #2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Principals and Interest - UIA	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Principals and Interest - Miscellaneous	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Principals and Interest - Debt Service	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Total Debt Service	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
Total Cash Receipts (Net)	\$ 110,150	\$ 250,864	\$ 798,776	\$ 1,111,208	\$ 210,921	\$ 19,004	\$ 67,288	\$ 49,918	\$ 67,288	\$ 19,684	\$ 109,158	\$ 210,931	\$ 230,639
Supplies (debt) - Cash balance	\$ 1,476,156	\$ 1,727,210	\$ 2,516,988	\$ 1,404,890	\$ 1,393,988	\$ 1,217,972	\$ 1,145,720	\$ 1,195,614	\$ 1,130,340	\$ 1,050,676	\$ 844,417	\$ 1,075,408	\$ 1,166,708

\* If by the abbreviated data it was noted.

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. Two emergency loans were issued during the year ended June 30, 2013 under the powers of the emergency manager and communication with the State of Michigan: General obligation bonds are direct obligations and pledge the full faith and credit of the School District.

Long-term bonds and loans are summarized as follows:

School Building and Site Bonds:

\$3,580,000 of School Building and Site Bonds due in installments of \$130,000 to \$870,000 through May 1, 2034; Interest at 3.625 percent to 5.00 percent

2,810,000 Balance at 6/30/14 per the Audit (will be updated to current amt upon completion of current ytd accounting)

Emergency Loan #1:

\$4,410,000 of Emergency Loan #1 due in installments of \$110,000 to \$205,000 through November 1, 2041; Interest at 2.35 percent

4,305,000 Balance at 6/30/14 per the Audit (will be updated to current amt upon completion of current ytd accounting)

Emergency Loan #2:

\$3,000,000 of Emergency Loan #2 due in installments of \$75,000 to \$140,000 through November 1, 2041; Interest at 2.80 percent

2,925,000 Balance at 6/30/14 per the Audit (will be updated to current amt upon completion of current ytd accounting)

10,040,000

Other long-term debt is summarized as follows:

Unemployment Insurance Agency (UIA)

1,240,187.87 Balance at 3/17/17 (see attached)

DTE

(this amount has not yet been verified by The Clairmount Group)

324,250.29 Balance at 2/23/17 per Theresa Maner (see attached)

Office of Retirement Services (ORS)

(this amount has not yet been verified by The Clairmount Group)

827,511.13 Balance at 10/4/16 per John Lewis (see attached)

Sinking Fund - The Sinking Fund is used to record the sinking fund property tax levy and other revenue and the disbursement of invoices specifically designated for technology and major remodeling. The fund will operate until the purpose for which it was created is accomplished. The Sinking Fund has a significant balance due from the General Fund. (this amount has not yet been verified by The Clairmount Group)

2,547,412.00 Balance at 10/4/16 Per John Lewis  
(see attached)

Michigan Dept. of Education-State Aid Advances  
(this amount has not yet been verified by The Clairmount Group)

2,973,444.00 Balance at 10/4/16 Per John Lewis  
(see attached)

7,912,785.29

17,952,785.29