

**School District of the City
of Highland Park**

Financial Statements

June 30, 2014

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Independent Auditors' Report

Management and the Board of Education
School District of the City of Highland Park

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 Highland Park, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Highland Park, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Deficit Fund Balance

The School District has accumulated unassigned deficits in the General Fund of \$8,253,020, Food Service Fund of \$9,563, Technology Equipment Fund of \$282,222, and 2005 School Building and Site Project Fund of \$50,138 as of June 30, 2014, which have resulted from operating deficits. The deficit and status of the District's Deficit Elimination Plan that is required by the Michigan Department of Education, are disclosed in Note 2. Our opinions are 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 budgetary comparison information, identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District of the City of Highland Park's basic financial statements. The other supplementary information, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, 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 other supplementary information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2016 on our consideration of the School District of the City of Highland Park'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 School District of the City of Highland Park's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Saginaw, MI
May 12, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the School District of the City of Highland Park's (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2014. Please read it in conjunction with the School 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 School District of the City of Highland Park financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School 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 School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds – the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

Other Supplemental Information

Reporting the School District as a Whole – Government-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information on the School 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. These two statements report the School District's net assets – the difference between assets and liabilities, as reported in the statement of net position – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School 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 School District's operating results. However, the School 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 School District.

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

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as debt service funds used to report debt millage revenue and the associated debt service payments). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School 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 School District and the services it provides. Governmental fund information helps you determine whether there are more or less financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position (deficit) as of June 30, 2014:

TABLE 1	Governmental Activities	
	June 30	
	2014	2013
	(in millions)	
Assets		
Current and other assets	\$ 2.2	\$ 4.7
Capital assets	<u>5.4</u>	<u>5.5</u>
Total assets	7.6	10.2
Liabilities		
Current liabilities	7.7	10.2
Long-term liabilities	<u>9.7</u>	<u>10.0</u>
Total liabilities	<u>17.4</u>	<u>20.2</u>
Net Position (Deficit)		
Net investment in capital assets	2.6	2.6
Restricted	3.1	0.4
Unrestricted	<u>(15.6)</u>	<u>(13.0)</u>
Total net position (deficit)	<u>\$ (9.9)</u>	<u>\$ (10.0)</u>

The above analysis focuses on the net position (deficit) (see Table 1). The change in net position (deficit) (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was a negative (\$9.9 million) at June 30, 2014. Net investment in capital assets totaling \$2.6 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net position (\$15.6 million) was unrestricted.

The net deficit of \$9.9 million represents the accumulated results of all past years' operations. Total liabilities are greater than the current and capital assets of the School District; therefore, the net position is negative. 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 School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets (deficit) for fiscal years 2014 and 2013.

As reported in the statement of activities, the cost of all of our governmental activities this year was \$2.8 million. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions \$.6 million. We paid for the remaining "public benefit" portion of our governmental activities with \$1.9 million in taxes and with our other revenues, i.e., interest and general entitlements.

The School District experienced a decrease (increase) in net assets of \$.1 million. The key reasons for the change in net assets was declining expenditures.

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

The School District's Funds

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

School District of the City of Highland Park

Management's Discussion and Analysis

As the School District completed this year, the governmental funds reported a combined fund deficit of (\$5.4) million, which is an increase of \$.3 million from last year. The primary reasons for the increase in the deficit are as follows:

TABLE 2	Governmental Activities	
	2014	2013
	(in millions)	
Revenue		
Program revenue:		
Operating grants and contributions	\$ 0.6	\$ 0.6
General revenue:		
Property taxes	1.9	2.2
State foundation allowance	-	0.2
Other	0.4	0.7
Total revenue	<u>2.9</u>	<u>3.7</u>
Functions/Program Expenses		
Instruction	0.1	0.3
Support services	2.2	2.9
Interest on long-term debt	0.3	0.2
Depreciation (unallocated)	0.2	0.2
Impairment loss	-	1.7
Total functions/program expenses	<u>2.8</u>	<u>5.3</u>
Increase (Decrease) in Net Position	0.1	(1.6)
Net Position (Deficit) - Beginning of year	<u>(10.0)</u>	<u>(8.4)</u>
Net Position (Deficit) - End of year	<u><u>\$ (9.9)</u></u>	<u><u>\$ (10.0)</u></u>

In the General Fund, our principal operating fund, the fund deficit increased \$.7 million to (\$8.3 million). The change is mainly due to lower than projected tax collections as delinquent taxes continue to be an issue for the district. Utility costs continue to be an issue for the district, as well as interest and penalties on unpaid legacy debt (unemployment compensation and retirement service contributions in regard to previous employees). Legal service costs continue to be an issue for the district as well.

Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Durant debt obligations are funded by annual state appropriation and no fund balance exists at year end. Debt service funds fund balances are reserved since they can only be used to pay debt service obligations.

The School District collected \$478,000 in voter-approved sinking fund millage. This millage is available to fund specific capital projects allowed by state law and approved by the voters.

General Fund Budgetary Highlights

State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The School District did not amend its budget during the year. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2014, the School District had \$5.4 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$.1 million from last year.

	<u>2014</u>	<u>2013</u>
Land	\$ -	\$ 3
Buildings and building improvements	9,907,860	9,907,860
Buses and other vehicles	-	8,895
Furniture and equipment	<u>724,531</u>	<u>724,531</u>
Total capital assets	10,632,391	10,641,289
Less accumulated depreciation	<u>5,270,005</u>	<u>5,092,310</u>
Net capital assets	<u>\$ 5,362,386</u>	<u>\$ 5,548,979</u>

There were no additions to capital assets in the current year.

No major capital projects were planned for the 2013–14 fiscal year. The sinking fund will be used to pay for any capital activity which may occur during the year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$2.8 million in bonds outstanding versus \$2.9 million in the previous year, consisting of the following:

	<u>2014</u>	<u>2013</u>
General obligation bonds	<u>\$ 2,810,000</u>	<u>\$ 2,930,000</u>

The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District has no outstanding unqualified general obligation debt.

Other obligations include two emergency loans issued during the 2012–2013 year. These loans are payable annually through 2042. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The emergency manager continues to handle much of the day-to-day operational decisions associated with the original School District and is attempting to pay down all debts.

The School District will continue to collect property taxes on non-homestead properties in order to pay off the existing School District debt. Additionally, as the charter authorizing agency, the School District is entitled to a fee of 3 percent of the State Aid associated with the enrolled pupils of the charter school district. The emergency manager will continue to monitor the activities of the Highland Park Public School Academy, along with the charter school management company.

These revenue sources will be the only available funds to pay off existing debt of the School District.

The School District and the emergency manager are working closely with the State of Michigan on a plan to pay off existing debts and have a financial and operating plan in place. Once all debts are paid in full, the School District will revisit the charter school structure to determine if a return to a traditional K-12 district is in order.

Contacting the School District's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the emergency manager.

BASIC FINANCIAL STATEMENTS

School District of the City of Highland Park
Statement of Net Position
June 30, 2014

	<u>Governmental Activities</u>
Assets	
Cash	\$ 1,639,125
Accounts receivable	351,917
Due from agency fund activities	1,329
Restricted assets	221,494
Capital assets - net of accumulated depreciation	<u>5,362,386</u>
 Total assets	 <u>7,576,251</u>
 Liabilities	
Accounts payable	5,239,891
Due to other governmental units	1,077,674
Due to agency fund activities	158,916
Accrued expenditures	726,509
Unearned revenue	188,079
Noncurrent liabilities	
Due within one year	315,000
Due in more than one year	<u>9,725,000</u>
 Total liabilities	 <u>17,431,069</u>

See Accompanying Notes to Financial Statements

School District of the City of Highland Park
Statement of Net Position
June 30, 2014

	<u>Governmental Activities</u>
Net Position	
Net investment in capital assets	\$ 2,552,386
Restricted for:	
Debt service	212,653
Capital projects	2,948,823
Unrestricted	<u>(15,568,680)</u>
 Total net position	 <u>\$ (9,854,818)</u>

See Accompanying Notes to Financial Statements

School District of the City of Highland Park
Statement of Activities
For the Year Ended June 30, 2014

	Program Revenues				
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
Functions/Programs					
Governmental activities					
Instruction	\$ 100,203	\$ -	\$ -	\$ -	\$ (100,203)
Supporting services	2,200,855	-	624,822	-	(1,576,033)
Food services	12,040	-	-	-	(12,040)
Interest on long-term debt	280,382	-	-	-	(280,382)
Depreciation (unallocated)	186,590	-	-	-	(186,590)
Total governmental activities	\$ 2,780,070	\$ -	\$ 624,822	\$ -	(2,155,248)
General revenues					
Property taxes, levied for general purposes					1,907,134
Interest and investment earnings					1,946
Other					372,820
Total general revenues					2,281,900
Change in net position					126,652
Net position - beginning (deficit)					(9,981,470)
Net position - ending (deficit)					\$ (9,854,818)

See Accompanying Notes to Financial Statements

School District of the City of Highland Park
Governmental Funds
Balance Sheet
June 30, 2014

	<u>General Fund</u>	<u>Sinking Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash	\$ 1,624,190	\$ -	\$ 14,935	\$ 1,639,125
Accounts receivable	349,440	-	2,477	351,917
Due from other funds	643,000	2,547,412	566,069	3,756,481
Restricted assets	<u>-</u>	<u>221,391</u>	<u>103</u>	<u>221,494</u>
Total assets	<u>\$ 2,616,630</u>	<u>\$ 2,768,803</u>	<u>\$ 583,584</u>	<u>\$ 5,969,017</u>
Liabilities				
Accounts payable	\$ 5,215,238	\$ -	\$ 24,653	\$ 5,239,891
Due to other funds	3,436,061	-	478,007	3,914,068
Due to other governmental units	1,047,500	-	30,174	1,077,674
Accrued expenditures	697,571	-	-	697,571
Unearned revenue	<u>188,079</u>	<u>-</u>	<u>-</u>	<u>188,079</u>
Total liabilities	<u>10,584,449</u>	<u>-</u>	<u>532,834</u>	<u>11,117,283</u>

See Accompanying Notes to Financial Statements

School District of the City of Highland Park
Governmental Funds
Balance Sheet
June 30, 2014

	General Fund	Sinking Fund	Nonmajor Governmental Funds	Total Governmental Funds
Deferred Inflows of Resources				
Unavailable revenue				
Miscellaneous	\$ 285,201	\$ -	\$ -	\$ 285,201
Fund Balance				
Restricted for:				
Debt service	-	-	212,653	212,653
Capital projects	-	2,768,803	180,020	2,948,823
Unassigned	(8,253,020)	-	(341,923)	(8,594,943)
Total fund balance (deficit)	(8,253,020)	2,768,803	50,750	(5,433,467)
Total liabilities, deferred inflows of resources, and fund balance	\$ 2,616,630	\$ 2,768,803	\$ 583,584	\$ 5,969,017

See Accompanying Notes to Financial Statements

School District of the City of Highland Park
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2014

Total fund balances for governmental funds	\$ (5,433,467)
Total net position for governmental activities in the statement of net position is different because:	
Certain receivables are not available to pay for current period expenditures and, therefore, are unavailable in the funds.	
Miscellaneous	285,201
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets - net of accumulated depreciation	5,362,386
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(28,938)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Bonds payable	<u>(10,040,000)</u>
Net position of governmental activities (deficit)	<u><u>\$ (9,854,818)</u></u>

School District of the City of Highland Park
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2014

	General Fund	Sinking Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 1,607,739	\$ 535,520	\$ 159,143	\$ 2,302,402
Federal sources	318,103	-	-	318,103
Interdistrict sources	1,016	-	-	1,016
	<u>1,926,858</u>	<u>535,520</u>	<u>159,143</u>	<u>2,621,521</u>
Expenditures				
Current				
Education				
Instruction	100,203	-	-	100,203
Supporting services	2,089,916	-	-	2,089,916
Food services	-	-	12,040	12,040
Capital outlay	1,075	109,861	-	110,936
Debt service				
Principal	180,000	-	120,000	300,000
Interest and other expenditures	170,539	-	129,944	300,483
	<u>2,541,733</u>	<u>109,861</u>	<u>261,984</u>	<u>2,913,578</u>
Net change in fund balance	(614,875)	425,659	(102,841)	(292,057)
Fund balance (deficit) - beginning	<u>(7,638,145)</u>	<u>2,343,144</u>	<u>153,591</u>	<u>(5,141,410)</u>
Fund balance (deficit) - ending	<u>\$ (8,253,020)</u>	<u>\$ 2,768,803</u>	<u>\$ 50,750</u>	<u>\$ (5,433,467)</u>

See Accompanying Notes to Financial Statements

School District of the City of Highland Park
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2014

Net change in fund balances - Total governmental funds \$ (292,057)

Total change in net position reported for governmental activities in the statement of activities is different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

Miscellaneous 285,201

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

Depreciation expense (186,590)

Sale of capital assets (net book value) (3)

Expenses are recorded when incurred in the statement of activities.

Interest 20,101

Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.

Repayments of long-term debt 300,000

Change in net position of governmental activities \$ 126,652

School District of the City of Highland Park
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2014

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash	\$ 96,513	\$ 2,436
Accounts receivable	11,500	82
Due from other funds	<u>101,413</u>	<u>57,503</u>
Total assets	<u>209,426</u>	<u>\$ 60,021</u>
Liabilities		
Due to other funds	1,329	-
Due to agency fund activities	<u>1,110</u>	<u>60,021</u>
Total liabilities	<u>2,439</u>	<u>\$ 60,021</u>
Net Position	<u>\$ 206,987</u>	

See Accompanying Notes to Financial Statements

School District of the City of Highland Park
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2014

	<u>Private Purpose Trust Funds</u>
Additions	
Local sources	\$ 985
Deductions	
Scholarships	<u>2,700</u>
Change in net position	(1,715)
Net position - beginning	<u>208,702</u>
Net position - ending	<u>\$ 206,987</u>

See Accompanying Notes to Financial Statements

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

Pursuant to Public Act 4 – Local Government Fiscal Responsibility Act, the State of Michigan determined that a financial emergency exists within the School District. An emergency manager (EM) was appointed during February 2012 and was succeeded by the successor-EM effective May 2012, and again in October 2013. The EM assumes control over all fiscal matters of the School District and makes fiscal decisions including but not limited to the preparation of the School District's financial statements. Except for those powers grants to the EM, the School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

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

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

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

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

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2014

statements the School District has eliminated interfund transactions.

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

Fund Financial Statements

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

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

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

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

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

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.

Additionally, the School District reports the following fund types:

Special Revenue Fund – The Special Revenue Fund consists of those activities involved in operating the programs necessary to provide for the education of students identified as needing special education services. The School District's special revenue fund is the Food Service Fund. Any operating deficit generated by these activities is the responsibility of the General Fund. The Food Services Fund is currently dormant since there are no more students in the School District.

Technology Equipment Fund – The Technology Equipment Fund is used to account for certain insurance proceeds received and related interest revenue that is to

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2014

be used for technology and related electrical upgrades. The fund operates until the purpose for which it was created is accomplished.

Debt Service Funds – The debt service funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on the School District’s various bonds.

Other Capital Improvement Fund – The Other Capital Improvement Fund is used to account for certain insurance proceeds received and related interest revenue that is to be used for various capital improvements. The fund operates until the purpose for which it was created is accomplished.

Capital Project Funds – Other nonmajor capital projects funds are used to record bond proceeds, interest and other revenue, and the disbursement of monies specifically designated for technology and major remodeling. The funds operating until the purpose for which it was created is accomplished.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Trust Funds are funds entrusted to the School District for scholarship awards and loans and the principal and interest of the trust may be spent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Net Position or Equity

Cash – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund based on relative participation in the pool.

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

All trade and property tax receivables are shown net of an allowance for uncollectible amounts of \$285,201.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2014, the rates are as follows per \$1,000 of assessed value.

General Fund	
Non principal residence exemption	17.73000
Commercial personal property	5.73000
Debt Service Funds	1.50000
Sinking Fund	4.84250

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2014

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

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of February 28 are purchased by Wayne County and remitted to the School District by June 30.

Restricted Assets – Tax revenue collected has been set aside for debt principal and interest payments. This amount also includes unspent sinking fund monies. This total amount has been classified as restricted assets.

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

Building and building additions	20-50 years
Furniture and other equipment	5-20 years

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is

applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

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

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

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

Assigned – amounts intended to be used for specific purposes, as determined by the Emergency Manager. The board of education has granted the Emergency Manager the authority to assign funds. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature.

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

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2014

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

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

Use of Estimates

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

Eliminations and Reclassifications

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

Upcoming Accounting and Reporting Changes

The Governmental Accounting Standards Board ("The GASB") has issued Statement 68, *Accounting and Financial Reporting for Pensions* and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The net pension liability will be recorded on the district-wide statements. Statement 71 amends Statement 68 to address an issue concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement 68 by employers and non-employer contributing entities. The District is evaluating the impact these standards will have on its financial reporting. Statements 68 and 71 are effective for the year ending June 30, 2015.

Statement 69 provides detailed requirements for the accounting and disclosure of various types of government combinations, such as mergers, acquisitions, and transfers of operations. The guidance available previously was limited to nongovernmental entities, and therefore did not provide practical examples for situations common in government-specific combinations and disposals. The accounting and disclosure requirements for these events vary based on whether a significant payment is made, the continuation of termination of services, and the legal structure of the new or continuing entity. Statement 69 is effective for the year ending June 30, 2015.

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2014

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

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

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

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

Excess of Expenditures over Appropriations

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

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Basic programs	\$ -	\$ 62,021	\$ 62,021
Added needs	-	38,182	38,182
Pupil	-	1,606	1,606
Instructional staff	-	11,636	11,636
General administration	115,000	443,025	328,025
Business	165,375	1,452,803	1,287,428
Operations and maintenance	72,002	99,105	27,103
Central	3,000	81,741	78,741
Capital outlay	-	1,075	1,075
Food Service Fund	-	12,040	12,040

Deficit Fund Balance

The School District has accumulated unassigned deficits in the General Fund of \$8,253,020, Food Service Fund of \$9,563, Technology Equipment Fund of \$282,222, and 2005 School Building and Site Project Fund of \$50,138 as of June 30, 2014. The School District has filed a deficit elimination plan with the State of Michigan, which the School District is in compliance with as of year end. The School District also has a deficit unrestricted net position in the amount of \$15,568,680 on the Statement of Net Position.

Compliance - Sinking Funds

The Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2014

1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 2004-4.

Noncompliance with Legal or Contractual Provisions

The Sinking Fund has a significant balance due from the General Fund at June 30, 2014. This is a violation of State law under Michigan Compiled Law 380.1212.

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rates prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority. At June 30, 2014, the School District did not have any investments.

The School District has designated three banks for the deposit of its funds.

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

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of year-end, \$1,449,086 of

the District's bank balance of \$2,034,876 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 4 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 3	\$ -	\$ 3	\$ -
Capital assets being depreciated				
Buildings and improvements	9,907,860	-	-	9,907,860
Furniture and equipment	724,531	-	-	724,531
Buses and other vehicles	8,895	-	8,895	-
Total capital assets being depreciated	<u>10,641,286</u>	<u>-</u>	<u>8,895</u>	<u>10,632,391</u>
Less accumulated depreciation for				
Buildings and improvements	4,389,052	178,335	-	4,567,387
Furniture and equipment	694,363	8,255	-	702,618
Buses and other vehicles	8,895	-	8,895	-
Total accumulated depreciation	<u>5,092,310</u>	<u>186,590</u>	<u>8,895</u>	<u>5,270,005</u>
Net capital assets being depreciated	<u>5,548,976</u>	<u>(186,590)</u>	<u>-</u>	<u>5,362,386</u>
Net capital assets	<u>\$ 5,548,979</u>	<u>\$ (186,590)</u>	<u>\$ 3</u>	<u>\$ 5,362,386</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2014

NOTE 5 - INTERFUND RECEIVABLE AND PAYABLE AND TRANSFERS

Interfund balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. The ultimate resolution of the balances between funds is currently being analyzed and concluded upon.

NOTE 6 - UNEARNED REVENUE

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

	<u>Unearned</u>
Grant and categorical aid payments received prior to meeting all eligibility requirements	<u>\$ 188,079</u>

NOTE 7 - LONG-TERM DEBT

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 obligation activity is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
School Building and Site Bonds	\$ 2,930,000	\$ -	\$ 120,000	\$ 2,810,000	\$ 130,000
Emergency Loan #1	4,410,000	-	105,000	4,305,000	110,000
Emergency Loan #2	3,000,000	-	75,000	2,925,000	75,000
Total	<u>\$ 10,340,000</u>	<u>\$ -</u>	<u>\$ 300,000</u>	<u>\$ 10,040,000</u>	<u>\$ 315,000</u>

General obligation bonds and emergency loans payable at year end, consists of the following:

\$3,580,000 of School Building and Site Bonds due in installments of \$130,000 to \$870,000 through May 1, 2031; interest at 3.625 percent to 5.00 percent	\$ 2,810,000
\$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
\$3,000,000 of Emergency Loan #2 due in installments of \$75,000 to \$140,000 through November 1, 2041; interest at 2.30 percent	<u>2,925,000</u>
Total general obligation bonded debt	<u>\$ 10,040,000</u>

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2014

Future principal and interest requirements for bonded debt and emergency loans are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 315,000	\$ 171,000	\$ 486,000
2016	325,000	167,228	492,228
2017	345,000	163,364	508,364
2018	355,000	159,150	514,150
2019	365,000	154,633	519,633
2020 - 2024	1,945,000	702,438	2,647,438
2025 - 2029	2,100,000	575,355	2,675,355
2030 - 2034	1,725,000	398,020	2,123,020
2035 - 2039	1,550,000	210,384	1,760,384
2040 - 2042	1,015,000	35,704	1,050,704
Total	<u>\$ 10,040,000</u>	<u>\$ 2,737,276</u>	<u>\$ 12,777,276</u>

NOTE 8 - RESTRICTED ASSETS

The School District's balances for the restricted asset accounts are as follows:

Unspent sinking fund millage, bond proceeds, and related interest	<u>\$ 221,494</u>
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NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The School District has purchased commercial insurance for property loss, torts, errors and omissions and participates in the SET/SEG risk pool.

The shared-risk pool program in which the School 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. Settled claims have not exceeded excess coverage for the past three fiscal years.

NOTE 10 - CONTINGENT LIABILITIES

The School District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the School District's attorneys, the resolution of these matters will not have a material adverse effect on the financial condition of the School District.

NOTE 11 - MANAGEMENT'S PLAN

The School District is working closely with the State of Michigan Departments of Treasury and Education on deficit elimination plans and financing. With the chartering of the School District as of July 1, 2012, the School District is collecting property taxes from the taxpayers and using those funds to pay down loans and vendor obligations as efficiently as they can. Additionally, the School District receives a fee equal to 3 percent of the state aid received by the three charter school districts they have authorized.

Continual discussion occurs with the State as to the long term plan for the School District and their ability to repay amounts that are owed. The emergency manager meets regularly with the Board of Education and the community to discuss the status of operations so all parties are adequately informed.

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2014

NOTE 12 - SUBSEQUENT EVENTS

Beginning September of 2015, Highland Park Public School Academy will no longer be providing educational services for students within the 9th-12th grade span. These services will be provided by surrounding districts.

The building located at 131 Pilgrim St. (Ford High School) will no longer be used by the district and is listed for sale. Highland Park Public School Academy will conduct its educational operations out of Barber school moving forward. George Washington Carver will continue its operations as normal. The cost of impairment subsequent to year end related to these assets is \$4,787,501.

In September 2015, the School District settled all of the AT&T liabilities for \$240,454. The outstanding amount to AT&T as of June 30, 2014 was \$349,310.

In December 2015, the School District also gave numerous properties to the City of Highland park in exchange for the elimination of past due water obligations. The properties had a net book value of \$0 as of June 30, 2014. As of December 2015, the School District no longer had any water utility obligations. The outstanding amount to the City as of June 30, 2014 was \$523,623.

In June 2015, Brush School was sold for \$3,000. In January 2016, the administration building was sold for \$1. In March 2016, The Highland Park High School building was sold to the City of Highland Park for \$1. The City proceeded to demolish the building. All these properties had a value of \$0 on the School District's books as of June 30, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

MTC School
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2014

	Final Budget	Actual	Over (Under) Budget
Revenues			
Local sources	\$ 2,657,485	\$ 1,607,739	\$ (1,049,746)
Federal sources	-	318,103	318,103
Interdistrict sources	-	1,016	1,016
	<u>2,657,485</u>	<u>1,926,858</u>	<u>(730,627)</u>
Total revenues			
Expenditures			
Instruction			
Basic programs	-	62,021	62,021
Added needs	-	38,182	38,182
Supporting services			
Pupil	-	1,606	1,606
Instructional staff	-	11,636	11,636
General administration	115,000	443,025	328,025
Business	165,375	1,452,803	1,287,428
Operations and maintenance	72,002	99,105	27,103
Central	3,000	81,741	78,741
Capital outlay	-	1,075	1,075
Debt service			
Principal	180,000	180,000	-
Interest and fiscal charges	178,353	170,539	(7,814)
	<u>713,730</u>	<u>2,541,733</u>	<u>1,828,003</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>1,943,755</u>	<u>(614,875)</u>	<u>(2,558,630)</u>

MTC School
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2014

	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	\$ 10,000	\$ -	\$ (10,000)
Net change in fund balance	1,953,755	(614,875)	(2,568,630)
Fund balance - beginning (deficit)	<u>(7,638,145)</u>	<u>(7,638,145)</u>	<u>-</u>
Fund balance - ending (deficit)	<u>\$ (5,684,390)</u>	<u>\$ (8,253,020)</u>	<u>\$ (2,568,630)</u>

OTHER SUPPLEMENTARY INFORMATION

School District of the City of Highland Park
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2014

	Special Revenue Fund	Debt Service Funds				Capital Projects Funds					Total Nonmajor Governmental Funds
	Food Service	1988 Building Debt	1979 Building Debt	1997 Energy Debt	2005 School and Building Bond Fund	Durant Projects	Energy Bonds	Technology Equipment	2005 School Building & Site Project	Other Capital Improvements	
Assets											
Cash	\$ 3,038	\$ 212	\$ 108	\$ 575	\$ -	\$ -	\$ 8,477	\$ 2,423	\$ -	\$ 102	\$ 14,935
Accounts receivable	2,477	-	-	-	-	-	-	-	-	-	2,477
Due from other funds	-	90,736	40,878	-	263,014	168,626	2,815	-	-	-	566,069
Restricted assets	-	-	-	-	-	-	-	-	103	-	103
Total assets	\$ 5,515	\$ 90,948	\$ 40,986	\$ 575	\$ 263,014	\$ 168,626	\$ 11,292	\$ 2,423	\$ 103	\$ 102	\$ 583,584
Liabilities											
Accounts payable	\$ 12,040	\$ -	\$ -	\$ -	\$ 40	\$ -	\$ -	\$ 12,573	\$ -	\$ -	\$ 24,653
Due to other funds	3,038	-	-	167	152,489	-	-	272,072	50,241	-	478,007
Due to other governmental units	-	-	-	-	30,174	-	-	-	-	-	30,174
Total liabilities	15,078	-	-	167	182,703	-	-	284,645	50,241	-	532,834
Fund Balance											
Restricted for:											
Debt service	-	90,948	40,986	408	80,311	-	-	-	-	-	212,653
Capital projects	-	-	-	-	-	168,626	11,292	-	-	102	180,020
Unassigned	(9,563)	-	-	-	-	-	-	(282,222)	(50,138)	-	(341,923)
Total fund balance (deficit)	(9,563)	90,948	40,986	408	80,311	168,626	11,292	(282,222)	(50,138)	102	50,750
Total liabilities, deferred inflows of resources, and fund balance	\$ 5,515	\$ 90,948	\$ 40,986	\$ 575	\$ 263,014	\$ 168,626	\$ 11,292	\$ 2,423	\$ 103	\$ 102	\$ 583,584

School District of the City of Highland Park
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2014

	Special Revenue Fund	Debt Service Funds				Capital Projects Funds					Total Nonmajor Governmental Funds
	Food Service	1988 Building Debt	1979 Building Debt	1997 Energy Debt	2005 School and Building Bond Fund	Durant Projects	Energy Bonds	Technology Equipment	2005 School Building & Site Project	Other Capital Improvements	
Revenues											
Local sources	\$ -	\$ -	\$ -	\$ -	\$ 157,671	\$ 3	\$ -	\$ 3	\$ 2	\$ 1,464	\$ 159,143
Expenditures											
Current											
Education											
Food services	12,040	-	-	-	-	-	-	-	-	-	12,040
Debt service											
Principal	-	-	-	-	120,000	-	-	-	-	-	120,000
Interest and other expenditures	-	-	-	-	129,944	-	-	-	-	-	129,944
Total expenditures	12,040	-	-	-	249,944	-	-	-	-	-	261,984
Net change in fund balance	(12,040)	-	-	-	(92,273)	3	-	3	2	1,464	(102,841)
Fund balance (deficit) - beginning	2,477	90,948	40,986	408	172,584	168,623	11,292	(282,225)	(50,140)	(1,362)	153,591
Fund balance (deficit) - ending	\$ (9,563)	\$ 90,948	\$ 40,986	\$ 408	\$ 80,311	\$ 168,626	\$ 11,292	\$ (282,222)	\$ (50,138)	\$ 102	\$ 50,750

School District of the City of Highland Park
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2014

Year Ending June 30,	2005 Issuance Principal
2015	\$ 130,000
2016	140,000
2017	150,000
2018	155,000
2019	160,000
2020 - 2024	850,000
2025 - 2029	875,000
2030 - 2031	350,000
Total	\$ 2,810,000
Principal payments due the first day of	May
Interest payments due the first day of	May and November
Interest rate	3.625% - 5.000%
Original issue	\$ 3,580,000

OTHER REPORTS



**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***

Independent Auditors' Report

Management and the Board of Directors
School District of the City of Highland Park

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 Highland Park as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District of the City of Highland Park's basic financial statements, and have issued our report thereon dated May 12, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District of the City of Highland Park'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District of the City of Highland Park's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of Highland Park's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material*

weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2014-001, 2014-003, 2014-004, and 2014-005.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be a significant deficiencies: 2014-002 and 2014-007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District of the City of Highland Park '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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2014-004, 2014-005, and 2014-006.

The School District of the City of Highland Park's Response to Findings

The School District of the City of Highland Park's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The School District of the City of Highland Park's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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.

Yeo & Yeo, P.C.

Saginaw, MI
May 12, 2016

School District of the City of Highland Park
Schedule of Findings and Responses
June 30, 2014

2014-001 Material Weakness – Audit Adjustments

Specific requirement: Management is responsible for reporting reliable financial data in accordance with Generally Accepted Accounting Principles.

Condition: Material audit adjustments were required to adjust the books and records to their correct state. Adjustments made affected cash, revenue, due to/from accounts, fund balance, accounts payable, accrued expenses, deferred inflows, unearned revenue, and accounts receivable, as well as reclassified expenditures and revenues between accounts and funds.

Cause: Material adjustments were not detected by management due to lack of reconciliations and internal controls in the district.

Effect: The financial statements would have been materially misstated had these entries not been recorded.

Recommendation: The district should ensure that employees have the key skills and knowledge to perform daily work and appropriately review and reconcile accounts. Adequate reconciliations should mitigate the need for audit adjustments. This is a repeat finding from previous years' audits.

Views of responsible officials: Management agrees with the finding.

Corrective action plan: District management will continue to provide opportunities to train employees on reviewing and reconciling accounts. The district management will also continue to review employee entries and ledger accounts for accuracy.

2014-002 Significant Deficiency – Internal Control Environment / Lack of Segregation of Duties

Specific requirement: Management is responsible for maintaining internal controls in key transaction cycles, which includes establishing the appropriate segregation of duties amongst staff.

Condition: Adequate internal controls and appropriate segregation of duties has not been fully established by the district.

School District of the City of Highland Park
Schedule of Findings and Responses
June 30, 2014

Cause: The district has limited staff and a poor internal control environment. The district has added procedures and controls in the current year, but still needs to implement more mitigating controls to make up for the lack of employees.

Effect: The weak internal control environment and lack of segregation of duties creates opportunities for potential material misstatement and fraudulent behavior.

Recommendation: While improvements have been made, the district should continue to analyze its control environment and look at ways that more internal controls can be put in place. The district needs a long-term sustainable system of internal controls that help mitigate potential misstatements or fraud within the district. The person reconciling these accounts should be different from the person doing day to day data entry and transaction processing. Reconciliations should be reviewed by someone who did not prepare them. This is a repeat finding from previous years' audits.

Views of responsible officials: Management agrees with the finding.

Corrective action plan: The district continues to add internal controls and enhance segregation of duty procedures that are more conducive to its limited staff. This is an ongoing process.

2014-003 Material Weakness – Lack of Timely Reconciliations

Specific requirement: Management is responsible for reconciling accounts regularly and reporting reliable financial data in accordance with Generally Accepted Accounting Principles.

Condition: There is a lack of internal controls, timely reconciliations, and monitoring of daily transactions by management.

Cause: The district has limited staff and accounts are not being reconciled regularly. Many reconciliations were not considered or performed until well after the fiscal year end. Numerous audit adjustments were required to appropriately reconcile accounts to their correct balances at year end. Moreover, many accounts payable and accounts receivable accounts have small balances that are the same as the prior year due to the fact that management needs to investigate whether these balances are still accurate or not. There were many old

School District of the City of Highland Park
Schedule of Findings and Responses
June 30, 2014

outstanding items on the bank reconciliations that management has not dealt with. The detail of the interfund receivables and payables is unknown.

Effect: Misstatements, potential fraud, and misappropriation of funds or assets could occur due to the lack of monitoring and reconciling.

Recommendation: The district should reconcile and monitor accounts monthly to ensure accurate financial reporting throughout the fiscal year. Management needs to evaluate all balance sheet accounts for accuracy and investigate and adjust those accounts as needed.

Views of responsible officials: Management agrees with the finding.

Corrective action plan: The district will continue to train its employees on reconciliation procedures and will evaluate all balance sheet accounts for accuracy.

2014-004 Material Weakness and Material Noncompliance – Budgeting

Specific requirement: The district is required to authorize expenditures only in accordance with budgeted amounts and monitor expenditures in accordance with that budget. Amendments should be made to the budget as deemed necessary.

Condition: Expenditures were made significantly in excess of budgeted amounts. Management is also not monitoring expenditures in comparison with the budget. Many adjustments made during the year and at year end were posted to catch-all expenditure accounts instead of the appropriate accounts, including expenditure lines that had no amounts budgeted.

Cause: Management is not monitoring the budget and improperly classified various expenditures.

Effect: There were significant budget overages and numerous expenditures misclassified. There is the potential for misstatements or fraudulent activity due to the lack of monitoring. The budget was not amended to reflect changes in expenditure amounts throughout the year.

School District of the City of Highland Park
Schedule of Findings and Responses
June 30, 2014

Recommendation: The district should use the budget as a control to monitor revenue and expenditures accounts. Expenditures must be recorded timely and accurately for this to be effective. Budget to actual comparison should be made available and reviewed for large or unusual variances. The budget should also be amended throughout the year for changes in expected operations.

Views of responsible officials: Management agrees with the finding.

Corrective action plan: The district will update its budget more frequently to accurately reflect the revenue and expenses of the district. Periodic reviews of the budget and actual expenditures of the district will be performed. The district is more comfortable with its historic cost data which will allow it to develop more accurate budgets moving forward.

2014-005 Material Weakness and Material Noncompliance – Deficit Fund Balance

Specific requirement: The State School Aid Act of 1979 Article 10 Section 388.1702 does not allow for districts receiving funds under the act to operate under a deficit.

Condition: The General Fund has an unassigned deficit fund balance as of June 30, 2014.

Cause: The district lacks adequate budgetary controls and revenues have decreased at a larger rate than expenditures.

Effect: An Emergency Manager has been assigned to the district and a deficit elimination plan has been filed.

Recommendation: The district should continue to file and comply with its deficit elimination plan.

Views of responsible officials: Management agrees with the finding.

Corrective action plan: The district continues to comply with its deficit elimination plan filings. District revenues continue to decline as the majority of its revenues come from the operational tax levy. The district continues to investigate ways to decrease its expenditures.

School District of the City of Highland Park
Schedule of Findings and Responses
June 30, 2014

2014-006 Material Noncompliance – Sinking Fund

- Specific requirement: The Sinking Fund dollars cannot be used to fund general operations of the district.
- Condition: The Sinking Fund has a significant balance due from the General Fund at June 30, 2014.
- Cause: In prior years, funds from the sinking fund were used for general operations. No sinking funds were used in the current year for general operations.
- Effect: This is a violation of State law under Michigan Compiled Law 380.1212.
- Recommendation: The General Fund needs to repay the Sinking Fund for the amounts owed.
- Views of responsible officials: Management agrees with the finding.
- Corrective action plan: The district is aware of the amounts owed to the Sinking Fund and will repay this fund once feasible.

2014-007 Significant Deficiency – Fixed Asset Tracking

- Specific requirement: Management is responsible for tracking fixed assets and their related depreciation for reporting reliable financial data in accordance with Generally Accepted Accounting Principles.
- Condition: There is poor tracking of the fixed assets, including impaired assets, held by the district and the associated depreciation with those assets.
- Cause: The district did not update the fixed asset listing from prior year or calculate the current year depreciation expense.
- Effect: The fixed asset listing maintained by the district is outdated and includes many assets and calculations from prior years that makes the cost and depreciation for the current year difficult to determine and track which could result in financial misstatements.

School District of the City of Highland Park
Schedule of Findings and Responses
June 30, 2014

Recommendation: The district should update the fixed asset listing annually to only include assets held by the district during the associated fiscal year and calculate annual depreciation on those assets.

Views of responsible officials: Management agrees with the finding.

Corrective action plan: The district will update its fixed asset listing annually and calculate the depreciation on its assets.