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*By Gloria Suggitt at 10:48 am, Jan 23, 2014*

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

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**Financial Report  
with Supplemental Information  
June 30, 2013**

# School District of the City of Highland Park

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## **Independent Auditors' Report**

Management and the Board of Education  
The 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, 2013, 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.

### ***Opinion***

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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of a Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming that the School District will continue as a going concern. As discussed in Note 14 to the financial statements, the School District has suffered recurring losses from operations and has a deficit fund balance, which raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

### ***Adoption of New Accounting Standards***

As described in Note 1 to the financial statements, during the year ended June 30, 2013, the District adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

### **Other Matters:**

### ***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as 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 supplemental 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 Supplemental 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 supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental 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. The other supplemental 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 supplemental 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 January 6, 2014 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 the School District of the City of Highland Park's internal control over financial reporting and compliance.

*Yeo & Yeo, P.C.*

Auburn Hills, MI  
January 6, 2014

# School District of the City of Highland Park

## 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, 2013. 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

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

## **Management's Discussion and Analysis (Continued)**

### ***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:

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

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## **Management's Discussion and Analysis (Continued)**

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 fewer 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.



# School District of the City of Highland Park

## Management's Discussion and Analysis (Continued)

### The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table I provides a summary of the School District's net position (deficit) as of June 30, 2013:

	Governmental Activities	
	June 30	
	2013	2012
	(in millions)	
<b>Assets</b>		
Current and other assets	\$ 4.7	\$ 2.9
Capital assets	-	7.5
Total assets	4.7	10.4
<b>Liabilities</b>		
Current liabilities	10.2	14.7
Long-term liabilities	10.0	4.1
Total liabilities	20.2	18.8
<b>Net Position (Deficit)</b>		
Net investment in capital assets	2.6	4.4
Restricted	0.4	2.3
Unrestricted	(13.0)	(15.1)
Total net assets (deficit)	<u>\$ (10.0)</u>	<u>\$ (8.4)</u>

The above analysis focuses on the net position (deficit) (see Table I). 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 \$(10.0) million at June 30, 2013. 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 assets (\$13.0 million) was unrestricted.

The net deficit of \$10.0 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.

# School District of the City of Highland Park

## Management's Discussion and Analysis (Continued)

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 2012 and 2011.

TABLE 2

	Governmental Activities	
	2013	2012
	(in millions)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ -	\$ 0.4
Operating grants and contributions	0.6	8.9
General revenue:		
Property taxes	2.2	1.1
State foundation allowance	0.2	5.3
Other	0.7	-
Total revenue	<u>3.7</u>	<u>15.7</u>
<b>Functions/Program Expenses</b>		
Instruction	0.3	8.4
Support services	2.9	8.8
Athletics	-	0.1
Food services	-	-
Community services	-	0.2
Interest on long-term debt	0.2	0.1
Depreciation (unallocated)	0.2	0.2
Impairment loss	1.7	-
Total functions/program expenses	<u>5.3</u>	<u>17.8</u>
<b>Decrease in Net Position</b>	(1.6)	(2.1)
<b>Net Position (Deficit) - Beginning of year - restated</b>	<u>(8.4)</u>	<u>(6.3)</u>
<b>Net Position (Deficit) - End of year</b>	<u><u>\$ (10.0)</u></u>	<u><u>\$ (8.4)</u></u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$5.3 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 \$2.2 million in taxes and \$.2 million in State foundation allowance, and with our other revenues, i.e., interest and general entitlements.

# School District of the City of Highland Park

## Management's Discussion and Analysis (Continued)

The School District experienced a decrease (increase) in net assets of \$1.6 million. Key reasons for the change in net assets were declining revenues, additional obligations due to the State of Michigan, unemployment compensation and other liabilities as the School District works to accumulate and pay down its obligations.

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.

As the School District completed this year, the governmental funds reported a combined fund deficit of (\$5.1) million, which is a decrease of \$7.1 million from last year. The primary reasons for the decrease in the deficit are as follows:

In the General Fund, our principal operating fund, the fund deficit decreased \$6.9 million to (\$7.6) million. The change is mainly due to:

Issuance of emergency loans in the amount of \$7.4 million in order to consolidate debt, fund operations and provide cash for future operations. The School District also became aware of additional obligations from vendors, such as utility providers, unemployment compensation, and other matters which increased the overall debt of the General Fund. The School District also was exposed to numerous lawsuits under the Emergency Manager Act, which increased its legal costs. The School District is working closely with the State of Michigan to determine the future direction of the School District.

A new Emergency Manager (EM) was appointed in October 2013 when the previous EM was re-assigned to another community.

Our special revenue funds which represent food service showed no change from the previous year.

Combined, the debt service funds showed a fund balance increase of approximately \$7,000. 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.

# School District of the City of Highland Park

## Management's Discussion and Analysis (Continued)

The combined capital projects funds fund balance increased by approximately \$167,000. The School District collected \$597,000 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. This budget was prepared as an Emergency Manager document and does not follow the same prescribed format as required under the Uniform Budgeting Act.

There were significant variances between the final budget and actual amounts. These variances related to a drop in the pupil count and the resulting expenditures not being adjusted accordingly.

### Capital Assets and Debt Administration

#### *Capital Assets*

As of June 30, 2013, the School District had \$5.5 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 \$1.9 million, or 25 percent, from last year.

	2013	2012
Land	\$ 3	\$ 12
Buildings and building improvements	9,907,860	13,928,317
Buses and other vehicles	8,895	828,910
Furniture and equipment	724,531	1,141,604
Total capital assets	10,641,289	15,898,843
Less accumulated depreciation	5,092,310	8,379,250
Net capital assets	<u>\$ 5,548,979</u>	<u>\$ 7,519,593</u>

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

# School District of the City of Highland Park

## Management's Discussion and Analysis (Continued)

No major capital projects are planned for the 2012-2013 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. An impairment loss of approximately \$1.7 million was reported for the 2012-2013 fiscal year. This loss represents the reduction in historical cost for assets of the School District to better reflect their fair market value.

### Debt

At the end of this year, the School District had \$2.9 million in bonds outstanding versus \$3.1 million in the previous year - a change of approximately 5 percent. Those bonds consisted of the following:

	2013	2012
General obligation bonds	\$ 2,930,000	\$ 3,040,000
Durant Non-Plaintiff bond	-	62,857
Total	<u>\$ 2,930,000</u>	<u>\$ 3,102,857</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

During fiscal year 2012, an emergency manager was placed at the School District. As of June 30, 2012, the School District ceased operations as a traditional K-12 school district and authorized a charter school to run the School District operations. The emergency manager handles 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 new charter school district. The emergency manager will continue to monitor the activities of the new Highland Park Public School Academy, along with the charter school management company.

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

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## **Management's Discussion and Analysis (Continued)**

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. 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.

# School District of the City of Highland Park

## Statement of Net Position June 30, 2013

	<u>Primary Governmental Activities</u>
<b>Assets</b>	
Cash and investments (Note 3)	\$ 2,401,277
Receivables (Note 4)	2,131,318
Restricted assets (Note 10)	126,488
Capital assets - Net (Note 5)	<u>5,548,979</u>
Total assets	10,208,062
<b>Liabilities</b>	
Accounts payable	5,294,924
Accrued payroll-related liabilities	631,598
Other accrued liabilities	49,039
Due to other funds	343,574
Due to other governmental units (Note 6)	847,529
Due to State of Michigan (Note 6)	2,095,000
Unearned Revenue (Note 4)	587,868
Noncurrent liabilities: (Note 9)	
Due within one year	300,000
Due in more than one year	<u>10,040,000</u>
Total liabilities	<u>20,189,532</u>
<b>Net Position (Deficit)</b>	
Net investment in capital assets	2,618,979
Restricted:	
Debt service	255,887
Capital projects	179,916
Food Service	2,477
Unrestricted	<u>(13,038,729)</u>
Total net position (deficit)	<u><b>\$ (9,981,470)</b></u>

# School District of the City of Highland Park

## Statement of Activities Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Assets
Primary government - Governmental activities:				
Instruction	\$ 282,476	\$ -	\$ 626,382	\$ 343,906
Support services	2,928,174	-	-	(2,928,174)
Athletics	3,042	-	-	(3,042)
Community services	13,930	-	-	(13,930)
Interest	167,713	-	-	(167,713)
Depreciation expense (unallocated)	259,844	-	-	(259,844)
Total primary government	<u>\$ 3,655,179</u>	<u>\$ -</u>	<u>\$ 626,382</u>	(3,028,797)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				1,336,503
Property taxes, levied for debt service				251,483
Property taxes, levied for capital projects				596,500
State aid not restricted to specific purposes				196,195
Interest and investment earnings				23,721
Other				710,904
Total general revenue				<u>3,115,306</u>
Extraordinary Item - Impairment loss (Note 5)				<u>(1,710,770)</u>
Change in Net Position				(1,624,261)
Net Position (deficit) - as restated - Beginning of year (Note 11)				<u>(8,357,209)</u>
Net Position (deficit) - End of year				<u>\$ (9,981,470)</u>



# School District of the City of Highland Park

## Governmental Funds Balance Sheet June 30, 2013

	General Fund	Sinking Fund	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments (Note 3)	\$ 2,389,385	\$ -	\$ 11,892	\$ 2,401,277
Receivables (Note 4)	1,981,711	96,418	53,189	2,131,318
Due from other funds (Note 8)	784,030	2,120,343	611,620	3,515,993
Restricted assets (Note 10)	-	126,383	105	126,488
Total assets	<u>\$ 5,155,126</u>	<u>\$ 2,343,144</u>	<u>\$ 676,806</u>	<u>\$ 8,175,076</u>
<b>Liabilities and Fund Balances (Deficit)</b>				
<b>Liabilities</b>				
Accounts payable	\$ 5,455,712	\$ -	\$ 10,999	\$ 5,466,711
Accrued payroll-related liabilities	631,598	-	-	631,598
Due to other governmental units (Note 6)	817,355	-	30,174	847,529
Due to State of Michigan (Note 6)	2,095,000	-	-	2,095,000
Due to other funds (Note 8)	3,205,738	-	482,042	3,687,780
Unearned revenue (Note 4)	587,868	-	-	587,868
Total liabilities	12,793,271	-	523,215	13,316,486
<b>Fund Balances (Deficit)</b>				
Restricted:				
Capital projects	-	2,343,144	179,916	2,523,060
Debt service	-	-	304,926	304,926
Food service	-	-	2,477	2,477
Unassigned	(7,638,145)	-	(333,728)	(7,971,873)
Total fund balances (deficit)	<u>(7,638,145)</u>	<u>2,343,144</u>	<u>153,591</u>	<u>(5,141,410)</u>
Total liabilities and fund balances (deficit)	<u>\$ 5,155,126</u>	<u>\$ 2,343,144</u>	<u>\$ 676,806</u>	<u>\$ 8,175,076</u>

# School District of the City of Highland Park

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2013

<b>Fund Balance Reported in Governmental Funds</b>	\$	(5,141,410)
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Cost of capital assets	\$	10,641,289
Accumulated depreciation	<u>(5,092,310)</u>	5,548,979
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:		
Bonds and loans payable	\$	(10,340,000)
Accrued interest payable is not included as a liability in governmental funds		<u>(49,039)</u>
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>(9,981,470)</u></b>

# School District of the City of Highland Park

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2013

	General Fund	Sinking Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenue</b>				
Local sources	\$ 2,070,976	\$ 596,651	\$ 251,484	\$ 2,919,111
State sources (Note 6)	560,410	-	65,849	626,259
Federal sources	441,733	-	-	441,733
Interdistrict sources	226,835	-	-	226,835
Total revenue	3,299,954	596,651	317,333	4,213,938
<b>Expenditures</b>				
Current:				
Instruction	758,639	-	-	758,639
Support services	3,023,750	-	-	3,023,750
Athletics	3,042	-	-	3,042
Community services	13,930	-	-	13,930
Debt service:				
Principal	-	-	172,857	172,857
Interest	-	-	136,550	136,550
Other	-	-	340	340
Capital outlay	11,530	400,000	29,845	441,375
Total expenditures	3,810,891	400,000	339,592	4,550,483
<b>Excess of Revenue Over (Under) Expenditures</b>	(510,937)	196,651	(22,259)	(336,545)
<b>Other Financing Sources (Uses)</b>				
Loans from State of Michigan	7,410,000	-	-	7,410,000
<b>Net Change in Fund Balances (Deficit)</b>	6,899,063	196,651	(22,259)	7,073,455
<b>Fund Balances (Deficit) restated -</b>				
Beginning of year (Note 11)	(14,537,208)	2,146,493	175,850	(12,214,865)
<b>Fund Balances (Deficit) - End of year</b>	<b><u>\$ (7,638,145)</u></b>	<b><u>\$ 2,343,144</u></b>	<b><u>\$ 153,591</u></b>	<b><u>\$ (5,141,410)</u></b>

# School District of the City of Highland Park

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2013

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	7,073,455
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense	\$	(259,844)
Capitalized capital outlay	<u>                    -</u>	(259,844)
Governmental funds do not report impairment of assets; the statement of net position records impairment as a reduction in net investment in capital assets		(1,710,770)
Revenue is reported in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end		(472,250)
Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities		(7,410,000)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		172,857
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		(30,823)
Compensated absences, as well as unemployment liability claims, are recorded when earned in the statement of activities. In the current year, all balances were paid or became current obligations and are included in the governmental funds		<u>1,013,114</u>
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>(1,624,261)</u></b>

# School District of the City of Highland Park

## Fiduciary Funds Statement of Net Position June 30, 2013

	Private Purpose Trust Funds	Agency Funds
<b>Assets</b>		
Cash and investments (Note 3)	\$ 95,536	\$ 2,434
Due from other funds (Note 8)	115,610	57,506
Receivables	-	83
Total assets	211,146	<u>\$ 60,023</u>
<b>Liabilities</b>		
Due to student activities	-	\$ 60,023
Due to other funds (Note 8)	1,329	-
Due to other groups	1,110	-
Total liabilities	2,439	<u>\$ 60,023</u>
<b>Net Position</b>	<u>\$ 208,702</u>	

# School District of the City of Highland Park

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## Fiduciary Funds Statement of Changes in Net Position Year Ended June 30, 2013

	Scholarship Fund
<b>Additions</b>	
Private donations	\$ 6,249
Interest	80
Total additions	6,329
<b>Deductions - Scholarships awarded</b>	6,695
<b>Change in Net Position</b>	(366)
<b>Net Position - Beginning of year</b>	209,068
<b>Net Position - End of year</b>	<b>\$ 208,702</b>

# School District of the City of Highland Park

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## Notes to Financial Statements June 30, 2013

### Note I - Summary of Significant Accounting Policies

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

#### **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 a successor-EM effective May 2012, and again in October 2013. The EM assumes control over all fiscal matters of the School District and makes all fiscal decisions including but not limited to the preparation of the School District's financial statements. Except for those powers granted 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. Based on the application of the criteria, the School District does not contain any component units.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

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

# School District of the City of Highland Park

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## Notes to Financial Statements June 30, 2013

### Note I - Summary of Significant Accounting Policies (Continued)

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

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Government-wide Financial Statements** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When an expense is incurred for purposes for which both restricted and unrestricted net assets or fund balance are available, the School District's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the School District's policy to spend funds in this order: committed, assigned, and unassigned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

**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 revenue to be available if it is 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.



# School District of the City of Highland Park

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## Notes to Financial Statements June 30, 2013

### Note I - Summary of Significant Accounting Policies (Continued)

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 School District.

Fiduciary fund statements are also 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 the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

**Sinking Fund** - The Sinking Fund is used to record sinking fund millages, interest and other revenue, and the disbursement of monies 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 Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's special revenue fund is the Food Services 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 be used for technology and related electrical upgrades. The fund operates until the purpose for which it was created is accomplished.

**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.

**Debt Service Funds** - The debt service funds are used to record tax, interest, and other revenue for payment of interest, principal, and other bond expenditures on the School District's various bond issues.

# School District of the City of Highland Park

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## Notes to Financial Statements June 30, 2013

### Note I - Summary of Significant Accounting Policies (Continued)

**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 operate until the purpose for which they were created is accomplished.

**Capital Project Funds - 2005 School Building and Site Bond** - This capital project fund is used to record bond, interest and other revenue, and the disbursement of monies specifically designated for building remodeling. The funds operate until the purpose for which they were created is accomplished. This fund includes capital project activities funded with bonds issued after May 1, 1994.

**Student Activities Agency Fund** - The School District presently maintains an agency fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

**Private Purpose Trust Fund** - The Private Purpose Trust Fund is used to account for resources legally held in trust, including contributions received by the School District to be awarded in the form of scholarships.

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Investments** - Cash and investments 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** - In general, outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on July 1 for approximately 50 percent of the taxes and on December 1 for the remainder of the property taxes. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

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

**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.

# School District of the City of Highland Park

## Notes to Financial Statements June 30, 2013

### Note I - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	20 to 50 years
Buses and other vehicles	8 years
Furniture and other equipment	5 to 10 years

**Compensated Absences** - The liability for compensated absences is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included. The balance of vested compensated absence benefits were paid out during the fiscal year ended June 30, 2013.

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

**Fund Balance** - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- **Assigned:** Intent to spend resources on specific purposes expressed by the emergency manager or other designee who is authorized by resolution to make assignments.

# School District of the City of Highland Park

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## Notes to Financial Statements June 30, 2013

### Note I - Summary of Significant Accounting Policies (Continued)

- Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the general fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed or assigned to specific purposes in the general fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed or assigned to those purposes.

**Comparative Data** - Comparative data is not included in the School District's financial statements.

**Accounting Change** - Effective July 1, 2012, the School District implemented the provisions of Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provided a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. This statement impacted the format and report of the balance sheet at the government-wide and also at the fund level.

Also effective July 1, 2012, the School District implemented the provisions of Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources.

# School District of the City of Highland Park

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## Notes to Financial Statements June 30, 2013

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Upcoming Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

### Note 2 - Stewardship, Compliance, and Accountability

In accordance with Section 11 of Public Act 436 (MCL 141.1541), the School District is operated under a written financial plan prepared by the EM. As this is not a budget adopted in accordance with Uniform Budgeting and Accounting Act of 1968 ("Budget Act"), the information presented in the required supplementary information is based on the written financial plan presented by the EM and does not follow the format prescribed by the Budget Act.

**Fund Deficits and Management's Plan** - The School District has accumulated fund deficits in the General Fund, Technology Equipment Capital Projects Fund, 2005 School & Building Debt Fund, and the Other Capital Improvements Fund. Under the EM provisions, the EM is working to reduce and eliminate the deficits in connection with communication with the State of Michigan.

**Capital Projects Fund Compliance** - The Sinking Fund Capital Projects Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the State of Michigan School Code and the State of Michigan Department of Treasury Letter No. 01-95. During the year ended June 30, 2013, the School District transferred \$400,000, under the authority of the Emergency Manager, to the Highland Park Public School Academy for repairs to the facilities. These buildings are still owned by the School District.

**Noncompliance with Legal or Contractual Provisions** - The sinking fund has a significant balance due from the General Fund at June 30, 2013. This is a violation of State law under Michigan Compiled Law 380.1212.

# School District of the City of Highland Park

## Notes to Financial Statements June 30, 2013

### 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 rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority. At June 30, 2013, the School District did not have any investments.

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

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year end, the School District's deposit balance of \$2,656,871 had \$2,097,360 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Concentration of Credit Risk** - The School District places no limit on the amount the School District may invest in any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

### Note 4 - Receivables and Unearned / Unavailable Revenue

Receivables as of year end for the School District's individual major funds and the nonmajor funds, are as follows:

	<u>General Fund</u>	<u>Sinking Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>	<u>Agency Fund</u>
Receivables:					
Taxes receivable	\$ 226,942	\$ 96,418	\$ 50,712	\$ 374,072	\$ -
Accounts receivable	1,754,767	-	-	1,754,767	83
Due from other governmental units	2	-	2,477	2,479	-
Total receivables	<u>\$ 1,981,711</u>	<u>\$ 96,418</u>	<u>\$ 53,189</u>	<u>\$ 2,131,318</u>	<u>\$ 83</u>

# School District of the City of Highland Park

## Notes to Financial Statements June 30, 2013

### Note 4 - Receivables and Unearned / Unavailable Revenue (Continued)

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At June 30, 2013, all of the unearned revenue amounts are considered unearned and reflected as a liability on the balance sheet and statement of net position.

### Note 5 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

<b>Governmental Activities</b>	Balance July 1, 2012	Additions/ Transfers	Disposals/ Transfers	Balance June 30, 2013
Capital assets not being depreciated - Land	\$ 12	\$ -	\$ 9	\$ 3
Capital assets being depreciated:				
Buildings and improvements	13,928,317	-	4,020,457	9,907,860
Furniture and equipment	1,141,604	-	417,073	724,531
Buses and other vehicles	828,910	-	820,015	8,895
Subtotal	15,898,831	-	5,257,545	10,641,286
Accumulated depreciation:				
Buildings and improvements	6,621,489	241,528	2,473,965	4,389,052
Furniture and equipment	991,165	18,316	315,118	694,363
Buses and other vehicles	766,596	-	757,701	8,895
Subtotal	8,379,250	259,844	3,546,784	5,092,310
Net capital assets being depreciated	7,519,581	(259,844)	1,710,761	5,548,976
Net capital assets - as restated	\$ 7,519,593	\$ (259,844)	\$ 1,710,770	\$ 5,548,979

The beginning balance of net capital assets has been restated to be increased by \$311,155. This amount represents capital assets which had not previously been reported.

During the year ended June 30, 2013, an impairment loss of \$1,710,770 was recorded and has been included in the reduction of both capital asset cost and accumulated depreciation. The balances were adjusted to better reflect the value of the capital assets held by the District.

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, 2013

### Note 6 - Due to State of Michigan

At June 30, 2011, the State advanced the School District \$4,190,000. The amounts were to be repaid through subsequent State Aid payments. At June 30, 2013, the balance has been reduced to \$2,095,000 and will be repaid in the future under agreement with the State.

Additionally, the School District General Fund owes the State of Michigan \$817,355 for overpayments they received in State Aid. No payment terms have been established with the State for the repayment of these funds.

### Note 7 - State Aid Anticipation Note

On August 22, 2011, the School District borrowed \$5,890,000 in a revenue note, 2011 Series C-2 and C-3. The note bears interest at 0.11 percent and is due August 20, 2012. During the year, repayment amounts were deducted from the monthly State Aid payments. At June 30, 2013, the School District has paid off the remaining balance of the note.

### Note 8 - Interfund Receivables and Payables

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 9 - 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 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds	\$ 3,040,000	\$ -	\$ 110,000	\$ 2,930,000	\$ 120,000
Durant Non-Plaintiff Bonds	62,857	-	62,857	-	-
Emergency Loan #1	-	4,410,000	-	4,410,000	105,000
Emergency Loan #2	-	3,000,000	-	3,000,000	75,000
Total bonds payable	3,102,857	7,410,000	172,857	10,340,000	300,000
Other obligations	1,013,114	-	1,013,114	-	-
Total governmental activities	\$ 4,115,971	\$ 7,410,000	\$ 1,185,971	\$ 10,340,000	\$ 300,000



# School District of the City of Highland Park

## Notes to Financial Statements June 30, 2013

### Note 9 - Long-term Debt (Continued)

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2014	\$ 300,000	\$ 300,222	\$ 600,222
2015	315,000	291,621	606,621
2016	325,000	282,598	607,598
2017	345,000	272,921	617,921
2018	355,000	262,508	617,508
2019-2023	1,905,000	1,141,420	3,046,420
2024-2028	2,070,000	820,982	2,890,982
2029-2033	1,870,000	464,705	2,334,705
2034-2038	1,515,000	246,089	1,761,089
2034-2042	1,340,000	63,138	1,403,138
Total	<u>\$ 10,340,000</u>	<u>\$ 4,146,204</u>	<u>\$ 14,486,204</u>

#### Governmental Activities

General obligation bonds consist of the following:

\$3,580,000 of School Building and Site Bonds due in installments of \$120,000 to \$870,000 through May 1, 2031; interest at 3.625 percent to 5.00 percent	\$ 2,930,000
\$4,410,000 of Emergency Loan #1 due in annual installments of \$105,000 to \$205,000 through November 1, 2041; interest at 2.35 percent	4,410,000
\$3,000,000 of Emergency Loan #2 due in annual installments of \$75,000 to \$140,000 through November 1, 2041; interest at 2.30 percent	<u>3,000,000</u>
Total bonded debt	<u>\$ 10,340,000</u>

### Note 10 - Restricted Assets

The balances for the restricted asset accounts are as follows:

Unspent sinking fund millage, bond proceeds, and related interest	<u>\$ 126,488</u>
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# School District of the City of Highland Park

## Notes to Financial Statements June 30, 2013

### Note 11 - Net Position and Fund Deficit Restatement

Fund balance (deficit) as of July 1, 2012 has been restated to reflect items identified which relate to transactions which occurred in a previous period. The resulting change is depicted below for the affected governmental funds.

Additionally, net position invested in capital assets as of July 1, 2012 was restated to reflect reconciling items which had not been reported previously. Net position was increased by \$311,155 as of July 1, 2012.

	General Fund	Sinking Fund	Debt Service Funds
Fund Balance (Deficit), as originally stated, June 30, 2012	\$ (12,774,221)	\$ 2,461,577	\$ 394,939
Property tax revenue recognized in 2012 that was levied during the fiscal year ended June 30, 2013	(841,971)	(315,084)	(97,598)
Accounts payable identified in 2013 which relate to obligations that existed at June 30, 2012	(921,016)	-	-
Fund Balance (Deficit), as restated, July 1, 2012	<u>\$ (14,537,208)</u>	<u>\$ 2,146,493</u>	<u>\$ 297,341</u>

### Note 12 - 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 13 - Defined Benefit Pension Plan and Postemployment Benefits

**Plan Description** - The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides post-employment health care benefits to retirees and beneficiaries who elect to receive those benefits.

# School District of the City of Highland Park

## Notes to Financial Statements June 30, 2013

### Note 13 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and post employment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing MI 48909.

**Pension Benefits** - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate for basic plan members was 15.96 percent of covered payroll for the period from July 1, 2011 through September 30, 2011. The employer contribution rate for pension plus plan members was 14.73 percent for the period from July 1, 2011 through September 30, 2011. Beginning October 1, 2012 through January 31, 2013 employees were given the following plan options with the corresponding employer contribution rates:

	First Worked before July 1, 2010*	First Worked on or after July 1, 2010, through September 3, 2012**	First Worked on or after September 4, 2012 and remain Pension Plus	First worked on or after September 4, 2012 and elect DC
Pension Contributions	16.25 %	15.02 %	15.02 %	12.78 %
Health Contributions	9.11 %	9.11 %	8.18 %	8.18 %

\* Basic, MIP Fixed, MIP Graded, MIP Plus

\*\* Pension Plus

# School District of the City of Highland Park

## Notes to Financial Statements June 30, 2013

### Note 13 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

For the period February 1, 2013 through June 30, 2013 employees could transition to a defined contribution plan (DC), and could also elect out of the healthcare premium subsidy and into the Personal Healthcare Fund (PHF), depending upon their date of hire and retirement plan election. Employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP	Pension Plus	Pension Plus PHF*	Pension DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
<b>Pension Contributions</b>	15.21 %	15.02 %	15.02 %	12.78 %	12.78 %	12.78 %	15.21 %
<b>Health Contributions</b>	9.11 %	9.11 %	8.18 %	8.18 %	9.11 %	8.18 %	8.18 %
<b>Defined Contribution Plan Employer Contributions</b>							
DC Employer Contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %

\* First worked September 4, 2012 or later

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The School District's required and actual contributions to the plan for the years ended June 30, 2013, 2012, and 2011 were \$44,196, \$903,832, and \$1,054,048, respectively.

# School District of the City of Highland Park

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## Notes to Financial Statements June 30, 2013

### **Note 13 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)**

**Postemployment Benefits** - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS Board of trustees annually sets the employer contribution rate to fund the benefits on a pay as you go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 8.5 percent of covered payroll for the period from July 1, 2012 through September 30, 2012. For the period from October 1, 2012 through June 30, 2013 the employer contribution rate ranged from 8.18 percent to 9.11 percent dependent upon the employee's date of hire and plan election as noted above. Effective February 1, 2013 members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit, or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 401k account.

The School District's required and actual contributions to the plan for retiree health care benefits for the years ended June 30, 2013, 2012, and 2011 were \$30,030, \$614,131, and \$716,200, respectively.

### **Note 14 - 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.

## **Required Supplemental Information**

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# School District of the City of Highland Park

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2013

	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>			
Local sources	\$ 1,757,514	\$ 2,070,976	\$ 313,462
State sources	349,082	560,410	211,328
Federal sources	-	441,733	441,733
Governmental - Intergovernmental	433,747	226,835	(206,912)
Total revenue	2,540,343	3,299,954	759,611
<b>Expenditures</b>			
Current:			
Instruction	808,853	758,639	(50,214)
Support services:			
Pupil	236,500	189,018	(47,482)
Instructional staff	640,408	318,590	(321,818)
General administration	734,925	785,481	50,556
School administration	61,438	66,766	5,328
Business	381,652	753,585	371,933
Operations and maintenance	2,403,384	700,183	(1,703,201)
Pupil transportation services	1,882	5,378	3,496
Central	245,626	216,279	(29,347)
Other	558	-	(558)
Total support services	4,706,373	3,035,280	(1,671,093)
Athletics	-	3,042	3,042
Community services	13,930	13,930	-
Debt service	86,900	-	(86,900)
Total expenditures	5,616,056	3,810,891	(1,805,165)
<b>Excess of Revenue Over (Under) Expenditures</b>	(3,075,713)	(510,937)	2,564,776
<b>Other Financing Sources (Uses)</b>			
Face value of debt issued	-	7,410,000	7,410,000
<b>Net Change in Fund Balance (Deficit)</b>	(3,075,713)	6,899,063	9,974,776
<b>Fund Balance - Beginning of year as restated</b>	(14,537,208)	(14,537,208)	-
<b>Fund Balance - End of year</b>	<u>\$ (17,612,921)</u>	<u>\$ (7,638,145)</u>	<u>\$ 9,974,776</u>

## **Other Supplemental Information**

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# School District of the City of Highland Park

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2013

	Special Revenue Funds	Debt Service Funds					Capital Projects Funds					Total Nonmajor Governmental Funds
	Food Service	Durant Debt	1997 Energy Debt	1988 Building Debt	1979 Building Debt	2005 School & Building Bond	Durant Projects	Energy Bonds	Technology Equipment	2005 School Building & Site Project	Other Capital Improvements	
<b>Assets</b>												
Cash and investments	\$ -	\$ -	\$ 575	\$ 212	\$ 108	\$ -	\$ -	\$ 8,473	\$ 2,422	\$ -	\$ 102	\$ 11,892
Receivables	2,477	-	-	-	-	50,712	-	-	-	-	-	53,189
Due from other funds	-	-	90,373	40,774	300	308,731	168,623	2,819	-	-	-	611,620
Restricted assets	-	-	-	-	-	5	-	-	-	100	-	105
<b>Total assets</b>	<b>\$ 2,477</b>	<b>\$ -</b>	<b>\$ 90,948</b>	<b>\$ 40,986</b>	<b>\$ 408</b>	<b>\$ 359,448</b>	<b>\$ 168,623</b>	<b>\$ 11,292</b>	<b>\$ 2,422</b>	<b>\$ 100</b>	<b>\$ 102</b>	<b>\$ 676,806</b>
<b>Liabilities and Fund Balances</b>												
<b>Liabilities</b>												
Accounts payable	\$ (3,038)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,573	\$ -	\$ 1,464	\$ 10,999
Accrued payroll-related liabilities:												
Due to other governmental units	-	-	-	-	-	30,174	-	-	-	-	-	30,174
Due to other funds	3,038	-	-	-	-	156,690	-	-	272,074	50,240	-	482,042
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>186,864</b>	<b>-</b>	<b>-</b>	<b>284,647</b>	<b>50,240</b>	<b>1,464</b>	<b>523,215</b>
<b>Fund Balances - Restricted</b>												
Capital projects	-	-	-	-	-	-	168,623	11,292	1	-	-	179,916
Debt service	-	-	90,948	40,986	408	172,584	-	-	-	-	-	304,926
Food service	2,477	-	-	-	-	-	-	-	-	-	-	2,477
Unassigned	-	-	-	-	-	-	-	-	(282,226)	(50,140)	(1,362)	(333,728)
<b>Total fund balances</b>	<b>2,477</b>	<b>-</b>	<b>90,948</b>	<b>40,986</b>	<b>408</b>	<b>172,584</b>	<b>168,623</b>	<b>11,292</b>	<b>(282,225)</b>	<b>(50,140)</b>	<b>(1,362)</b>	<b>153,591</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,477</b>	<b>\$ -</b>	<b>\$ 90,948</b>	<b>\$ 40,986</b>	<b>\$ 408</b>	<b>\$ 359,448</b>	<b>\$ 168,623</b>	<b>\$ 11,292</b>	<b>\$ 2,422</b>	<b>\$ 100</b>	<b>\$ 102</b>	<b>\$ 676,806</b>

# School District of the City of Highland Park

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2013

	Special Revenue Funds	Debt Service Funds					Capital Projects Funds					Total Nonmajor Governmental Funds
	Food Service	Durant Debt	1997 Energy Debt	1988 Building Debt	1979 Building Debt	2005 School & Bond	Durant Projects	Energy Bonds	Technology Equipment	2005 School Building & Site Project	Other Capital Improvements	
<b>Revenue</b>												
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 251,483	\$ -	\$ -	\$ 1	\$ -	\$ -	\$ 251,484
State sources	-	65,849	-	-	-	-	-	-	-	-	-	65,849
<b>Total revenue</b>	-	65,849	-	-	-	251,483	-	-	1	-	-	317,333
<b>Expenditures</b>												
Current:												
Instruction												
Support services												
Debt service:												
Principal	-	62,857	-	-	-	110,000	-	-	-	-	-	172,857
Interest	-	2,992	-	-	-	133,558	-	-	-	-	-	136,550
Other	-	-	-	-	-	340	-	-	-	-	-	340
Capital outlay	-	-	-	-	-	-	29,845	-	-	-	-	29,845
<b>Total expenditures</b>	-	65,849	-	-	-	243,898	29,845	-	-	-	-	339,592
<b>Net Change in Fund Balances</b>	-	-	-	-	-	7,585	(29,845)	-	1	-	-	(22,259)
<b>Fund Balances - As restated - Beginning of year</b>	2,477	-	90,948	40,986	408	164,999	198,468	11,292	(282,226)	(50,140)	(1,362)	175,850
<b>Fund Balances - End of year</b>	<u>\$ 2,477</u>	<u>\$ -</u>	<u>\$ 90,948</u>	<u>\$ 40,986</u>	<u>\$ 408</u>	<u>\$ 172,584</u>	<u>\$ 168,623</u>	<u>\$ 11,292</u>	<u>\$ (282,225)</u>	<u>\$ (50,140)</u>	<u>\$ (1,362)</u>	<u>\$ 153,591</u>

# School District of the City of Highland Park

## Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2013

<u>Years Ending June 30</u>	<u>2005 Issuance Principal</u>
2014	\$ 120,000
2015	130,000
2016	140,000
2017	150,000
2018	155,000
2019-2023	665,000
2024-2028	870,000
2029-2031	700,000
	<u><b>\$ 2,930,000</b></u>
Principal payments due	May 1
Interest payments due	May 1 and November 1
Interest rate	3.625% to 5.00%
Original issue	<u><b>\$ 3,580,000</b></u>