

RECEIVED

By Gloria Suggitt at 6:46 am, Mar 25, 2013

School District of the City of Highland Park

Financial Report with Supplemental Information June 30, 2012

School District of the City of Highland Park

Contents

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-11
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	15
Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit)	16
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Fiduciary Funds:	
Statement of Net Assets	18
Statement of Changes in Net Assets	19
Notes to Financial Statements	20-33
Required Supplemental Information	34
Budgetary Comparison Schedule - General Fund	35
Other Supplemental Information	36
Nonmajor Governmental Funds:	
Combining Balance Sheet	37
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	38
Schedule of Bonded Indebtedness	39
Federal Awards Supplemental Information	Issued Under Separate Cover



Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

Independent Auditors' Report

To the Board of Education
School District of the City of Highland Park
Highland Park, MI

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 (the School District) as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District as of June 30, 2012 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in note 13 to the financial statements, In July 2012, the School District's Emergency Manager and Board of Education elected to cease operating as a traditional K-12 District and elected to authorize the Highland Park Schools Public Academy. The School District will continue to assess and collect property taxes in order to service its debt obligations.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated March 21, 2013 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**Independent Auditors' Report
(Continued)**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's financial statements as a whole. The other supplementary information as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Alan C. Young; Assoc.

March 21, 2013

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, 2012. 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 assets, 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 assets 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 assets - 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 assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the 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 assets 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

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 assets 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 assets. 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 assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets (deficit) as of June 30, 2012:

	Governmental Activities	
	June 30	
	2012	2011
	(in millions)	
Assets		
Current and other assets	\$ 4.2	\$ 10.4
Capital assets	7.2	7.4
Total assets	11.4	17.8
Liabilities		
Current liabilities	13.8	19.6
Long-term liabilities	4.1	4.5
Total liabilities	17.9	24.1
Net Assets (Deficit)		
Invested in capital assets - Net of related debt	4.1	4.1
Restricted	2.7	2.0
Unrestricted	(13.3)	(12.4)
Total net assets (deficit)	\$ (6.5)	\$ (6.3)

The above analysis focuses on the net assets (deficit) (see Table I). The change in net assets (deficit) (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were a negative \$(6.5) million at June 30, 2012. Capital assets, net of related debt totaling \$4.1 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 (\$13.3 million) was unrestricted.

The net deficit of \$6.5 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 assets are negative. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets 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	
	2012	2011
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.4	\$ -
Operating grants and contributions	8.9	7.8
General revenue:		
Property taxes	2.4	3.0
State foundation allowance	5.3	8.7
Other	-	0.5
Total revenue	17.0	20.0
Functions/Program Expenses		
Instruction	7.8	10.3
Support services	8.8	10.7
Athletics	0.1	-
Food services	-	0.9
Community services	0.2	0.2
Interest on long-term debt	0.1	0.2
Depreciation (unallocated)	0.2	0.5
Impairment loss	-	2.7
Total functions/program expenses	17.2	25.5
Decrease in Net Assets	(0.2)	(5.5)
Net Assets (Deficit) - Beginning of year	(6.3)	(0.8)
Net Assets (Deficit) - End of year	\$ (6.5)	\$ (6.3)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$17.2 million. Certain activities were partially funded from those who benefited from the programs (\$0.4 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$8.9 million). We paid for the remaining "public benefit" portion of our governmental activities with \$2.4 million in taxes and \$5.3 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 \$.2 million. Key reasons for the change in net assets were declining revenues without a significant change in the expenditures of the School District.

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 (\$10.0) million, which is an increase of \$0.9 million from last year. The primary reasons for the increase are as follows:

In the General Fund, our principal operating fund, the fund deficit increased \$1.5 million to (\$12.8) million. The change is mainly due to:

The School District incurred a significant drop in its pupil count during the year and did not adjust expenditures to compensate for the drop in revenue. As a result, the State of Michigan pursuant to Public Act 4, determined that a financial emergency existed within the School District. This emergency, as determined by a 10-member review team, found several financial programs, including:

- The cumulative deficit increased 51 percent over the past fiscal year through 2011.
- The pupil enrollment decreased by 58 percent since 2006, dropping from 3,179 pupils to 1,331 for fiscal year 2011. The count for the fiscal year ended 2011 has fallen below 1,000 students.
- The School District was in an operating deficit six of the past seven fiscal years
- An advance was requested of the January state aid payment in order to meet its payroll for teachers and staff.
- Timing differences for grant revenue, which was collected greater than 60 days after June 30, 2012 (\$.4 million)

An emergency manager (EM) was appointed during February 2012 and succeeded by a successor-EM effective May 2012.

Our special revenue funds which represent food service showed a net increase of approximately \$2,200. Food and management of this program was overseen by Detroit Public Schools.

School District of the City of Highland Park

Management's Discussion and Analysis (Continued)

Combined, the debt service funds showed a fund balance decrease of approximately \$236,000. 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.

The combined capital projects funds fund balance increased by approximately \$897,000. The School District collected \$897,000 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.

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, 2012, the School District had \$7.2 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 \$200,000, or 3 percent, from last year.

	<u>2012</u>	<u>2011</u>
Land	\$ 12	\$ 12
Buildings and building improvements	13,617,162	13,617,162
Buses and other vehicles	828,910	828,910
Furniture and equipment	<u>1,141,604</u>	<u>1,141,604</u>
Total capital assets	15,587,688	15,587,688
Less accumulated depreciation	<u>8,379,250</u>	<u>8,153,279</u>
Net capital assets	<u><u>\$ 7,208,438</u></u>	<u><u>\$ 7,434,409</u></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.

Debt

At the end of this year, the School District had \$3.1 million in bonds outstanding versus \$3.3 million in the previous year - a change of approximately 5 percent. Those bonds consisted of the following:

	<u>2012</u>	<u>2011</u>
General obligation bonds	\$ 3,040,000	\$ 3,145,000
Durant Non-Plaintiff bond	<u>62,857</u>	<u>122,858</u>
Total	<u>\$ 3,102,857</u>	<u>\$ 3,267,858</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 accrued vacation pay and self-insurance claims. 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.

These revenue sources will be the only available funds to pay off existing debt of the School District. Any outstanding receivables as of June 30, 2012 will be collected, which will also provide funds for the payment of debt.

School District of the City of Highland Park

Management's Discussion and Analysis (Continued)

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 Assets June 30, 2012

	Primary Government Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 806,214
Receivables (Note 4)	3,321,133
Inventories	10,119
Restricted assets (Note 8)	63,872
Capital assets - Net (Note 5)	7,208,438
Total assets	11,409,776
Liabilities	
Accounts payable	3,687,609
Accrued payroll-related liabilities	1,770,854
State aid anticipation note (Note 10)	4,577,100
Accrued interest	18,216
Due to other governmental units	118,488
Due to State of Michigan (Note 11)	3,142,500
Deferred revenue (Note 4)	471,733
Noncurrent liabilities (Note 7):	
Due within one year	172,857
Due in more than one year	3,943,114
Total liabilities	17,902,471
Net Assets	
Invested in capital assets - Net of related debt	4,105,581
Restricted:	
Debt service	394,939
Capital projects	2,337,609
Food service	2,477
Unrestricted	(13,333,301)
Total net assets (deficit)	<u>\$ (6,492,695)</u>

School District of the City of Highland Park

Statement of Activities Year Ended June 30, 2012

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	\$ 7,831,639	\$ 4,460	\$ 5,726,514	\$ (2,100,665)
Support services	8,793,246	426,158	3,200,603	(5,166,485)
Athletics	62,346	-	-	(62,346)
Food services	4,948	23	7,080	2,155
Community services	244,123	-	-	(244,123)
Interest	90,429	-	-	(90,429)
Depreciation expense (unallocated)	225,971	-	-	(225,971)
Total primary government	<u>\$ 17,252,702</u>	<u>\$ 430,641</u>	<u>\$ 8,934,197</u>	(7,887,864)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				1,467,319
Property taxes, levied for debt service				5,766
Property taxes, levied for capital projects				896,840
State aid not restricted to specific purposes				5,251,644
Interest and investment earnings				312
Total general revenue				<u>7,621,881</u>
Change in Net Assets				(265,983)
Net Assets (deficit) - Beginning of year				<u>(6,226,712)</u>
Net Assets (deficit) - End of year				<u>\$ (6,492,695)</u>

School District of the City of Highland Park

Governmental Funds Balance Sheet June 30, 2012

	General Fund	Nonmajor Funds	Total Governmental Funds
Assets			
Cash and investments (Note 3)	\$ 794,328	\$ 11,886	\$ 806,214
Receivables (Note 4)	2,905,974	415,159	3,321,133
Due from other funds (Note 6)	-	2,742,383	2,742,383
Inventories	10,119	-	10,119
Restricted assets (Note 8)	-	63,872	63,872
	<u>\$ 3,710,421</u>	<u>\$ 3,233,300</u>	<u>\$ 6,943,721</u>
Total assets			
Liabilities and Fund Balances (Deficit)			
Liabilities			
Accounts payable	\$ 3,494,294	\$ 14,037	\$ 3,508,331
Accrued payroll-related liabilities	1,770,854	-	1,770,854
State aid anticipation note (Note 10)	4,577,100	-	4,577,100
Due to other governmental units	88,314	30,174	118,488
Due to State of Michigan (Note 11)	3,142,500	-	3,142,500
Due to other funds (Note 6)	2,467,597	454,064	2,921,661
Deferred revenue (Note 4)	943,983	-	943,983
	<u>16,484,642</u>	<u>498,275</u>	<u>16,982,917</u>
Total liabilities			
Fund Balances (Deficit)			
Nonspendable - Inventory	10,119	-	10,119
Restricted:			
Capital projects	-	2,337,609	2,337,609
Debt service	-	394,939	394,939
Food service	-	2,477	2,477
Unassigned	(12,784,340)	-	(12,784,340)
	<u>(12,774,221)</u>	<u>2,735,025</u>	<u>(10,039,196)</u>
Total fund balances (deficit)			
Total liabilities and fund balances (deficit)	<u>\$ 3,710,421</u>	<u>\$ 3,233,300</u>	<u>\$ 6,943,721</u>

School District of the City of Highland Park

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2012

Fund Balance Reported in Governmental Funds \$ (10,039,196)

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

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

Cost of capital assets	\$ 15,587,688	
Accumulated depreciation	<u>(8,379,250)</u>	7,208,438

Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds 472,250

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Bonds payable	(3,102,857)	
Compensated absences	(741,954)	
Self-insurance claims	(271,160)	
	<u>-</u>	(4,115,971)

Accrued interest payable is not included as a liability in governmental funds (18,216)

Net Assets of Governmental Activities **\$ (6,492,695)**

School District of the City of Highland Park

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2012

	General Fund	Nonmajor Funds	Total Governmental Funds
Revenue			
Local sources	\$ 1,898,109	\$ 902,769	\$ 2,800,878
State sources	9,965,746	72,930	10,038,676
Federal sources	3,765,372	-	3,765,372
Interdistrict sources	49,058	-	49,058
Total revenue	15,678,285	975,699	16,653,984
Expenditures			
Current:			
Instruction	7,868,607	-	7,868,607
Support services	8,928,080	-	8,928,080
Athletics	62,346	-	62,346
Food services	-	4,948	4,948
Community services	244,123	-	244,123
Debt service:			
Principal	-	165,001	165,001
Interest	-	143,325	143,325
Other	-	113	113
Capital outlay	97,866	-	97,866
Total expenditures	17,201,022	313,387	17,514,409
Net Change in Fund Balances (Deficit)	(1,522,737)	662,312	(860,425)
Fund Balances (Deficit) - Beginning of year	(11,251,484)	2,072,713	(9,178,771)
Fund Balances (Deficit) - End of year	\$ (12,774,221)	\$ 2,735,025	\$ (10,039,196)

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, 2012

Net Change in Fund Balances - Total Governmental Funds \$ (860,425)

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	\$ (225,971)	
Capitalized capital outlay	<u>-</u>	(225,971)

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	332,735
---	---------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	165,001
---	---------

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	53,009
--	--------

Compensated absences, as well as unemployment liability claims, are recorded when earned in the statement of activities. In the current year, more was earned than paid out	<u>269,668</u>
---	----------------

Change in Net Assets of Governmental Activities \$ (265,983)

School District of the City of Highland Park

Fiduciary Funds Statement of Net Assets June 30, 2012

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and investments (Note 3)	\$ 69,746	\$ 25,575
Due from other funds (Note 6)	140,285	45,257
Receivables	-	83
Total assets	210,031	<u>\$ 70,915</u>
Liabilities		
Due to student activities	-	\$ 65,980
Due to other funds (Note 6)	1,329	4,935
Total liabilities	1,329	<u>\$ 70,915</u>
Net Assets	<u>\$ 208,702</u>	

School District of the City of Highland Park

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2012

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

School District of the City of Highland Park

Notes to Financial Statements June 30, 2012

Note I - Nature of Business and 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. 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 assets 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

Notes to Financial Statements June 30, 2012

Note I - Nature of Business and 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

Notes to Financial Statements June 30, 2012

Note 1 - Nature of Business and 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.

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.

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.

Capital Project Funds - Other nonmajor capital projects funds are used to record bond proceeds, sinking fund millages, 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.

School District of the City of Highland Park

Notes to Financial Statements June 30, 2012

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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.

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.

School District of the City of Highland Park

Notes to Financial Statements June 30, 2012

Note I - Nature of Business and Significant Accounting Policies (Continued)

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 reported in the government-wide statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts 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.

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.

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

Fund Balance/Net Asset Restatement - The beginning fund balance for the Durant Debt Fund and the Other Capital Improvements Capital Projects Fund were restated to reflect activity that had not been reported in the correct period. The effect was to increase fund balance by \$65,855 and \$31,473, respectively. The beginning net asset number was also restated by the same amount.

School District of the City of Highland Park

Notes to Financial Statements June 30, 2012

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was issued by the GASB in June 2011 and will be effective for the School District's 2012-2013 fiscal year. The 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 provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 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. Statement No. 65 will be implemented for the School District as of June 30, 2014.

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

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all special revenue funds. All annual appropriations lapse at fiscal year end.

School District of the City of Highland Park

Notes to Financial Statements June 30, 2012

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was not amended.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as restrictions, commitments, or assignments of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year. As of June 30, 2012, there were no material outstanding encumbrances.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the School District incurred expenditures in the General Fund, which were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
Instruction	\$ 7,154,000	\$ 7,868,607
Support services	7,409,400	8,990,426
Community service	179,500	244,123
Capital outlay	-	97,866

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. As required by State law, the School District has contacted the State of Michigan and a plan of action has been implemented. See Note 13 for a description of the plan.

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.

Noncompliance with Legal or Contractual Provisions - The sinking fund has a significant balance due from the General Fund at June 30, 2012. This is a violation of State law under Michigan Compiled Law 380.1212.

Various instances of noncompliance have been noted and are reported in the federal program audit report, which is issued under separate cover.

School District of the City of Highland Park

Notes to Financial Statements June 30, 2012

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, 2012, 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 \$1,012,757 had \$703,246 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.

School District of the City of Highland Park

Notes to Financial Statements June 30, 2012

Note 4 - Receivables and Deferred 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>Nonmajor Funds</u>	<u>Total</u>
Receivables:			
Taxes receivable	\$ 841,971	\$ 412,682	\$ 1,254,653
Accounts receivable	413,998	-	413,998
Due from other governmental units	<u>1,650,005</u>	<u>2,477</u>	<u>1,652,482</u>
Total receivables	<u>\$ 2,905,974</u>	<u>\$ 415,159</u>	<u>\$ 3,321,133</u>

Governmental funds report deferred 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.

	<u>Governmental Funds</u>		
	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Grant and categorical aid payment received prior to meeting all eligibility requirements	<u>\$ 472,250</u>	<u>\$ 471,733</u>	<u>\$ 943,983</u>

School District of the City of Highland Park

Notes to Financial Statements June 30, 2012

Note 5 - Capital Assets

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

Governmental Activities	<u>Balance July 1, 2011</u>	<u>Additions/ Transfers</u>	<u>Disposals/ Transfers</u>	<u>Balance June 30, 2012</u>
Capital assets not being depreciated - Land	\$ 12	\$ -	\$ -	\$ 12
Capital assets being depreciated:				
Buildings and improvements	13,617,162	-	-	13,617,162
Furniture and equipment	1,141,604	-	-	1,141,604
Buses and other vehicles	828,910	-	-	828,910
Subtotal	15,587,676	-	-	15,587,676
Accumulated depreciation:				
Buildings and improvements	6,497,948	123,541	-	6,621,489
Furniture and equipment	910,914	80,251	-	991,165
Buses and other vehicles	744,417	22,179	-	766,596
Subtotal	8,153,279	225,971	-	8,379,250
Net capital assets being depreciated	7,434,397	(225,971)	-	7,208,426
Net capital assets	<u>\$ 7,434,409</u>	<u>\$ (225,971)</u>	<u>\$ -</u>	<u>\$ 7,208,438</u>

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

Note 6 - 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 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. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, termination benefits, certain risk liabilities, and amounts due to the State to repay certain State Aid obligations.

School District of the City of Highland Park

Notes to Financial Statements June 30, 2012

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds	\$ 3,145,000	\$ -	\$ 105,000	\$ 3,040,000	\$ 110,000
Durant Non-Plaintiff Bonds	<u>122,858</u>	<u>-</u>	<u>60,001</u>	<u>62,857</u>	<u>62,857</u>
Total bonds payable	3,267,858	-	165,001	3,102,857	172,857
Other obligations	<u>1,282,782</u>	<u>156,289</u>	<u>425,957</u>	<u>1,013,114</u>	<u>-</u>
Total governmental activities	<u>\$ 4,550,640</u>	<u>\$ 156,289</u>	<u>\$ 590,958</u>	<u>\$ 4,115,971</u>	<u>\$ 172,857</u>

Years Ending June 30	Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 172,857	\$ 136,663	\$ 309,520
2014	120,000	129,683	249,683
2015	130,000	125,333	255,333
2016	140,000	120,620	260,620
2017	150,000	115,370	265,370
2018-2022	820,000	483,118	1,303,118
2023-2027	870,000	302,100	1,172,100
2028-2031	<u>700,000</u>	<u>87,500</u>	<u>787,500</u>
Total	<u>\$ 3,102,857</u>	<u>\$ 1,500,387</u>	<u>\$ 4,603,244</u>

Governmental Activities

General obligation bonds consist of the following:

\$3,580,000 of School Building and Site Bonds due in installments of \$110,000 to \$870,000 through May 1, 2031; interest at 3.625 percent to 5.00 percent \$ 3,040,000

Durant Non-Plaintiff Bond - Included in governmental activities general obligation bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) associated with this bond are funded by the State of Michigan via specifically appropriated state aid and will not require any School District debt levy or utilization of any other School District financial resources. The Durant Non-Plaintiff Bond is comprised of the following issue:

\$937,778 Durant Non-Plaintiff serial bonds, due in annual installments of \$62,857 through May 15, 2013; interest at 4.76 percent \$ 62,857

School District of the City of Highland Park

Notes to Financial Statements June 30, 2012

Note 7 - Long-term Debt (Continued)

Other governmental activities long-term obligations include the following:

Employee compensated absences	\$ 741,954
Liability for self-insurance claims	<u>271,160</u>
Total	<u>\$ 1,013,114</u>

Note 8 - Restricted Assets

The balances for the restricted asset accounts are as follows:

	<u>Governmental Activities</u>
Unspent sinking fund millage, bond proceeds, and related interest	<u>\$ 63,872</u>

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), as well as medical benefits provided to employees. The School District has purchased commercial insurance for property loss, torts, errors and omissions and certain medical claims and participates in the SET/SEG risk pool. The School District is partially self-insured for workers' compensation and certain medical claims up to certain retention limits. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the 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.

For risk retention situations (other than commercial coverage or risk-sharing pool), the School District estimates the liability for workers' compensation and certain medical claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the government-wide statements.

Effective July 1, 2012, the School District changed their operations (see Note 13) and, as a result, is working with the various insurance providers to revise any and all coverages for the buildings and remaining employees to align with the new organizational structure.

School District of the City of Highland Park

Notes to Financial Statements June 30, 2012

Note 10 - 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, 2012, the School District has accrued interest of approximately \$18,000 on this note.

Note 11 - 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, 2012, the balance has been reduced to \$3,142,500 and will be repaid in the future under agreement with the State.

Note 12 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), 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 postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare 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 12.16 percent of covered payroll for the period from July 1, 2011 through September 30, 2011 and 15.96 percent for the period from October 31, 2011 through June 30, 2012. The employer contribution rate for pension plus plan members was 10.66 percent for the period from July 1, 2011 through September 30, 2011 and 14.73 percent for the period from October 1, 2011 through June 30, 2012. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages, or up to 6.4 percent of gross wages for members entering the MIP plus plan on or after July 1, 2008. The School District's required and actual contributions to the plan for the years ended June 30, 2012, 2011, and 2010 were \$903,832, \$1,054,048, and \$1,321,517, respectively.

School District of the City of Highland Park

Notes to Financial Statements June 30, 2012

Note 12 - 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 8.50 percent of covered payroll for the period from July 1, 2011 through June 30, 2012. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2012, 2011, and 2010 were \$614,131, \$716,200, and \$897,938, respectively.

Note 13 - Subsequent Events

In August 2012, the School District borrowed \$4,410,000 under an emergency loan. The loan is due in August 2013 and will be repaid in the future under terms to be negotiated with the State of Michigan.

In July 2012, the emergency manager and Board of Education elected to cease operating as a traditional K-12 district and elected to authorize the Highland Park Schools Public Academy. As of that date, all future state aid, federal grants and other revenue belong to the charter school organization, as do all operating expenditures. The existing School District of the City of Highland Park will assess and collect property taxes in order to service its debt obligations. Such debt obligations include the repayment of State Aid Anticipation notes, bonded indebtedness, State Aid offsets, employment obligations for termination benefits and unemployment, and self-insurance claims for activity incurred prior to June 30, 2012. The transition of the School District was discussed with, and approved by, the State of Michigan as well as the plan for debt repayment to interested parties. The School District will receive a fee equal to 3 percent of the state aid received by the charter school district. The School District still holds title to all assets, which are currently being leased to the charter school for the operations. The assets will be continually evaluated for their long-term use.

Required Supplemental Information

School District of the City of Highland Park

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue				
Local sources	\$ 2,295,000	\$ 2,295,000	\$ 1,898,109	\$ (396,891)
State sources	9,047,700	9,047,700	9,965,746	918,046
Federal sources	6,169,000	6,169,000	3,765,372	(2,403,628)
Interdistrict	-	-	49,058	49,058
Total revenue	<u>17,511,700</u>	<u>17,511,700</u>	<u>15,678,285</u>	<u>(1,833,415)</u>
Expenditures				
Current:				
Instruction	7,154,000	7,154,000	7,868,607	714,607
Support services	7,409,400	7,409,400	8,990,426	1,581,026
Community services	179,500	179,500	244,123	64,623
Capital outlay	-	-	97,866	97,866
Total expenditures	<u>14,742,900</u>	<u>14,742,900</u>	<u>17,201,022</u>	<u>2,458,122</u>
Excess of Revenue Over (Under)				
Expenditures	2,768,800	2,768,800	(1,522,737)	(4,291,537)
Transfers Out	<u>(1,124,900)</u>	<u>(1,124,900)</u>	<u>-</u>	<u>1,124,900</u>
Net Change in Fund Balance (Deficit)	1,643,900	1,643,900	(1,522,737)	(3,166,637)
Fund Balance - Beginning of year	<u>(11,251,484)</u>	<u>(11,251,484)</u>	<u>(11,251,484)</u>	<u>-</u>
Fund Balance - End of year	<u>\$ (9,607,584)</u>	<u>\$ (9,607,584)</u>	<u>\$ (12,774,221)</u>	<u>\$ (3,166,637)</u>

Other Supplemental Information

School District of the City of Highland Park

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2012

	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		Sinking Fund
Assets													
Cash and investments	\$ -	\$ -	\$ 575	\$ 212	\$ 108	\$ -	\$ -	\$ 8,468	\$ 2,421	\$ -	\$ 102	\$ -	\$ 11,886
Receivables	2,477	-	-	-	-	97,598	-	-	-	-	-	315,084	415,159
Due from other funds	-	-	90,373	40,774	300	308,731	198,468	2,824	-	-	-	2,100,913	2,742,383
Restricted assets	-	-	-	-	-	18,192	-	-	-	100	-	45,580	63,872
Total assets	\$ 2,477	\$ -	\$ 90,948	\$ 40,986	\$ 408	\$ 424,521	\$ 198,468	\$ 11,292	\$ 2,421	\$ 100	\$ 102	\$ 2,461,577	\$ 3,233,300
Liabilities and Fund Balances													
Liabilities													
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,573	\$ -	\$ 1,464	\$ -	\$ 14,037
Accrued payroll-related liabilities:													
Due to other governmental units	-	-	-	-	-	30,174	-	-	-	-	-	-	30,174
Due to other funds	-	-	-	-	-	131,750	-	-	272,074	50,240	-	-	454,064
Total liabilities	-	-	-	-	-	161,924	-	-	284,647	50,240	1,464	-	498,275
Fund Balances - Restricted													
Capital projects	-	-	-	-	-	-	198,468	11,292	(282,226)	(50,140)	(1,362)	2,461,577	2,337,609
Debt service	-	-	90,948	40,986	408	262,597	-	-	-	-	-	-	394,939
Food service	2,477	-	-	-	-	-	-	-	-	-	-	-	2,477
Total fund balances	2,477	-	90,948	40,986	408	262,597	198,468	11,292	(282,226)	(50,140)	(1,362)	2,461,577	2,735,025
Total liabilities and fund balances	\$ 2,477	\$ -	\$ 90,948	\$ 40,986	\$ 408	\$ 424,521	\$ 198,468	\$ 11,292	\$ 2,421	\$ 100	\$ 102	\$ 2,461,577	\$ 3,233,300

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, 2012

	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		Sinking Fund
Revenue													
Local sources	\$ 23	\$ -	\$ -	\$ -	\$ 18	\$ 5,773	\$ 17	\$ -	\$ -	\$ -	\$ 15	\$ 896,923	\$ 902,769
State sources	7,080	65,850	-	-	-	-	-	-	-	-	-	-	72,930
Total revenue	7,103	65,850	-	-	18	5,773	17	-	-	-	15	896,923	975,699
Expenditures													
Current:													
Instruction													
Support services													
Food services	4,948	-	-	-	-	-	-	-	-	-	-	-	4,948
Debt service:													
Principal	-	60,001	-	-	-	105,000	-	-	-	-	-	-	165,001
Interest	-	5,849	-	-	-	137,476	-	-	-	-	-	-	143,325
Other	-	-	-	-	-	113	-	-	-	-	-	-	113
Total expenditures	4,948	65,850	-	-	-	242,589	-	-	-	-	-	-	313,387
Net Change in Fund Balances	2,155	-	-	-	18	(236,816)	17	-	-	-	15	896,923	662,312
Fund Balances - As restated - Beginning of year	322	-	90,948	40,986	390	499,413	198,451	11,292	(282,226)	(50,140)	(1,377)	1,564,654	2,072,713
Fund Balances - End of year	\$ 2,477	\$ -	\$ 90,948	\$ 40,986	\$ 408	\$ 262,597	\$ 198,468	\$ 11,292	\$ (282,226)	\$ (50,140)	\$ (1,362)	\$ 2,461,577	\$ 2,735,025

School District of the City of Highland Park

Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2012

<u>Years Ending June 30</u>	<u>Durant Debt Principal</u>	<u>2005 Issuance Principal</u>
2013	\$ 62,857	\$ 110,000
2014	-	120,000
2015	-	130,000
2016	-	140,000
2017	-	150,000
2018-2022	-	820,000
2023-2027	-	870,000
2028-2031	-	700,000
	<u>\$ 62,857</u>	<u>\$ 3,040,000</u>
Principal payments due	May 15	May 1
Interest payments due	May 15	May 1 and November 1
Interest rate	4.76%	3.625% to 5.00%
Original issue	<u>\$ 937,778</u>	<u>\$ 3,580,000</u>

RECEIVED

By Gloria Suggitt at 6:47 am, Mar 25, 2013

**SCHOOL DISTRICT OF THE
CITY OF HIGHLAND PARK**

**FEDERAL AWARDS
SUPPLEMENTAL INFORMATION**

YEAR ENDED JUNE 30, 2012

School District of the City of Highland Park

Contents

	<u>Page No.</u>
Independent Auditors' Report.....	1
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	2
Report on Compliance with Requirements that could have a Direct and Material Effect on each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	4
Schedule of Expenditures of Federal Awards.....	7
Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards.....	9
Notes to Schedule of Expenditures of Federal Awards.....	10
Schedule of Findings and Questioned Costs.....	11
Status of Prior Year Findings	32



Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

INDEPENDENT AUDITORS' REPORT

To the Board of Education of
School District of the City of
Highland Park
Highland Park, MI

We have audited the financial statements of the School District of the City of Highland Park, as of and for the year ended June 30, 2012, and have issued our report thereon dated March 21, 2013. Those financial statements are the responsibility of the management of the School District of the City of Highland Park. Our responsibility was to express an opinion on those financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the School District of the City of Highland Park as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the basic financial statements. Such information is the responsibility of the management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information in this schedule 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 financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Alan C. Young & Assoc.

March 21, 2013



Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

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

To the Board of Education of
School District of the City of Highland Park
Highland Park, MI

We have audited the financial statements of the School District of the City of Highland Park as of and for the year ended June 30, 2012 and have issued our report thereon dated March 21, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be 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,

**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
(Continued)**

or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-1, 2012-3, 2012-4 and 2012-9 to be material weaknesses.


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 questioned costs as items 2012-2, 2012-7 and 2012-8 to be significant deficiencies.

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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 questioned costs as items 2012-5 through 2012-8, and 2012-10.

The management of 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 questioned costs. We did not audit the management's response and, accordingly, we express no opinion on it.

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



March 21, 2013



Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

Report on Compliance with Requirements that Could have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of
School District of the City of Highland Park
Highland Park, MI

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

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

As described in item 2012-11 of the accompanying schedule of findings and questioned costs, the School District of the City of Highland Park did not comply with the cash management requirements that are applicable to IDEA-Special Education Cluster and Title I cluster.

As described in item 2012-14 of the accompanying schedule of findings and questioned costs, the School District of the City of Highland Park did not comply with the allowability and period of availability requirements that are applicable to Title I Cluster, IDEA-Special Education Cluster and ARRA-School Improvement grant. Compliance with such requirements is necessary, in our opinion, for the School District of Highland Park to comply with the requirements applicable to those programs.

**Report on Compliance with Requirements that Could
have a Direct and Material Effect on Each Major Program
and on Internal Control over Compliance in Accordance
with OMB Circular A-133
(Continued)**

In our opinion, except for the non-compliance described in the preceding paragraph, the School District of the City of Highland Park complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-12, 2012-13 and 2012-15 through 2012-18.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and a deficiency that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-11, 2012-12 and 2014 through 2012-18 to be material weaknesses.

**Report on Compliance with Requirements that Could
have a Direct and Material Effect on Each Major Program
and on Internal Control over Compliance in Accordance
with OMB Circular A-133
(Continued)**

Internal Control Over Compliance (Continued)

The management of the School District of the City of Highland Park's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the management's response and, accordingly, we express no opinion on it.

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

Alan C. Young, Assoc.

March 21, 2013

School District of the City of Highland Park

Schedule of Expenditures of Federal Awards Year Ended June 30, 2012

Program Title/Project Number Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2011	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2012
Clusters:								
Special Education Cluster:								
U.S. Department of Education:								
Passed through the Wayne County RESA - IDEA:								
Special Education - Grants to States (IDEA, Part B):								
IDEA, Part B								
84.027								
Project number - Flowthrough 2009-2010		\$ 535,058	\$ 535,058	\$ 12,310	\$ -	\$ 12,310	\$ -	\$ -
Project number - Flowthrough 2010-2011		446,406	369,368	50,383	-	127,421	6,512	(70,526)
Project number - Flowthrough 2011-2012		351,426	-	-	-	280,786	481,472	200,686
Subtotal IDEA, Part B		1,332,890	904,426	62,693	-	420,517	487,984	130,160
Transition Services Mini Grant - 2006-2007	84.027	5,000	-	(908)	908	-	-	-
ARRA - IDEA, Part B, Recovery Act	84.391							
ARRA Special Education Flowthrough 2010-2011		560,401	340,830	146,277	(35,056)	70,083	90,429	131,567
Total Special Education Cluster		1,898,291	1,245,256	208,062	(34,148)	490,600	578,413	261,727
Medicaid Cluster - Michigan Department of Community Health								
Passed-through Wayne County RESA - Medicaid Outreach	93.778	166	-	-	-	166	166	-
Title I, Part A Cluster:								
U.S. Department of Education:								
Passed through the Michigan Department of Education:								
Title I, Part A								
84.010								
Project number 101530/0910		3,616,846	2,612,432	11,959	(11,959)	-	-	-
Project number 111530/1011		3,716,504	2,684,363	587,851	-	1,270,916	558,981	(124,084)
Project number 121530/1112		3,212,013	-	-	-	1,508,943	1,912,812	403,869
ARRA Title I, School Improvement Grant, 2010-2011	84.389A	139,043	101,720	17,775	-	55,097	11,348	(25,974)
ARRA - Title I Grants to Educational Agencies, Recovery Act	84.389							
Project number ARRA Title I, Part A, 1015350910		2,659,978	694,658	1,519	(1,519)	-	-	-
Project number ARRA Title I, Part A, 1115351011		1,966,838	810,957	291,446	-	588,955	441,800	144,291
Total Title I, Part A Cluster		15,311,222	6,904,130	910,550	(13,478)	3,423,911	2,924,941	398,102

See notes to schedule of expenditures of federal awards.

School District of the City of Highland Park

Schedule of Expenditures of Federal Awards Year Ended June 30, 2012

Program Title/Project Number Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2011	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2012
Other Federal Awards:								
U.S. Department of Education:								
Passed through the Michigan Department of Education								
School Improvement Grant, Recovery Act (SIG)								
Project number 101765/1112	84.388A	698,235	-	-	-	393,975	405,201	11,226
Title II A Improving teacher Quality:								
Project Number 080520/0708	84.367	644,671	110,649	(358)	358	-	-	-
Project Number 100520/0910		895,540	254,316	29,961	(26,961)	3,000	-	-
Project Number 110520/1011		984,863	189,598	370	-	21,466	19,453	(1,643)
Project Number 120520/1112		915,725	-	-	-	166,456	207,029	40,573
Total Title II A		3,440,799	554,563	29,973	(26,603)	190,922	226,482	38,930
Title V, Part A - Project Number 060250/0506	84.298	30,563	-	(1,898)	1,898	-	-	-
Education Jobs Fund - Project Number 112545/1112	84.410	24,235	-	-	-	24,235	24,235	-
Safe and Drug Free Schools and Communities - Project Number 102860C	84.186	57,481	71,151	36,128	(36,128)	-	-	-
U.S. Department of Agriculture -								
Passed through the Michigan Department of Education								
Youth Wellness - Project 0819F1tn08	10.574	1,500	-	(590)	590	-	-	-
Child and Adult Care Food Program	10.558							
Project number 111920 & 112010		75,998	32,342	(37,209)	37,209	-	-	-
Total Noncluster Programs Passed through the Michigan Department of Education		4,328,811	658,056	26,404	(23,034)	609,132	655,918	50,156
Total Federal Awards		\$ 21,260,010	\$ 8,807,442	\$ 1,145,016	\$ (70,660)	\$ 4,535,768	\$ 4,159,438	\$ 709,985

See notes to schedule of expenditures of federal awards.

School District of the City of Highland Park

Reconciliation of Basic Financial Statements of Federal Revenue with Schedule of Expenditures Of Federal Awards Year Ended June 30, 2012

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 3,765,372
Less: Deferred revenue at June 30, 2011 - GASB 33	(139,515)
Add: Deferred revenue at June 30, 2012 - GASB 33	472,250
Certain adjustments per schedule of expenditures of federal awards are not reflected as federal revenue	<u>61,331</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 4,159,438</u>

See notes to schedule of expenditures of federal awards.

School District of the City of Highland Park

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2012

1) **SIGNIFICANT ACCOUNTING PRINCIPLES**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the School District of the City of Highland Park. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. In addition, expenditures reported on the schedule are recognized following the cost principles contained in OMB Circular A-87, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2) **GRANT SECTION AUDITOR'S REPORT**

Management has utilized the Cash Management System (CMS) Grant Auditors' Report in preparing the Schedule of Expenditures of Federal Awards. Unreconciled differences, if any, have been disclosed to the auditor.

3) **NONCASH ASSISTANCE**

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

4) **TITLE IIA PROGRAM**

The Title IIA program was not audited as a major program for year ended June 30, 2012. However, during our financial statement audit testing, one of the items requested was unavailable for review. Therefore, this item is reported as a questioned cost in the accompanying schedule of findings and questioned costs as finding 2012-15.

5) **SUBSEQUENT EVENTS**

All subsequent events related to the major programs were evaluated through March 21, 2013, the date the accompanying reports were available to be issued. No significant event was noted that required adjustment or disclosure in the report.

6) **ADJUSTMENTS**

During the year ended June 30, 2012, the School District had a total net adjustment of \$70,660 representing amounts written off due to un-collectability and excess amounts received and refunded during the year.

School District of the City of Highland Park

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

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material Weakness (es) identified? Yes No
- Significant Deficiencies identified? Yes None Reported
- Non-Compliance material to financial Statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? Yes No
- Significant Deficiencies identified? Yes None Reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010, 84.389, 84.389A 84.027, 84.391 84.388	Title I Cluster IDEA Flowthrough: Special Education Cluster ARRA-School Improvement Grant

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

Auditee qualified as low risk auditee? Yes No

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS

Reference Number	Findings
2012-1	<p data-bbox="440 491 919 525">Finding Type – Material Weakness</p> <p data-bbox="440 558 1446 657">Condition and Description – During our audit, we noted that significant adjustments were made to the general ledger well after year- end to post transactions and close the books and records.</p> <p data-bbox="440 693 1013 726">Items noted during our audit are as follows:</p> <ul data-bbox="440 762 1446 1476" style="list-style-type: none"><li data-bbox="440 762 1446 831">• Bank reconciliation statements were not performed and reconciled on a monthly basis during fiscal year 2012.<li data-bbox="440 867 1446 963">• During our review of journal entries posted to the accounting system, evidence of review and approval by personnel other than the preparer was not noted.<li data-bbox="440 999 1446 1096">• The School District did not have adequate procedures and internal controls in place to ensure that all expenditures were captured and recorded in the general ledger.<li data-bbox="440 1131 1446 1201">• Federal, state and other grant revenues, receivables and deferred revenue balances were not timely reconciled and recorded.<li data-bbox="440 1236 1446 1333">• Prepaid accounts were not recorded properly. The School District did not have effective procedures to track the prepayments and record the expenditures in the correct period.<li data-bbox="440 1369 1446 1476">• Compensated absences for sick and vacation payables, note payable and other risk-liabilities were not reviewed and calculated timely to accurately reflect the balances. <p data-bbox="440 1509 1446 1644">Recommendation – The School District should implement month-end procedures to appropriately reconcile primary asset and liability accounts on a timely basis. This will improve the accuracy of interim reporting and reduce the number of adjusting entries at the end of the year.</p> <p data-bbox="440 1677 1446 1875">View of Responsible Officials and Corrective Action Plan – The District has changed substantially and has chartered all educational delivery as of July 1, 2012. The accounting activity for fiscal 2013 will be substantially less and the District will use a combination of outside help and Wayne RESA to ensure activity is accounted for and reconciled more timely. This process began in Fall 2012.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (Continued)

Reference Number	Findings
2012-2	<p data-bbox="440 485 946 520">Finding Type – Significant Deficiency</p> <p data-bbox="440 556 1445 825">Condition and Description – During our audit inquiry of the cash collection procedures, sale of tickets for the Athletic events and review of the Athletics fund (separately maintained in the general ledger), we noted that revenue collected from sale of tickets was not recorded in the Athletics fund. Sufficient documentation was not available to verify the total cash collections and deposits made during the year. As a result, it could not be determined whether the cash collections were appropriately recorded in the general ledger.</p> <p data-bbox="440 856 1445 989">Recommendation – We recommend the School District records the cash collections from Athletics events in the general ledger and implement adequate controls relating to cash receipts and sale of tickets for the Athletics Fund.</p> <p data-bbox="440 1020 1445 1255">View of Responsible Officials and Corrective Action Plan – In July 2012, the emergency manager and Board of Education elected to cease operating as a traditional K-12 district and elected to authorize the Highland Park Schools Public Academy. As of that date, all future state aid, federal grants and other revenue belong to the charter school organization, as do all operating expenditures. As such, there will be no further athletic activity to account for.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (Continued)

Reference Number	Findings
2012-3	<p data-bbox="440 520 1443 548">Finding Type – Material Weakness</p> <p data-bbox="440 590 1443 821">Condition and Description – During our audit, we noted that the School District does not have a consistent system of performing a physical inventory of fixed assets. We noted discrepancies between the fixed asset subsidiary ledger and the general ledger indicating that the accounts have not been reviewed and reconciled during the year. In addition, certain additions and impairments were not properly recorded in the subsidiary ledger.</p> <p data-bbox="440 856 1443 919">Adjustments were made after the year-end to correct the fixed asset account balances.</p> <p data-bbox="440 955 1443 1123">Recommendation – We recommend the School District perform a physical inventory of fixed assets at least annually and review and reconcile the subsidiary ledger to the general ledger. In addition, adequate procedures must be implemented to ensure that the additions and disposals are tracked and recorded in the subsidiary ledger in a timely manner.</p> <p data-bbox="440 1159 1443 1356">View of Responsible Officials and Corrective Action Plan – No further capital asset additions are expected for the foreseeable future, given the authorization of the Highland Park Schools Public Academy. We will download the existing list of capital assets and go through to see if there are any additional changes needed in order to revise the balances as presented for the June 30, 2013 audit.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (Continued)

Reference Number	Findings
2012-4	<p data-bbox="440 527 919 554">Finding Type – Material Weakness</p> <p data-bbox="440 594 1443 758">Condition and Description – During our testing of cash receipts, we noted that the School District did not have adequate internal controls for recording the cash receipts. We noted that the cash receipts were not timely deposited and recorded in the general ledger accounts. Further, certain cash receipts were not classified appropriately in the general ledger.</p> <p data-bbox="440 793 1443 921">Recommendation – We recommend the School District implement month-end procedures to reconcile the cash receipts. Further, cash collections must be timely deposited and recorded in the correct general ledger accounts.</p> <p data-bbox="440 957 1443 1159">View of Responsible Officials and Corrective Action Plan – Effective for the 2012-2013 school year, the District will have very limited cash receipts associated with final federal grant requests, tax collections and other minor items. These amounts will be reviewed thoroughly for proper accounting. The amounts are generally wire transferred from the payer, so timeliness of deposits will not be an issue.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (Continued)

Reference Number	Findings
2012-5	<p data-bbox="440 485 873 520">Finding Type – Noncompliance</p> <p data-bbox="440 554 1443 856">Condition and Description – For bonds beginning with issues after May 1, 1994, a school district that issues bonds under MCL 380.1351a shall have an independent audit, using generally accepted accounting principles. The independent audit must be for the school district’s bonding activities and be conducted within 120 days after completion of all projects financed by the proceeds of the bonds. The school district shall submit the audit report to the Department of Treasury. During the year, we noted that the required bond audit was not performed and this constitutes a violation in accordance with the requirements.</p> <p data-bbox="440 890 1443 989">Recommendation – We recommend the School District have the required capital projects bond audit performed in order to avoid regulatory complexities and cost of noncompliance.</p> <p data-bbox="440 1022 1443 1123">View of Responsible Officials and Corrective Action Plan – The bond programs have been substantially complete and a close out audit will be performed by our auditors in the near term.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (Continued)

Reference Number	Findings
2012-6	<p data-bbox="440 489 870 520">Finding Type – Noncompliance</p> <p data-bbox="440 558 1446 758">Condition and Description – Expenditures exceeded appropriations by material amounts as disclosed in the notes to the financial statements. Timely review of the expenditure accounts and budget appropriations were not performed during the year. The Uniform Budgeting and Accounting Act prohibits districts from expending funds that are not authorized in the approved budget.</p> <p data-bbox="440 793 1446 888">Recommendation – We recommend the School District review the expenditure accounts and budget appropriations to ensure that expenditures are consistent with the appropriations.</p> <p data-bbox="440 924 1446 1188">View of Responsible Officials and Corrective Action Plan – With the turnover of staff and appointment of several emergency managers, the budgeting function had not been addressed timely. In July 2012, the emergency manager and Board of Education elected to cease operating as a traditional K-12 district and elected to authorize the Highland Park Schools Public Academy. As of that date, all future state aid, federal grants and other revenue belong to the charter school organization, as do all operating expenditures.</p> <p data-bbox="440 1224 1446 1323">Budgeting for the remaining activity of the District (property tax collection and debt payments) will be done and monitored on a timely basis for 2012-13.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (Continued)

Reference Number	Findings
2012-7	<p data-bbox="440 485 1443 520">Finding Type – Significant Deficiency and Noncompliance</p> <p data-bbox="440 554 1443 758">Condition and Description – During our review of the Trust and Agency fund (fiduciary funds), we noted significant change in the account balances from prior year. However, adequate documentation to support the use of funds was not provided. Fiduciary funds should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the School District's own programs.</p> <p data-bbox="440 791 1443 919">Recommendation – We recommend that the School District ensure that the fiduciary funds are not used to support the District's own programs. Adequate documentation must be maintained to verify the usage of the funds.</p> <p data-bbox="440 953 1443 1123">View of Responsible Officials and Corrective Action Plan – As part of the final reconciliation process for the District, the agency accounts will be fully reconciled and the disposition of the funds will be addressed based on their original intended use. It is expected this will be addressed by June 30, 2013.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (Continued)

Reference Number	Findings
2012-8	<p data-bbox="440 520 1443 548">Finding Type – Significant Deficiency and Noncompliance</p> <p data-bbox="440 590 1443 688">Condition and Description – As described in 34 CFR Part 80, 2 CFR Part 215, and OMB Circular A-133 Compliance Supplement Part 6, school districts must have written procedures for the following:</p> <ul data-bbox="548 730 1443 1220" style="list-style-type: none">• Financial management systems• Payments• Allowable costs• Period of availability• Matching or cost sharing (if applicable)• Program income (if applicable)• Procurement• Equipment and real property (if applicable)• Supplies• Copyrights (if applicable)• Sub-awards to debarred and suspended parties• Monitoring and reporting program performance (if applicable)• Financial reporting• Retention and access requirements for records <p data-bbox="548 1255 1443 1283">In addition, districts should also have written procedures for:</p> <ul data-bbox="548 1293 1443 1430" style="list-style-type: none">• Cash management• Conflict of interest• Payroll• Federal timekeeping <p data-bbox="440 1465 1443 1528">The School District did not provide a copy of the written procedures for several of the items mentioned above.</p> <p data-bbox="440 1570 1443 1728">Recommendation – We recommend the School District develop and implement written procedures for all the items that are applicable. Further, the written procedures should include provisions for training and consequences for compliance failures. Policies do not take the place for procedures.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (Continued)

Reference Number	Findings
2012-8 (Continued)	<p data-bbox="440 527 1445 562">Finding Type – Significant Deficiency and Noncompliance</p> <p data-bbox="440 632 1445 894">View of Responsible Officials and Corrective Action Plan – Given the fundamental change in the District operations and the fact that it will function, for the near term, as the charter authorizing agency, tax collector and debt servicing agency for the original Highland Park School District, the written procedures will be solely focused on those functions, to the extent written procedures do not already exist. Written procedures for the other activities listed will be addressed if, and when, those functions exist again for the District.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (Continued)

Reference Number	Findings
2012-9	<p data-bbox="440 485 919 520">Finding Type – Material Weakness</p> <p data-bbox="440 554 1443 688">Condition and Description – During our audit, we noted that the School District does not have adequate internal controls surrounding the accounts payable, procurement and disbursement activity. The internal control weaknesses noted in this area are as follows:</p> <ul data-bbox="500 722 1443 1100" style="list-style-type: none"><li data-bbox="500 722 1443 827">• Lack of maintaining receiving reports or other procedures to ensure that goods/services received were as per the purchase orders and requisitions.<li data-bbox="500 827 1443 894">• During our cash disbursement testing, the School District did not have documentation to support certain payments made.<li data-bbox="500 894 1443 999">• Accounts payable balances were not reconciled periodically to ensure that the balances are properly recorded in the general ledger.<li data-bbox="500 999 1443 1035">• Purchase orders were created after receipt of invoices.<li data-bbox="500 1035 1443 1100">• Numerous instances where approvals on invoices prior to payment was not noted. <p data-bbox="440 1134 1443 1302">Collectively, these items result in a material weakness and increase the risk that errors and misstatements in the books and records of the School District could occur and not be detected or not be detected timely. At the end of the year, adjustments were made to the general ledger to correct the account balances.</p> <p data-bbox="440 1335 1443 1470">Recommendation – We recommend the School District assess its processes in the areas noted above and develop appropriate cost-effective internal controls to minimize the risk associated with this material weakness.</p> <p data-bbox="440 1503 1443 1703">View of Responsible Officials and Corrective Action Plan – The emergency manager, working in connection with internal staff and external help, have addressed the outstanding accounts payable balances and the appropriate accounting, recording, reporting and payment for those balances. This is a key focus for the emergency manager, working in connection with the Michigan Department of Treasury.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (Continued)

Reference Number	Findings
2012-10	<p data-bbox="440 520 873 554">Finding Type – Noncompliance</p> <p data-bbox="440 590 1442 758">Condition and Description – At June 30, 2012 the School District’s sinking fund had a significant balance due from the general fund. Under MCL 380.1212, the School District is prohibited from using sinking funds for purposes other than those authorized under the code. Accordingly, such interfund borrowing results in noncompliance with State law.</p> <p data-bbox="440 793 1442 856">Recommendation – The School District should avoid such interfund borrowings and comply with State law.</p> <p data-bbox="440 892 1442 991">View of Responsible Officials and Corrective Action Plan – The School District is currently analyzing all interfund balances in order to verify their accuracy and to develop a plan for all balances to be satisfied.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS

Reference Number	Findings
2012-11	<p>Program Name – Title I Part A Cluster, IDEA Special Education Cluster, and ARRA-School Improvement Grant</p> <p>CFDA Number – 84.010, 84.389, 84.389A, 84.027, 84.391 and 84.388</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Material Weakness and Noncompliance</p> <p>Criteria – As per the Michigan Department of Education (MDE), requests for draw-downs are on a reimbursement basis. Effective December 2008, MDE no longer provides cash advances.</p> <p>Condition – During our review of cash draw-downs performed during the year, the District used incurred expenditures as the basis of the draw-downs. Adequate documentation to verify that costs were paid prior to the drawdowns was not provided. In addition, for Title I cluster and IDEA Special Education cluster the total cash drawdowns exceeded the expenditures.</p> <p>Questioned Costs – Unknown</p> <p>Cause/Effect – The District was not in compliance with the cash management requirements as specified by the Michigan Department of Education.</p> <p>Recommendation – We recommend the School District strive to comply with the cash management requirement.</p> <p>View of Responsible Officials and Corrective Action Plan – The District will be working closely with the Michigan Department of Education on the final closeout of all grants for Highland Park and the transition of grant activity to the Highland Park Schools Public Academy. This reconciliation and transition process is already underway and will be concluded by June 30, 2013.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2012-12	<p>Program Name – Title I Part A Cluster, IDEA Special Education Cluster, and ARRA-School Improvement Grant</p> <p>CFDA Number – 84.010, 84.389, 84.389A, 84.027, 84.391 and 84.388</p> <p>Pass-through Entity – Michigan Department of Education Wayne County RESA</p> <p>Finding Type – Material Weakness and Noncompliance</p> <p>Criteria – Entities must be in compliance with the state and federal procurement requirements and follow the required bidding process. In addition, a system should be in place to ensure that the District does not enter into a contract with a suspended or debarred party as specified in the OMB Circular A-133.</p> <p>Condition – The District does not have a system in place to verify whether the contractors or vendors are suspended or debarred from participating in federal grants.</p> <p>Questioned Costs – None</p> <p>Cause/Effect – The District could be potentially awarding contracts to vendors who are suspended or debarred from participating in federal grant programs.</p> <p>Recommendation – We recommend the School District strive to comply with the procurement, suspension and debarment requirements as specified in the OMB circular A-133.</p> <p>View of Responsible Officials and Corrective Action Plan - The District, under its new formation, is no longer participating in grant programs at this time. As the District looks forward, to the extent there is grant activity, the suspension and debarment procedures will be fully addressed.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2012-13	<p>Program Name – Title I Part A Cluster, IDEA Special Education Cluster, and ARRA-School Improvement Grant</p> <p>CFDA Number – 84.010, 84.389, 84.389A, 84.027, 84.391 and 84.388</p> <p>Pass-through Entity – Michigan Department of Education Wayne County RESA</p> <p>Finding Type – Noncompliance</p> <p>Criteria – In the first year of implementing a school-wide program, at least 40 percent of the children enrolled in the school or residing in the school attendance area must be from low-income families. The District is required to maintain records to demonstrate compliance with this requirement.</p> <p>Condition – Supporting documentation was not provided for review to determine if in the initial year of the school-wide program, at least 40% of the children enrolled or residing in the District the school attendance area were from low income families.</p> <p>Questioned Costs – None</p> <p>Cause/Effect – Due to lack of supporting documentation it could not be determined if all schools under the school-wide program met the requirement to operate a school-wide program.</p> <p>Recommendation – The District should strive to maintain supporting documentation to verify compliance with the requirements of the grant.</p> <p>View of Responsible Officials and Corrective Action Plan – The District, under its new formation, is no longer participating in grant programs at this time. As the District looks forward, to the extent there is grant activity, the school wide program requirements will be fully addressed and documented.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2012-14	<p>Program Name – Title I Part A Cluster, IDEA Special Education Cluster and ARRA-School Improvement Grant</p> <p>CFDA Number –84.010, 84.389, 84.389A, 84.027, 84.391 and 84.388</p> <p>Pass-through Entity – Michigan Department of Education Wayne County RESA</p> <p>Finding Type – Material Weakness and Noncompliance</p> <p>Criteria – Federal funds must be used only for activities allowed in accordance with OMB Circular A-133 and Michigan Department of Education, and must be consistent with the approved application. In addition, funds must be expensed within the period of availability as specified under the grant.</p> <p>Condition – For Title I Part A Cluster, for 9 out of 40 samples selected for disbursement testing, supporting documents were not provided. In addition for 19 out of 31 invoices provided for testing, there was no evidence of review and approval of invoices prior to payment.</p> <p>For IDEA Special Education Cluster, for 3 out of 7 samples selected for disbursement testing, supporting documents were not provided. Further, for 2 out of 4 invoices provided for testing, there was no evidence of review and approval of invoices prior to payment.</p> <p>For ARRA-School Improvement Grant, for 5 out of 18 samples selected for disbursement testing, supporting documents were not provided. In addition, for 11 out of 13 invoices provided for testing, there was no evidence of review and approval of invoices prior to payment.</p> <p>Questioned Costs – Title I Part A Cluster: \$94,448 IDEA Special Education Cluster: \$110,425 School Improvement Grant: \$32,627</p> <p>Cause/Effect – Due to unavailability of supporting documents, it could not be determined whether the expenses were allowable under the grant and recorded in the proper period of availability. Lack of document retention for expenses incurred for federal grants could lead to expenses being disallowed from the grant.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2012-14 (Continued)	<p data-bbox="440 491 1445 558">Program Name – Title I Part A Cluster, IDEA Special Education Cluster and ARRA-School Improvement Grant</p> <p data-bbox="440 592 1445 726">Recommendation – The School District should strive to maintain all supporting documents for the expenses incurred under the grant. This is necessary to verify compliance with the allowability and period of availability requirements.</p> <p data-bbox="440 760 1445 995">View of Responsible Officials and Corrective Action Plan – With the change in the District structure, significant numbers of employees and grant personnel were displaced. As such, the documentation requested could not be readily located. The District will continue to look for the missing documentation in order to demonstrate to Wayne County RESA and the Michigan Department of Education that these expenditures were allowable under the grants.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2012-15	<p>Program Name – Title IIA</p> <p>CFDA Number – 84.367</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Material Weakness and Noncompliance</p> <p>Criteria –Federal funds must be used only for activities allowed in accordance with OMB Circular A-133, Michigan Department of Education, and must be consistent with the approved application. In addition, funds must be expensed within the period of availability as specified under the grant.</p> <p>Condition – For 1 out of 2 samples selected for testing, supporting documentation was not provided to verify allowability of the cost.</p> <p>Questioned Costs – \$18,000</p> <p>Cause/Effect – Due to unavailability of supporting documents, it could not be determined whether the expenses were allowable under the grant and recorded in proper period of availability. Lack of document retention for expenses incurred for federal grants could lead to expenses being disallowed from the grant.</p> <p>Recommendation – The School District should strive to maintain all supporting documents for the expenses incurred under the grant. This is necessary to verify compliance with the allowability and period of availability requirements.</p> <p>View of Responsible Officials and Corrective Action Plan – With the change in the District structure, significant numbers of employees and grant personnel were displaced. As such, the documentation requested could not be readily located. The District will continue to look for the missing documentation in order to demonstrate to Wayne County RESA and the Michigan Department of Education that these expenditures were allowable under the grant.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2012-16	<p data-bbox="440 485 1446 520">Program Name – Title I Part A Cluster</p> <p data-bbox="440 554 1446 590">CFDA Number – 84.010 and 84.389</p> <p data-bbox="440 623 1446 659">Pass-through Entity – Michigan Department of Education</p> <p data-bbox="440 693 1446 728">Finding Type – Material Weakness and Noncompliance</p> <p data-bbox="440 762 1446 1083">Criteria – A district must provide opportunities for consultation with parents and teachers of eligible pupils, including those from private schools, in the design, implementation, and evaluation of the Title I project. LEAs with allocations of more than \$500,000 must reserve at least 1% for parental involvement activities. The district must distribute not less than 95% of the amount reserved for parent involvement to schools receiving Title I services. Parents of participating children must be involved in discussions on the use of these funds.</p> <p data-bbox="440 1117 1446 1220">Condition – The School District could not provide documentation of the participation of teachers, principals and parents in the design, implementation and evaluation of Title I project.</p> <p data-bbox="440 1253 1446 1289">Questioned Costs – None</p> <p data-bbox="440 1323 1446 1425">Cause/Effect – Due to lack of documentation, it could not be determined whether the teachers, principals and parents were involved in the grant planning and evaluation process</p> <p data-bbox="440 1459 1446 1562">Recommendation – We recommend the School District maintain supporting documentation of participation of teachers, principals, and parents in Title I program.</p> <p data-bbox="440 1596 1446 1820">View of Responsible Officials and Corrective Action Plan – With the change in the District structure, significant numbers of employees and grant personnel were displaced. As such, the documentation requested could not be readily located. The District will continue to look for the missing documentation in order to demonstrate to Wayne County RESA and the Michigan Department of Education that these expenditures were allowable under the grant and appropriate procedures were followed.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2012-17	<p>Program Name – Title I Part A Cluster</p> <p>CFDA Number – 84.010 and 84.389</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Material Weakness and Noncompliance</p> <p>Criteria – Time/salaries charged to Title I must be documented in compliance with 2 CFR part 225. Acceptable methods for multiple cost objective staff include written schedules if they are documented by personnel activity reports (PARs) confirming that the schedules were followed. The PARs must be prepared at least monthly, be signed and dated by the employee, and account for the staff person's total activity. Time sheets and other records should be completed after the fact.</p> <p>Condition – During our payroll testing, for 1 out of 15 samples, employee salary was incorrectly charged to Title I grant. In addition, for 1 sample, the approved pay rate was not provided and for 2 samples, the time sheets did not agree to the hours charged to the grant.</p> <p>Questioned Costs – \$3,025</p> <p>Cause/Effect – One of the employees' who worked on the Title I grant in fiscal year 2011 no longer worked on Title I grant in fiscal year 2012. The payroll distribution was not updated in the system to reflect the change.</p> <p>Recommendation – We recommend the School District update the payroll distribution prior to the beginning of the school year and ensure that the employees are charged to the correct grants. In addition, sufficient documentation must be maintained to verify salaries charged to the grant.</p> <p>View of Responsible Officials and Corrective Action Plan – With the change in the District structure, significant numbers of employees and grant personnel were displaced. There are no longer any grant personnel or grants for which timesheets and payroll distribution records will be maintained. The District will review any expenditures subsequent to year end, as grants were closed, to verify the appropriate documentation exists.</p>

School District of the City of Highland Park

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2012

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2012-18	<p data-bbox="451 548 867 575">Program Name – ARRA- Title I</p> <p data-bbox="451 611 776 638">CFDA Number – 84.389</p> <p data-bbox="451 674 1214 701">Pass-through Entity – Michigan Department of Education</p> <p data-bbox="451 737 1182 764">Finding Type – Material Weakness and Noncompliance</p> <p data-bbox="451 800 1437 940">Criteria – As per OMB Circular A-133 and Section 1512 of the American Recovery and Reinvestment Act (ARRA), all ARRA awards will carry quarterly reporting requirements. Quarterly reports must be submitted at the end of each fiscal year quarter.</p> <p data-bbox="451 968 1437 1045">Condition – The Quarterly ARRA reports submitted for Title I grant (Grant No. 111535 and 101555) was not provided for review.</p> <p data-bbox="451 1073 808 1100">Questioned Costs – None</p> <p data-bbox="451 1136 1437 1276">Cause/Effect – The School District provided a copy of the 1512 report submitted for previous years grant (Grant No. 101535). Due to unavailability of the current year reports, it could not be determined whether the required quarterly reports were submitted and/or submitted timely.</p> <p data-bbox="451 1304 1437 1381">Recommendation – We recommend the School District maintain documentation to verify compliance with the reporting requirements</p> <p data-bbox="451 1409 1437 1581">View of Responsible Officials and Corrective Action Plan – We are not aware that the State has not received the required reports, so we are under the assumption that our copy of those documents is missing. We will work to either obtain a new copy from the State or prepare the required reports in order to be fully compliant.</p>

School District of the City of Highland Park

Status of Prior Year Findings
Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS

Reference Number	Findings
2011-1	<p>Condition and Description – During our testing, we noted instances where adjustments were made to the general ledger well after year- end to post transactions and close the books and records. As a result there is a risk of errors not being detected, or not being detected on a timely basis.</p> <p>These included the following:</p> <ul style="list-style-type: none">• Review of bank reconciliations indicated that certain wire transfers and reconciling items were not recorded timely.• Duties were not adequately segregated to record, process and reconcile certain cash receipts, payroll and wire transfer transactions.• Federal and other grant revenues and receivables were not reviewed and reconciled timely.• Compensated absences for sick and vacation pay-out were not reviewed to accurately reflect the balances. <p>Status: This condition still existed in FY 2012. See finding 2012-1.</p>
2011-2	<p>Condition and Description – During our audit inquiry of the cash collection procedures and sale of tickets for the Athletic events, we noted the lack of key controls. An inventory of tickets was not maintained for athletic events and timely deposit of cash collected was not made.</p> <p>Status: This condition still existed in FY 2012. See finding 2012-2.</p>
2011-3	<p>Condition and Description – During our audit, we noted that the District does not have a consistent system of performing a physical inventory of fixed assets. Further, there were discrepancies between the fixed asset subsidiary ledger and the general ledger. This is a weakness in the system of controls and has the potential for allowing discrepancies to exist and not be detected..</p> <p>Status: This condition still existed in FY 2012. See finding 2012-3.</p>

School District of the City of Highland Park

Status of Prior Year Findings (Continued)
Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (Continued)

Reference Number	Findings
2011-4	<p>Condition and Description – Under Statement on Auditing Standards No.115, we are required to communicate when any client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America. Due to time and workload constraints, the District did not have adequate capacity to prepare the financial statements.</p> <p>Status: This condition was resolved in FY 2012.</p>
2011-5	<p>Condition and Description – For bonds beginning with issues after May 1, 1994, a school district that issues bonds under MCL 380.1351a shall have an independent audit, using generally accepted accounting principles. The independent audit must be for the school district's bonding activities and be conducted within 120 days after completion of all projects financed by the proceeds of the bonds. The school district shall submit the audit report to the Department of Treasury. During the year we noted that the required bond audit was not performed and this constitutes a violation in accordance with the requirements</p> <p>Status: This condition still existed in FY 2012. See finding 2012-5.</p>
2011-6	<p>Condition and Description – State of Michigan Public Act 621, 1978 requires all school districts in the State to adopt a balanced budget prior to the start of their fiscal year. During our review of the adopted budget for the fiscal year July 1, 2010 – June 30, 2011, the District did not adopt a balanced budget and included a projected deficit.</p> <p>Adoption of a budget by a District that is not balanced is noncompliance with Public Act 621, 1978.</p> <p>Status: This condition was resolved in FY 2012.</p>

School District of the City of Highland Park

Status of Prior Year Findings (Continued)
Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (Continued)

Reference Number	Findings
2011-7	<p>Condition and Description – During our review of the District’s healthcare costs, we noted instances in which the District was paying for individuals that were no longer eligible for healthcare coverage. We further noted that the district does not have a policy or procedure that requires that each healthcare invoice be examined, or at least be periodically reviewed to ensure that only eligible employees are included therein.</p> <p>Our test could not quantify the extent of healthcare expenditures for ineligible individuals, but because of the significant amount of healthcare expenditures to the District, we deem this matter to be a material weakness. Paying healthcare costs for ineligible individuals causes the healthcare expenditures to be overstated and drains limited financial resources from other areas of need in the District.</p> <p>Status: This condition was resolved in FY 2012.</p>
2011-8	<p>Condition and Description – During our audit we noted the District had pupil mis-counts in both its February and September count submissions to the Michigan Department of Education. It appears the mis-counts are the result of insufficient internal controls in this area to ensure pupil counts are accurate. Accurate pupil counts are essential because the District’s primary funding is derived from this data. Inaccurate counts could cause the District to be over/under funded and result in lost revenue or a liability to the State if an over count is found to exist. The lack of appropriate internal controls over pupil counts constitutes a significant deficiency in the District’s system of internal control.</p> <p>Status: This condition was resolved in FY 2012.</p>

School District of the City of Highland Park

Status of Prior Year Findings (Continued)
Year Ended June 30, 2012

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS (Continued)

Reference Number	Findings
2011-9	<p data-bbox="477 510 1437 642">Condition and Description – During our audit we noted that the District does not have adequate internal controls surrounding the procurement and disbursement activity. The internal control weaknesses noted in this area are as follows:</p> <ul data-bbox="477 680 1437 953" style="list-style-type: none">• Lack of maintaining receiving reports or other procedures to ensure that goods/services received were as per the purchase orders and requisitions.• During our testing we noted an instance where disbursements/payments were made based on vendor quotes and not based on an actual invoice.• The accounts payable subsidiary ledger did not agree with the accounts payable amount recorded in the general ledger. <p data-bbox="477 989 1437 1150">Collectively, these items result in a material weakness and increase the risk that errors and misstatements in the books and records of the District could occur and not be detected or not be detected timely. At the end of the year, adjustments were made to the general ledger to correct the account balances.</p> <p data-bbox="477 1186 1333 1215">Status: This condition still existed in FY 2012. See finding 2012-9.</p>

School District of the City of Highland Park

Status of Prior Year Findings (Continued)
Year Ended June 30, 2012

SECTION III – FEDERAL PROGRAM AUDIT FINDINGS

Reference Number	Findings
2011-10	<p>Program Name – Title I Part A Cluster</p> <p>Condition – During our review of cash draw-downs performed during the year, the District used incurred expenditures as the basis of the draw-downs. Adequate documentation to verify that costs were paid prior to the draw-downs was not provided.</p> <p>Status: This condition still existed in FY 2012. See finding 2012-11.</p>
2011-11	<p>Program Name – Title I Part A Cluster, IDEA Special Education Cluster</p> <p>Condition – The District does not have a system in place to verify whether the contractors or vendors are suspended or debarred from participating in federal grants.</p> <p>Status: This condition still existed in FY 2012. See finding 2012-12.</p>
2011-12	<p>Program Name – Title I Part A Cluster, IDEA Special Education Cluster</p> <p>Condition – Supporting documentation was not provided for review to determine if in the initial year of the school-wide program, at least 40% of the children enrolled or residing in the District the school attendance area were from low-income families.</p> <p>Status: This condition still existed in FY 2012. See finding 2012-13.</p>
2011-13	<p>Program Name – IDEA Special Education Cluster</p> <p>Condition – Supporting documents were not provided to verify that the District spent an amount of local funds for the education of children with disabilities that is at least equal to the amount of local funds expended for this purpose by the District in the prior fiscal year.</p> <p>Status: The requirement for maintenance of efforts is performed by Wayne-RESA (ISD), therefore this is not a finding for FY 2012.</p>

School District of the City of Highland Park

Status of Prior Year Findings (Continued)
Year Ended June 30, 2012

SECTION III – FEDERAL PROGRAM AUDIT FINDINGS (Continued)

Reference Number	Findings
2011-14	<p data-bbox="440 548 1445 579">Program Name – Title I Part A Cluster</p> <p data-bbox="440 615 1445 779">Condition – The District uses the number of children eligible for free and reduced price lunches as the basis for determining children from low income families. Supporting documentation was not provided for our review to verify the allocation of Title I Part A Cluster funds based on free/reduced meal counts in compliance with the Title I Part A formula.</p> <p data-bbox="440 814 1445 846">Status: This condition was resolved in FY 2012.</p>
2011-15	<p data-bbox="440 884 1445 915">Program Name – IDEA Special Education Cluster</p> <p data-bbox="440 951 1445 1014">Condition – For 2 out of 2 payroll samples selected for testing, semi-annual certifications were not provided for our review.</p> <p data-bbox="440 1052 1445 1115">Status: Similar finding relating to payroll charges were noted in fiscal year 2012. See finding 2012-17.</p>

**School District of the City of Highland Park
Corrective Action Plan
Findings as of June 30, 2012**

Contact Person Responsible: Dr. Weatherspoon, Emergency Manager

Finding Number: 2012-1

Corrective Action Planned: The School District has enlisted help internally, externally and through Wayne County RESA to make sure transactions are recorded and reconciliations performed timely. With the substantial change in the structure of the District as of July 1, 2012, the amount of activity is expected to diminish substantively.

Anticipated Completion Date: June 30, 2013 – The analysis will take place in preparation for the June 30, 2013 audit engagement and is expected to be fully addressed.

Finding Number: 2012-2

Corrective Action Planned: None – with the decision by the District to charter their operations as of July 1, 2012, there will no longer be athletics activity recorded by the District.

Anticipated Completion Date: Addressed fully.

Finding Number: 2012-3

Corrective Action Planned: The District will download the current fixed asset listing and perform a reconciliation to determine if additional revisions are needed. There are no capital additions expected for the foreseeable future.

Anticipated Completion Date: June 30, 2013

Finding Number: 2012-4

Corrective Action Planned: The District expects very limited cash receipts for the year ending June 30, 2013. Receipts associated with grants, tax collections and other minor items will be deposited and accounted for timely with assistance from internal and external sources as well as coordination with Wayne County RESA.

Anticipated Completion Date: June 30, 2013

Finding Number: 2012-5

Corrective Action Planned: With the transition of staff at the District, we were unaware a bond close out report had not been completed for the bonded construction project. We will work with our external auditor in order to remit the appropriate documentation.

Anticipated Completion Date: June 30, 2013

Finding Number: 2012-6

Corrective Action Planned: Given the limited amount of expected activity for the year ending June 30, 2013, creating and adhering to a budget will be an easier task. The Board will adopt a realistic budget and transactions will be monitored closely against the budget.

Anticipated Completion Date: June 30, 2013

Finding Number: 2012-7

Corrective Action Planned: Agency accounts will be analyzed and determination made as to the proper disposition of the funds.

Anticipated Completion Date: June 30, 2013

Finding Number: 2012-8

Corrective Action Planned: Written procedures will be developed / updated for those transaction cycles still applicable to the District, given the fact they have authorized the chartering of most operations as of July, 2012.

Anticipated Completion Date: June 30, 2013

Finding Number: 2012-9

Corrective Action Planned: Accounts payable transactions are being analyzed extremely closely as they have a direct impact on cash flow.

Anticipated Completion Date: June 30, 2013

Finding Number: 2012-10

Corrective Action Planned: Sinking fund balances due from the General Fund, along with all other interfund balances, will be analyzed, reconciled and a plan developed for repayment of balances.

Anticipated Completion Date: June 30, 2013

Finding Number: 2012-11

Corrective Action Planned: Grant drawdown requests are being done based on actual expenditures incurred for the grants which are closing out as of September 30, 2012

Anticipated Completion Date: Completed

Finding Number: 2012-12

Corrective Action Planned: For any expenditures incurred which would require the verification of suspended/debarred vendors, those procedures will be completed. All grant activity is expected to be concluded by September 30, 2012.

Anticipated Completion Date: Completed

Finding Number: 2012-13

Corrective Action Planned: There is no further grant activity at this time, therefore, this finding is determined to have resolved itself.

Anticipated Completion Date: Completed

Finding Number: 2012-14

Corrective Action Planned: In an effort to prevent the return of grant funds, the District will go through all of the transactions in question to locate the missing documentation. The termination of the majority of the staff has made this task difficult to date.

Anticipated Completion Date: June 30, 2013

Finding Number: 2012-15

Corrective Action Planned: In an effort to prevent the return of grant funds, the District will go through all of the transactions in question to locate the missing documentation. The termination of the majority of the staff has made this task difficult to date.

Anticipated Completion Date: June 30, 2013

Finding Number: 2012-16

Corrective Action Planned: There is no further grant activity at this time, therefore, this finding is determined to have resolved itself.

Anticipated Completion Date: Completed

Finding Number: 2012-17

Corrective Action Planned: There is no further grant activity at this time, therefore, this finding is determined to have resolved itself.

Anticipated Completion Date: Completed

Finding Number: 2012-18

Corrective Action Planned: We will locate the report as we believe all documentation related to the quarterly reports had been timely filed.

Anticipated Completion Date: June 30, 2013

**SCHOOL DISTRICT OF THE CITY OF
HIGHLAND PARK**

AUDIT COMMUNICATION LETTER

Year Ended June 30, 2012



Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alanycyoung.com

March 21, 2013

To the Board of Education,
School District of the City of Highland Park
Highland Park, MI

We have recently completed our audit of the financial statements of the School District of the City of Highland Park (the School District) for the year ended June 30, 2012. In addition to our audit report, we are providing the following required communication and recommendations, which impact the School District.

	<u>Page</u>
Results of Audit	1
Summary of Unrecorded Possible Adjustments	4

We are grateful for the opportunity to be of service to the School District. Should you have any questions regarding the comments in this report, please do not hesitate to contact us.

Very truly yours,

Alan C. Young & Assoc.

Alan C. Young and Associates, P.C.



Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

Results of Audit

To the Board of Education,
School District of the City of Highland Park
Highland Park, MI

We have audited the financial statements of the governmental activities, major funds, and the aggregate remaining fund information, which collectively comprise the financial statements of the School District of the City of Highland Park (School District) for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit:

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 11, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas tested.

Our audit also included obtaining an understanding of the School District and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the School District or to acts by management or employees acting on behalf of the School District.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure regarding the School District's election to cease operating as a traditional K-12 District. This is further described in Note 13 to the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 21, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the School District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

As required under OMB Circular A-133, we have also completed an audit of the federal programs. The results of the audit are provided to the Board of Education in our report dated March 21, 2013 on compliance with requirements applicable to the major federal programs that have been tested for year ended June 30, 2012.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of management of the School District of the City of Highland Park, and is not intended to be and should not be used by anyone other than these specified parties.

Alan C. Young, Assoc.

March 21, 2013

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK

Summary of Unrecorded Possible Adjustments June 30, 2012

The effect of misstatements and classifications errors identified would be to increase (decrease) the reported amounts in the financial categories identified below

Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Net Assets	Revenues	Expenses
Understatement of estimated unemployment liability	\$ -	\$ -	\$ -	\$ (126,000)	\$ 126,000	\$ -	\$ -
Understatement of capital assets	-	(97,500)	-	-	(97,500)	-	97,500
Total	<u>\$ -</u>	<u>\$ (97,500)</u>	<u>\$ -</u>	<u>\$ (126,000)</u>	<u>\$ 28,500</u>	<u>\$ -</u>	<u>\$ 97,500</u>