

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

Financial Statements

June 30, 2021



Table of Contents

Section		Page
1	Independent Auditors' Report	1 - 1
2	Management's Discussion and Analysis	2 - 1
3	Basic Financial Statements	
	District-wide Financial Statements	
	Statement of Net Position	3 - 1
	Statement of Activities	3 - 2
	Fund Financial Statements	
	Governmental Funds	
	Balance Sheet	3 - 3
	Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	3 - 5
	Statement of Revenues, Expenditures and Changes in Fund Balances	3 - 6
	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	3 - 7
	Notes to the Financial Statements	3 - 8
4	Required Supplementary Information	
	Budgetary Comparison Schedule – General Fund	4 - 1

Section

Page

5 Other Supplementary Information

Nonmajor Governmental Funds	
Combining Balance Sheet	5 - 1
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	5 - 2
 Schedule of Outstanding Bonded and Loan Indebtedness	 5 - 3

6 Other Reports

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> – Independent Auditors' Report	6 - 1
 Schedule of Findings and Responses	 6 - 3
 Corrective Action Plans	 6 - 4



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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Highland Park, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Highland Park, as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Deficit Fund Balance

The School District has accumulated an unassigned deficit in the General Fund of \$3,974,162 as of June 30, 2021, which has resulted from operating deficits. The deficit and status of the District's Deficit Elimination Plan that is required by the Michigan Department of Education, are disclosed in Note 2. Our opinions are not modified with respect to this matter.

Adoption of New Accounting Standard

As described in Note 1 to the financial statements, during the year ended June 30, 2021, the School District adopted GASB Statement No. 84, *Fiduciary Activities*. Our opinions are not modified with respect to this matter.

Required Supplementary Information

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

Other Information

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

The other supplementary information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such

information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2021 on our consideration of the School District of the City of Highland Park's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District of the City of Highland Park's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering School District of the City of Highland Park's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Auburn Hills, Michigan
October 26, 2021

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, 2021. 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, Sinking Fund and 2005 School and Building Bond Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

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

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

Other Supplemental Information

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

One of the most important questions asked about the School District is, “As a whole, what is the School District’s financial condition as a result of the year’s activities?” The statement of net position and the statement of activities, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the School District’s net position – the difference between assets and liabilities, as reported in the statement of net position – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net position – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net position and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including support services and debt service payments. Property taxes, discretionary state funding and other revenues 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 and other money (such as debt service funds used to report debt millage revenue and the associated debt service payments). The governmental funds of the School District use the following accounting approach:

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

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position:

TABLE 1

	Governmental Activities	
	June 30	
	2021	2020
	(in millions)	
Assets		
Current and other assets	\$ 3.2	\$ 3.5
Capital assets	1.4	0.8
Total assets	4.6	4.3
Liabilities		
Current liabilities	3.9	4.5
Long-term liabilities	7.6	8.0
Total liabilities	11.5	12.5
Net Position		
Net deficit in capital assets	(0.4)	(1.1)
Restricted	3.0	3.9
Unrestricted (deficit)	(9.5)	(11.0)
Total net position	\$ (6.9)	\$ (8.2)

The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was a negative (\$6.9) million at June 30, 2021. Net deficit in capital assets totaling (\$.4) million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net position (\$9.5) million was unrestricted.

The net deficit of (\$6.9) million represents the accumulated results of all past years' operations. Total liabilities are greater than the current and capital assets of the School District; therefore, the net position is negative. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net position (deficit) for fiscal years 2021 and 2020.

TABLE 2	Governmental Activities	
	2021	2020
	(in millions)	
Revenue		
General revenue:		
Property taxes	\$ 1.8	\$ 1.9
Other	0.3	0.2
Total revenue	<u>2.1</u>	<u>2.1</u>
Functions/Program Expenses		
Support services	0.7	0.8
Interest on long-term debt	<u>0.3</u>	<u>0.3</u>
Total functions/program expenses	<u>1.0</u>	<u>1.1</u>
Increase (Decrease) in Net Position	1.1	1.0
Net Position - Beginning of year, as restated	<u>(8.0)</u>	<u>(9.2)</u>
Net Position - End of year	<u><u>\$ (6.9)</u></u>	<u><u>\$ (8.2)</u></u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$1.0 million. We paid for this cost with \$1.8 million in taxes and with \$.3 million in other revenues, i.e., interest and general entitlements.

The School District experienced an increase in net assets of \$1.1 million. The key reason for the change in net assets is the continued maintenance of low operating expenses.

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 constitute the vast majority of district operating revenue sources, the Director of Operations 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 (\$.4) million, which is a decrease in the deficit of \$.6 million from last year. The primary reasons for the decrease in the deficit are as follows:

In the General Fund, our principal operating fund, the fund deficit decreased \$.8 million to (\$4.0) million. The change is mainly due to continued maintenance of low operating expenses.

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 restricted since they can only be used to pay debt service obligations.

General Fund Budgetary Highlights

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

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2021, the School District had \$1.4 million invested in capital assets, including buildings, furniture, and equipment. This amount increased \$.6 million from prior year due to improvements made to the Academy building.

	<u>2021</u>	<u>2020</u>
Buildings and building improvements	\$ 2,168,673	\$ 1,532,140
Furniture and equipment	<u>61,575</u>	<u>61,575</u>
Total capital assets	2,230,248	1,593,715
Less accumulated depreciation	<u>845,954</u>	<u>821,763</u>
Net capital assets	<u>\$ 1,384,294</u>	<u>\$ 771,952</u>

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 \$1.7 million in bonds outstanding versus \$2.1 million in the previous year, consisting of the following:

	<u>2021</u>	<u>2020</u>
General obligation bonds	<u>\$ 1,740,000</u>	<u>\$ 1,910,000</u>

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

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

Economic Factors and Next Year's Budgets and Rates

The chief administrative officer for the District is the Chief Education Officer (CEO). While the CEO has ultimate responsibility to approve much of the day-to-day activities of the School District, the Director of Operations continues to oversee, with the CEO's approval, the operational and business decisions associated with the School District. The CEO is primarily responsible for monitoring the activities of the Highland Park Public School Academy and is focused on implementing a strategic plan to grow enrollment and add a high school location (grade levels 9-12). The Director of Operations continues to advise on business decisions to reduce operating costs and pay down all debts.

The School District will continue to collect property taxes on non-homestead properties in order to pay off the existing School District debt. Additionally, as the charter authorizing agency, the School District is entitled to a fee of 3 percent of the State Aid associated with the enrolled pupils of the charter school. The School District continues to receive, in addition to its 3% authorizer fee, monthly installment payments from the Highland Park Public School Academy equal to 4% of State Aid for the lease of the Barber Preparatory facilities. The CEO will continue to monitor the activities of the Highland Park Public School Academy, along with the charter school management company.

In the near term, these revenue sources will be the only available funds to pay off existing debt of the School District. The School District's ability to increase revenues long-term is directly dependent on its ability to grow enrollment from its strategic plan efforts.

In October 2021, the Board of Education adopted a resolution to authorize the refunding of the School District's 2005 School Building and Site Bonds, provided the then-projected net present value savings are achievable in accordance with Public Act 34 of 2001, as amended, at the time of sale. Based on the advice of its municipal advisor, the Board believes

the potential savings, if realized, would reduce or shorten the duration of future annual tax levies required to meet debt service obligations for the 2005 School Building and Site Bonds.

Effective October 31, 2021, the State of Michigan and the School District entered into agreement to amend the two notes that secure the emergency loans (the "Emergency Loan Notes") to reduce the School District's annual interest rate obligations for the emergency loans. Under the terms of the amendments to the Emergency Loan Notes, the annual fixed interest rates on the School District's two emergency loans were reduced from 2.35% and 2.30%, respectively, to 1.25%. As a result, the School District is projected to realize total savings on its future emergency loan obligations of approximately \$683,781. These loans remain payable annually through 2042. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Currently, the School District is adhering to a Deficit Elimination Plan approved by the State of Michigan in 2018 to pay off existing debts to vendors in installments over a period of 17 years. The School District is in the process of updating its Deficit Elimination Plan to reflect any revised projections since 2018 and expects to submit a revised Deficit Elimination Plan to the State of Michigan for approval before the end of the 2021 calendar year. 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 feasible.

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 Director of Operations.

BASIC FINANCIAL STATEMENTS

School District of the City of Highland Park
Statement of Net Position
June 30, 2021

	<u>Governmental Activities</u>
Assets	
Cash	\$ 3,121,167
Taxes receivable	7,587
Due from other governmental units	42,348
Prepaid items	1,266
Capital assets - net of accumulated depreciation	<u>1,384,294</u>
Total assets	<u>4,556,662</u>
Liabilities	
Accounts payable	27,749
Due to other governmental units	3,559,679
Accrued expenditures	283,581
Noncurrent liabilities	
Due within one year	390,000
Due in more than one year	<u>7,190,000</u>
Total liabilities	<u>11,451,009</u>
Net Position	
Net deficit in capital assets	(355,706)
Restricted for	
Debt service	397,665
Capital projects	2,610,492
Unrestricted (deficit)	<u>(9,546,798)</u>
Total net position	<u>\$ (6,894,347)</u>

See Accompanying Notes to the Financial Statements

School District of the City of Highland Park
Statement of Activities
For the Year Ended June 30, 2021

	Program Revenues			Net (Expense)
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
Functions/Programs				
Governmental activities				
Supporting services	\$ 672,948	\$ -	\$ -	\$ (672,948)
Interest on long-term debt	301,628	-	-	(301,628)
Depreciation (unallocated)	24,191	-	-	(24,191)
Total governmental activities	\$ 998,767	\$ -	\$ -	(998,767)
General revenues				
Property taxes, levied for general purposes				1,537,117
Property taxes, levied for debt service				252,456
Property taxes, levied for sinking fund				5,882
Interest and investment earnings (loss)				(798)
Authorizer fees				83,378
Other				189,307
Total general revenues				2,067,342
Change in net position				1,068,575
Net position - beginning, as restated				(7,962,922)
Net position - ending				\$ (6,894,347)

See Accompanying Notes to the Financial Statements

School District of the City of Highland Park
Governmental Funds
Balance Sheet
June 30, 2021

	General Fund	Sinking Fund	Debt Service Fund 2005 School and Building Bond Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash	\$ 2,606,416	\$ 405,482	\$ 1,016	\$ 108,253	\$ 3,121,167
Taxes receivable	5,390	342	1,855	-	7,587
Due from other funds	-	2,193,089	678,375	169,424	3,040,888
Due from other governmental units	42,348	-	-	-	42,348
Prepaid items	1,266	-	-	-	1,266
	<u>2,655,420</u>	<u>2,598,913</u>	<u>681,246</u>	<u>277,677</u>	<u>6,213,256</u>
Total assets	<u>\$ 2,655,420</u>	<u>\$ 2,598,913</u>	<u>\$ 681,246</u>	<u>\$ 277,677</u>	<u>\$ 6,213,256</u>
Liabilities					
Accounts payable	\$ 27,749	\$ -	\$ -	\$ -	\$ 27,749
Due to other funds	3,040,888	-	-	-	3,040,888
Due to other governmental units	3,559,679	-	-	-	3,559,679
	<u>6,628,316</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,628,316</u>
Total liabilities	<u>6,628,316</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,628,316</u>

See Accompanying Notes to the Financial Statements

School District of the City of Highland Park
Governmental Funds
Balance Sheet
June 30, 2021

	<u>General Fund</u>	<u>Sinking Fund</u>	<u>Debt Service Fund</u> 2005 School and Building Bond Fund	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balance					
Non-spendable					
Prepaid items	\$ 1,266	\$ -	\$ -	\$ -	\$ 1,266
Restricted for					
Debt service	-	-	681,246	-	681,246
Capital projects	-	2,598,913	-	11,579	2,610,492
Committed - student activity	-	-	-	266,098	266,098
Unassigned (deficit)	<u>(3,974,162)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,974,162)</u>
 Total fund balances (deficit)	 <u>(3,972,896)</u>	 <u>2,598,913</u>	 <u>681,246</u>	 <u>277,677</u>	 <u>(415,060)</u>
 Tot liabilities and fund balances	 <u>\$ 2,655,420</u>	 <u>\$ 2,598,913</u>	 <u>\$ 681,246</u>	 <u>\$ 277,677</u>	 <u>\$ 6,213,256</u>

See Accompanying Notes to the Financial Statements

School District of the City of Highland Park
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2021

Total fund balances for governmental funds	\$ (415,060)
Total net position for governmental activities in the statement of net position is different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets - net of accumulated depreciation	1,384,294
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(283,581)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Bonds payable	(1,740,000)
Emergency loans payable	<u>(5,840,000)</u>
Net position of governmental activities	<u>\$ (6,894,347)</u>

School District of the City of Highland Park
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2021

	General Fund	Sinking Fund	Debt Service Fund 2005 School and Building Bond Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Local sources	\$ 1,809,076	\$ 6,825	\$ 253,081	\$ 1,113	\$ 2,070,095
Expenditures					
Current					
Education					
Supporting services	671,085	-	-	2,167	673,252
Capital outlay	6,922	629,307	-	-	636,229
Debt service					
Principal	210,000	-	170,000	-	380,000
Interest and other expenditures	138,506	-	92,692	-	231,198
Total expenditures	1,026,513	629,307	262,692	2,167	1,920,679
Excess of revenues over (under) expenditures	782,563	(622,482)	(9,611)	(1,054)	149,416
Fund balances (deficit) - beginning, as restated	(4,755,459)	3,221,395	690,857	278,731	(564,476)
Fund balances (deficit) - ending	\$ (3,972,896)	\$ 2,598,913	\$ 681,246	\$ 277,677	\$ (415,060)

See Accompanying Notes to the Financial Statements

School District of the City of Highland Park
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2021

Net change in fund balances - Total governmental funds	\$ 149,416
Total change in net position reported for governmental activities in the statement of activities is different because	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Delinquent taxes	(2,753)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(24,191)
Capital outlay	636,533
Expenses are recorded when incurred in the statement of activities.	
Interest	(70,430)
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	
Repayments of long-term debt	<u>380,000</u>
Change in net position of governmental activities	<u>\$ 1,068,575</u>

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2021

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

Pursuant to Public Act 4 – Local Government Fiscal Responsibility Act, the State of Michigan determined that a financial emergency exists within the School District. An emergency manager (EM) was appointed during February 2012 and was succeeded by the successor-EM effective May 2012, again in October 2013, and again in November 2016. The EM assumes control over all fiscal matters of the School District and makes fiscal decisions including but not limited to the preparation of the School District's financial statements. In April of 2018, the EM was replaced by a Director of Operations and governance over the School District was resumed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2021

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

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

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

The School District reports the following major governmental funds:

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

Sinking Fund – The Sinking Fund is used to record the sinking fund property tax levy and other revenue and the disbursement of invoices specifically designated for technology and major remodeling. The fund will operate until the purpose for which it was created is accomplished.

2005 School and Building Bond Fund – The 2005 School and Building Bond debt service fund is used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on the School District’s 2005 School Building and Site Bonds.

Additionally, the School District reports the following fund types:

Special Revenue Fund – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Student Activity Fund is the only special revenue fund.

Capital Project Funds – The nonmajor Energy Bond Fund and 2005 School Building and Site Project Fund are used to record bond proceeds, interest and other revenue, and the disbursement of monies specifically designated for technology and major remodeling. The funds operate until the purpose for which it was created is accomplished.

The nonmajor 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.

The nonmajor 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.

Assets, Liabilities and Net Position or Equity

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

All trade and property tax receivables are shown net of an allowance for uncollectible amounts of \$0.

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2021

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2021, the rates are as follows per \$1,000 of assessed value.

General Fund	
Non principal residence exemption	17.7300
Commercial personal property	5.7300
Debt Service Funds	2.2000

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

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

Prepaid Items – Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

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

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

Buildings and improvements	20-40 years
Furniture and other equipment	5-20 years

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

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

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

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

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

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

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

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2021

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

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

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

Use of Estimates

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

Eliminations and Reclassifications

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

Adoption of New Accounting Standards

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that

should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria.

Upcoming Accounting and Reporting Changes

Statement No. 87, *Leases* increases the usefulness of the District's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2022.

The School District is evaluating the impact the above GASB will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

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

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2021

in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

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

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

Excess of Expenditures over Appropriations

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

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Operations and maintenance	\$ 81,489	\$ 125,615	\$ 44,126

Deficit Fund Balance

The School District has accumulated an unassigned deficit in the General Fund of \$3,974,162 as of June 30, 2021. The School District has filed a deficit elimination plan with the State of Michigan, which the School District is in compliance with as of year end.

Compliance - Sinking Funds

The Sinking 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 Revised School Code and the State of Michigan Department of Treasury Letter No. 2004-4.

Noncompliance with Legal or Contractual Provisions

The Sinking Fund has a significant balance due from the General Fund at June 30, 2021. This is a violation of State law under Michigan Compiled Law 380.1212.

Note 3 - Deposits and Investments

State statutes and the School District’s investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers’ acceptances, commercial paper rates prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District’s deposits are in accordance with statutory authority. At June 30, 2021, 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 deposits are reported as cash in the basic financial statements for governmental activities.

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

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of year-end, \$2,616,932 of the District’s bank balance of \$3,128,611 was exposed to custodial credit risk because it was uninsured and uncollateralized.

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2021

Note 4 - Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets being depreciated				
Buildings and improvements	\$ 1,532,140	\$ 636,533	\$ -	\$ 2,168,673
Furniture and equipment	<u>61,575</u>	<u>-</u>	<u>-</u>	<u>61,575</u>
Total capital assets being depreciated	<u>1,593,715</u>	<u>636,533</u>	<u>-</u>	<u>2,230,248</u>
Less accumulated depreciation for				
Buildings and improvements	760,188	24,191	-	784,379
Furniture and equipment	<u>61,575</u>	<u>-</u>	<u>-</u>	<u>61,575</u>
Total accumulated depreciation	<u>821,763</u>	<u>24,191</u>	<u>-</u>	<u>845,954</u>
Net capital assets being depreciated	<u>771,952</u>	<u>612,342</u>	<u>-</u>	<u>1,384,294</u>
Net capital assets	<u>\$ 771,952</u>	<u>\$ 612,342</u>	<u>\$ -</u>	<u>\$ 1,384,294</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 5 - Interfund Receivable and Payable and Transfers

Individual interfund receivable and payable balances at year end were:

Receivable Fund	Payable Fund	Amount
Sinking Fund	General Fund	\$ 2,193,089
2005 School and Building Bond Fund	General Fund	678,375
Nonmajor funds	General Fund	<u>169,424</u>
		<u>\$ 3,040,888</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year, with the exception with the amounts owed from the General Fund to Sinking Fund which are being paid back in accordance with the deficit elimination plan.

There were no interfund transfers during the fiscal year.

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2021

Note 6 - Payable Agreements

In prior periods, the School District accumulated large payable balances due to the Office of Retirement Services (ORS) for unpaid pension contributions, to the Unemployment Insurance Agency for unpaid claims and to the State of Michigan for state aid advances.

The future requirements in association with the ongoing payments to these vendors are as follows:

Year Ending	Due to Other Governments			Total
	Unemployment Insurance Agency	Michigan Department of Education	ORS	
2022	\$ 257,028	\$ -	\$ 135,172	\$ 392,200
2023	194,035	-	-	194,035
2024	-	-	-	-
2025	-	-	-	-
2026	-	-	-	-
2027-2031	-	-	-	-
2032-2036	-	2,270,000	-	2,270,000
2037-2038	-	703,444	-	703,444
	<u>\$ 451,063</u>	<u>\$ 2,973,444</u>	<u>\$ 135,172</u>	<u>\$ 3,559,679</u>

Note 7 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. Two emergency loans were issued during the year ended June 30, 2013 under the powers of the emergency manager and communication with the State of Michigan. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. The State can withhold state aid if it has to make a bond payment on behalf of the School District related to qualified bonds.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Bonds payable					
School Building and Site Bonds	\$ 1,910,000	\$ -	\$ 170,000	\$ 1,740,000	\$ 170,000
Notes from direct borrowings and direct placements					
Emergency Loan #1	3,605,000	-	125,000	3,480,000	130,000
Emergency Loan #2	2,445,000	-	85,000	2,360,000	90,000
	<u>6,050,000</u>	<u>-</u>	<u>210,000</u>	<u>5,840,000</u>	<u>220,000</u>
Total	<u>\$ 7,960,000</u>	<u>\$ -</u>	<u>\$ 380,000</u>	<u>\$ 7,580,000</u>	<u>\$ 390,000</u>

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2021

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

\$3,580,000 of School Building and Site Bonds due in installments of \$140,000 to \$870,000 through May 1, 2031; interest at 3.625 percent to 5.00 percent	\$ 1,740,000
\$4,410,000 of Emergency Loan #1 due in installments of \$110,000 to \$205,000 through November 1, 2041; interest at 2.35 percent	3,480,000
\$3,000,000 of Emergency Loan #2 due in installments of \$75,000 to \$140,000 through November 1, 2041; interest at 2.30 percent	<u>2,360,000</u>
Total general obligation bonded debt	<u>\$ 7,580,000</u>

Future principal and interest requirements for bonded debt and direct placements are as follows:

Year Ending June 30,	Bond		Emergency Loans		Total Principal	Total Interest
	Principal	Interest	Principal	Interest		
2022	\$ 170,000	\$ 83,053	\$ 220,000	\$ 133,498	\$ 390,000	\$ 216,551
2023	170,000	75,913	225,000	128,314	395,000	204,227
2024	175,000	68,688	230,000	123,014	405,000	191,702
2025	175,000	61,250	235,000	117,598	410,000	178,848
2026	175,000	52,500	240,000	112,064	415,000	164,564
2027-2031	875,000	131,250	1,280,000	473,303	2,155,000	604,553
2032-2036	-	-	1,440,000	314,878	1,440,000	314,878
2037-2041	-	-	1,625,000	136,353	1,625,000	136,353
2042	-	-	<u>345,000</u>	<u>4,019</u>	<u>345,000</u>	<u>4,019</u>
Total	<u>\$ 1,740,000</u>	<u>\$ 472,654</u>	<u>\$ 5,840,000</u>	<u>\$ 1,543,041</u>	<u>\$ 7,580,000</u>	<u>\$ 2,015,695</u>

Note 8 - Risk Management

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

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. Settled claims have not exceeded excess coverage for the past three fiscal years.

Note 9 - Management's Plan

The School District is working closely with the State of Michigan Departments of Treasury and Education on deficit elimination plans and financing. With the chartering of the School District as of July 1, 2012, the School District is collecting property taxes from the taxpayers and using those funds to pay down loans and vendor obligations as efficiently as they can. Additionally, the School District receives a total fee equal to 7 percent of the state aid received by a charter school district they have authorized.

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

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2021

Note 10 - Tax Abatements

The School District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions and Brownfield Redevelopment Agreements granted by cities, villages, and townships within the County. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal year ended June 30, 2021, the School District had no material abatements that reduce property tax revenues.

There are no significant abatements made by the School District.

Note 11 - Change in Accounting Principle

As indicated in Note 1, Governmental Accounting Standards Board Statement 84 has been adopted. The standard requires this change be applied retroactively. The impact of this change is to increase beginning fund balance by \$267,153 as of July 1, 2020 in the Student Activity Fund, restating it from \$0 to \$267,153, in the nonmajor governmental funds, restating it from \$11,578 to \$278,731, and beginning net position in the statement of activities, restating it from (\$8,230,075) to (\$7,962,922).

Note 12 - Subsequent Event

In September of 2021, the State approved an order amending emergency loan note interest rates. The Emergency Loan #1 interest rate will change from the current rate of 2.35% to the amended rate of 1.25%. The Emergency Loan #2 interest rate will change from the current rate of 2.30% to the amended rate of 1.25%.

REQUIRED SUPPLEMENTARY INFORMATION

School District of the City of Highland Park
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2021

	<u>Original</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues				
Local sources	\$ 1,741,949	\$ 1,627,530	\$ 1,809,076	\$ 181,546
Expenditures				
Supporting services				
General administration	195,919	156,790	151,465	(5,325)
Business	325,235	403,435	394,005	(9,430)
Operations and maintenance	89,372	81,489	125,615	44,126
Capital outlay	-	-	6,922	6,922
Debt service				
Principal	-	210,000	210,000	-
Interest and fiscal charges	-	138,506	138,506	-
Total expenditures	<u>610,526</u>	<u>990,220</u>	<u>1,026,513</u>	<u>36,293</u>
Excess of revenues over expenditures	<u>1,131,423</u>	<u>637,310</u>	<u>782,563</u>	<u>145,253</u>
Fund balance (deficit) - beginning	<u>(4,755,459)</u>	<u>(4,755,459)</u>	<u>(4,755,459)</u>	<u>-</u>
Fund balance (deficit) - ending	<u>\$ (3,624,036)</u>	<u>\$ (4,118,149)</u>	<u>\$ (3,972,896)</u>	<u>\$ 145,253</u>

OTHER SUPPLEMENTARY INFORMATION

School District of the City of Highland Park
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2021

	Special Revenue Fund	Capital Projects Funds			Total Nonmajor Governmental Funds	
	Student Activity	Energy Bonds	Technology Equipment	2005 School Building & Site Project		Other Capital Improvements
Assets						
Cash	\$ 108,253	\$ -	\$ -	\$ -	\$ -	\$ 108,253
Due from other funds	<u>157,845</u>	<u>8,840</u>	<u>2,530</u>	<u>107</u>	<u>102</u>	<u>169,424</u>
Total assets	<u>\$ 266,098</u>	<u>\$ 8,840</u>	<u>\$ 2,530</u>	<u>\$ 107</u>	<u>\$ 102</u>	<u>\$ 277,677</u>
Fund Balance						
Restricted for						
Capital projects	\$ -	\$ 8,840	\$ 2,530	\$ 107	\$ 102	\$ 11,579
Committed	<u>266,098</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>266,098</u>
Total fund balances	<u>\$ 266,098</u>	<u>\$ 8,840</u>	<u>\$ 2,530</u>	<u>\$ 107</u>	<u>\$ 102</u>	<u>\$ 277,677</u>
Total liabilities and fund balances	<u>\$ 266,098</u>	<u>\$ 8,840</u>	<u>\$ 2,530</u>	<u>\$ 107</u>	<u>\$ 102</u>	<u>\$ 277,677</u>

School District of the City of Highland Park
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2021

	Special Revenue Fund	Capital Projects Funds				Total Nonmajor Governmental Funds
	Student Activity	Energy Bonds	Technology Equipment	2005 School Building & Site Project	Other Capital Improvements	
Revenues						
Local sources	\$ 1,112	\$ -	\$ 1	\$ -	\$ -	\$ 1,113
Expenditures						
Current						
Education						
Supporting services	<u>2,167</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,167</u>
Excess (deficiency) of revenues over expenditures	(1,055)	-	1	-	-	(1,054)
Fund balances - beginning, as restated	<u>267,153</u>	<u>8,840</u>	<u>2,529</u>	<u>107</u>	<u>102</u>	<u>278,731</u>
Fund balances - ending	<u>\$ 266,098</u>	<u>\$ 8,840</u>	<u>\$ 2,530</u>	<u>\$ 107</u>	<u>\$ 102</u>	<u>\$ 277,677</u>

School District of the City of Highland Park
Other Supplementary Information
Schedule of Outstanding Bonded and Loan Indebtedness
June 30, 2021

Year Ending June 30,	Emergency Loan #1	Emergency Loan #2	2005 Issuance Principal	Total
2022	\$ 130,000	\$ 90,000	\$ 170,000	\$ 390,000
2023	135,000	90,000	170,000	395,000
2024	135,000	95,000	175,000	405,000
2025	140,000	95,000	175,000	410,000
2026	145,000	95,000	175,000	415,000
2027-2031	760,000	520,000	875,000	2,155,000
2032-2036	860,000	580,000	-	1,440,000
2037-2041	970,000	655,000	-	1,625,000
2042	205,000	140,000	-	345,000
Total	<u>\$ 3,480,000</u>	<u>\$ 2,360,000</u>	<u>\$ 1,740,000</u>	<u>\$ 7,580,000</u>
Principal payments due the first day of	November	November	May	
Interest payments due the first day of	May and November	May and November	May and November	
Interest rate	2.35%	2.30%	3.625% - 5.000%	
Original issue	<u>\$ 4,410,000</u>	<u>\$ 3,000,000</u>	<u>\$ 3,580,000</u>	

OTHER REPORTS



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Highland Park as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the School District of the City of Highland Park's basic financial statements, and have issued our report thereon dated October 26, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered School District of the City of Highland Park's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of School District of the City of Highland Park's internal control. Accordingly, we do not express an opinion on the effectiveness of School District of the City of Highland Park's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant

deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether School District of the City of Highland Park's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002.

The School District of the City of Highland Park's Response to Findings and Corrective Action Plan

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 responses and corrective action plan. School District of the City of Highland Park's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Yeo & Yeo, P.C.

Auburn Hills, Michigan
October 26, 2021

School District of the City of Highland Park
Schedule of Findings and Responses
June 30, 2021

2021-001, 2020-001, 2019-002, 2018-004, 2017-005, 2016-005, 2015-005, 2014-005 Material Weakness and Material Noncompliance – Deficit Fund Balance

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

Condition: The General Fund has an unassigned deficit fund balance as of June 30, 2021.

Cause: The School District lacked adequate budgetary controls in the past and revenues decreased at a larger rate than expenditures.

Effect: The district has filed a deficit elimination plan with the State that continues to be evaluated and monitored for compliance.

Recommendation: The School District should continue to follow its deficit elimination plan and submit needed revisions as they arise.

Views of responsible officials: Management agrees with the finding.

Corrective action plan: See attached corrective action plan.

2021-002, 2020-002, 2019-003, 2018-005, 2017-006, 2016-006, 2015-006, 2014-006 Material Weakness and Material Noncompliance – Sinking Fund

Criteria: The Sinking Fund dollars cannot be used to fund general operations of the district.

Condition: The Sinking Fund has a significant balance due from the General Fund at June 30, 2021.

Cause: In prior years, funds from the Sinking Fund were comingled with the General Fund.

Effect: This is a violation of State law under Michigan Compiled Law 380.1212.

Recommendation: The School District needs to follow its deficit elimination plan which includes the repayment of sinking fund dollars from General Fund in future years.

Views of responsible officials: Management agrees with the finding.

Corrective action plan: See attached corrective action plan.



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

Kevin A. Smith
 Emergency Manager

Findings	Responsible Individual	Management Views	Corrective Action	Anticipated Completion Date
2021-001	Director of Operations	Management understands the requirement to have a positive general fund balance.	The District will continue to monitor the Deficit Elimination Plan that was approved by the State of Michigan to ensure the deficit elimination targets are met.	Ongoing
2021-002	Director of Operations	Management has appropriate knowledge of the legal limitations and permissible use of sinking funds.	The District is aware of the amounts owed to the Sinking Fund and will repay this fund in accordance with the District's Approved Deficit Elimination Plan.	Ongoing

October 26, 2021

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

We have completed our audit of the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of School District of the City of Highland Park as of and for the year ended June 30, 2021, and have issued our report dated October 26, 2021. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit.

Our communication includes the following appendices:

- I. Auditors' Communication of Significant Matters with Those Charged with Governance
- II. Matters for Management's Consideration

Matters for management's consideration are not required to be communicated but we believe are valuable for management.

We discussed these matters with various personnel in the School District during the audit and with management. We would also be pleased to meet with you to discuss these matters at your convenience.

This information is intended solely for the information and use of management, the Board of Education, and others within the School District, and is not intended to be, and should not be, used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Auburn Hills, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated June 1, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. The Organization has adopted the following Governmental Accounting Standards Board Statements effective July 1, 2020:

- Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria.

We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement 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. The most sensitive estimate affecting the School District's financial statements was:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.

We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole and free from bias.

The financial statement disclosures are neutral, consistent, and clear.

Accounting Standards

The Governmental Accounting Standards Board has released additional Statements. Details regarding these Statements are described in Note 1 of the financial statements.

The School District is evaluating the impact the above pronouncements will have on its financial reporting.

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 that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

There were no known uncorrected misstatements that were more than trivial.

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 auditors' report. We are pleased to report we had no such disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other 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.

Emphasis of Matters in Independent Auditors' Report

Our report will include the following emphasis of matter paragraphs:

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2021, the School District adopted GASB Statement No. 84, *Fiduciary Activities*. Our opinions are not modified with respect to this matter.

Deficit Fund Balance

The School District has accumulated an unassigned deficit in the General Fund of \$3,974,162 as of June 30, 2021, which has resulted from operating deficits. The deficit and status of the District's Deficit Elimination Plan that is required by the Michigan Department of Education, are disclosed in Note 2. Our opinions are not modified with respect to this matter.

Other Reports

Other information that is required to be reported to you is included in the: Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Please read all information included in that report to ensure you are aware of relevant information.

Report on Required Supplementary Information

We applied certain limited procedures to management's discussion and analysis and the remaining required supplementary information (RSI) as described in the table of contents of the financial statements that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Report on Other Supplementary Information

With respect to the other 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.

Appendix II Matters for Management's Consideration

In planning and performing our audit of the financial statements of School District of the City of Highland Park as of and for the year ended June 30, 2021, we considered the School District's internal control over financial reporting (internal control) as a basis for designing our audit 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

However, during our audit we became aware of matters for management's consideration that are opportunities for strengthening internal controls and improving operating efficiency. This letter does not affect our report dated October 26, 2021, on the financial statements of School District of the City of Highland Park. Our comments and recommendations regarding those matters are:

Internal Controls

We noted during our walkthroughs of the School District's key transaction cycles that internal controls appear to be in place, but there is not always formal documentation proving those controls. We noted the bank reconciliations do not include information regarding the preparer and reviewer, as well as the dates those activities were conducted. We noted no formal documentation of the approval of manual journal entries by someone other than the individual posting. Invoices do not indicate the account code or approval as to which account they should be charged. In addition, management of the School District is not indicating they are reviewing bank statements or reconciliations.

We recommend that segregation of duties and controls be better documented to prove they are in place and that items are being reconciled timely. Bank reconciliation preparation and review should be documented as to who performed and when. Management from the School District should review that bank statement or reconciliations each month. Approval of manual journal entries should be documented by someone other than the individual posting. These procedures will help prevent human errors as well as being a deterrent to fraud.

Interfund Activity

The tax revenue for Sinking Fund and Debt Fund is running through General Fund resulting in continued growth of the due to/from accounts. Transfers are not being made to move cash amongst the funds to relieve some of the interfund account balances.

We recommend the District make transfers throughout the year to move cash collected for taxes by the General Fund to the appropriate funds and reduce interfund account balances. This will help avoid past issues with reconciling growing interfund activity and understanding what is truly owed between funds. In addition, it will better show what is owed between General Fund and Sinking Fund related to old substantial borrowings to assist in paying those balances down in accordance with the Deficit Elimination Plan.

Contracts

We selected seven significant vendor contracts of the School District. We reviewed the contracts to ensure they were board approved and that expenses charged were in line with contracted amounts. We noted the staffing contract was approved in 2017 and required two year renewals after the initial one year term. This contract was not renewed as required and the School District has continued to pay the staff according to the 2017 rates. A renewal contract is set to go for board approval in 21/22. In addition, the marketing vendor has a contract renewal in place from January 1, 2021 to December 31, 2021. This contract renewal was not approved by the board until July 2021.

We recommend the District track renewal periods for its contracts and verify renewal terms are met and approved by the board prior to renewal or the contract starting. This will ensure that all contracts are approved by the board prior to payments being made. It will also ensure all payments made are in line with set contracts.