



HIGHLAND PARK
SCHOOL DISTRICT

School District of the City of Highland Park

Financial Statements June 30, 2022



THE CLAIRMOUNT GROUP, PLC
Certified Public Accountants

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THE CLAIRMOUNT GROUP, PLC
Certified Public Accountants

Independent Auditors' Report

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

Opinions

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, 2022, 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.

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, 2022, 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 \$(3,008,235) as of June 30, 2022, which has resulted from operating deficits. The deficit and status of the District's Deficit Elimination Plan, which is required by the Michigan Department of Education, are disclosed in Note 2. Our opinions are not modified with respect to this matter.

Basis of Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School District of the City of Highland Park, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School District of the City of Highland Park's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School District of the City of Highland Park's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School District of the City of Highland Park's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

Management is responsible for the other information included in the annual report. 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 basic financial statements.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2022, 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 the School District of the City of Highland Park's internal control over financial reporting and compliance.

The Clairmount Group
Detroit, Michigan
December 4, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2022. 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 and Site 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 Supplementary Information
Budgetary Information for Major Funds
Other Supplemental Information

School District of the City of Highland Park Management's Discussion and Analysis

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 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:

School District of the City of Highland Park Management's Discussion and Analysis

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	
		(in millions)	
		2022	2021
<u>Assets</u>			
Current and other assets		\$3.9	\$ 3.2
Capital assets		1.3	1.4
	Total assets	<u>5.2</u>	<u>4.6</u>
<u>Liabilities</u>			
Current liabilities		3.5	3.9
Long-Term Liabilities		7.2	7.6
	Total liabilities	<u>10.7</u>	<u>11.5</u>
<u>Net Position</u>			
Net deficit in capital assets		(0.4)	(0.4)
Restricted		3.0	3.0
Unrestricted(deficit)		(8.1)	(9.5)
	Total net position	<u>\$ (5.5)</u>	<u>\$ (6.9)</u>

School District of the City of Highland Park Management's Discussion and Analysis

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 (\$5.5) million at June 30, 2022. 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 (\$8.1) million was unrestricted.

The net deficit of (\$5.5) 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 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 2022 and 2021.

Table 2

	Governmental Activities	
	June 30	
	(in millions)	
	2022	2021
Revenues		
General revenue		
Property taxes	\$2.1	\$ 1.8
Other	0.2	0.3
Total revenue	<u>2.3</u>	<u>2.1</u>
Function/Program Expenses:		
Support services	0.7	0.7
Interest on long-term Debt	0.2	0.3
Total functions/program expenses	<u>0.9</u>	<u>1.0</u>
Increase/(Decrease) in Net Position	1.4	1.1
Net Position - beginning of year	<u>(6.9)</u>	<u>(8.0)</u>
Net Position - end of year	<u>(5.5)</u>	<u>\$ (6.9)</u>

School District of the City of Highland Park Management's Discussion and Analysis

As reported in the statement of activities, the cost of all of our governmental activities this year was \$.9 million. We paid for this cost with \$2.1 million in taxes and with \$.2 million in other revenues, i.e., interest and general entitlements.

The School District experienced an increase in net assets of \$1.4 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 Chief Executive Officer 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 \$1.0 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 \$.9 million to (\$3.0) million. The change is mainly due to the 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.

School District of the City of Highland Park Management's Discussion and Analysis

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, 2022, the School District had \$1.3 million invested in capital assets, including buildings, furniture, and equipment.

	Governmental Activities	
	June 30	
	2022	2021
Buildings and building improvements	\$2,168,673	\$2,168,673
Furniture and equipment	61,575	61,575
Total capital assets	2,230,248	2,230,248
Less accumulated depreciation	896,746	845,954
Net capital assets	<u>\$1,333,502</u>	<u>\$1,384,294</u>

We present more detailed information about our capital assets in the notes to the financial statements.

School District of the City of Highland Park Management’s Discussion and Analysis

Debt

At the end of this year, the School District had \$1.5 million in bonds outstanding versus \$1.7 million in the previous year, consisting of the following:

	<u>2022</u>	<u>2021</u>
General obligation bonds	<u>\$1,570,000</u>	<u>\$1,740,000</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.

School District of the City of Highland Park Management's Discussion and Analysis

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 percent 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 the 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.

On June 1, 2022, the District fulfilled the Board of Education's decision from October 2021 and instructed U.S. Bank Trust Company, National Association, its bond paying agent/transfer agent, to publish a Notice of Redemption to call a portion of the District's outstanding Bonds on July 1, 2022 (the "Redemption Date"). The District allocated an accumulated surplus cash balance in its Bond Debt Retirement Fund of approximately \$696,000 to redeem a portion of the bonds outstanding, plus accrued interest to the Redemption Date.

School District of the City of Highland Park Management's Discussion and Analysis

The early redemption of the portion of bonds on July 7, 2022, is estimated to reduce the District's bond debt tax rate on its taxpayers, while the remaining bonds are outstanding, by at least fifty percent (50%) and result in a net present value savings of not less than seventeen percent (17%) in interest cost to taxpayers.

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 2022 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, 2022

	<u>Governmental Activities</u>
Assets	
Cash	\$ 2,945,745
Taxes receivable	2,312
Due from other governmental units	33,407
Prepaid Items	878,513
Capital assets- net of accumulated depreciation	<u>1,333,502</u>
Total assets	<u><u>5,193,479</u></u>
Liabilities	
Accounts payable	250
Due to other governmental units	3,203,372
Accrued expenditures	352,331
Noncurrent liabilities	
Due within on year	395,000
Due in more than one year	<u>6,795,000</u>
Total current liabilities	<u>10,745,953</u>
Net Position	
Net deficit in capital assets	(406,498)
Restricted for	
Debt service	455,838
Capital projects	2,602,016
Unrestricted (deficit)	<u>(8,203,830)</u>
Total net position	<u>(5,552,474)</u>
Total liabilities and net position	<u>\$ 5,193,479</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, 2022

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenues and Changes in Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Support services				
General administration	\$ 355,654	\$ -	\$ -	\$ (355,654)
Business	147,760	-	15,787	(131,973)
Operations and maintenance	119,901	-	-	(119,901)
Central	26,665	-	-	(26,665)
Student activity	49	-	-	(49)
Capital outlay	12,230	-	-	(12,230)
Interest on long-term debt	261,796	-	-	(261,796)
Depreciation (unallocated)	50,792	-	-	(50,792)
Total Governmental Activities	<u>\$ 974,847</u>	<u>\$ -</u>	<u>\$ 15,787</u>	<u>\$ (959,060)</u>
General Revenues:				
Property taxes, levied for general purposes				1,703,933
Property taxes, levied for debt service				386,789
Property taxes, levied for sinking fund				3,717
Interest and investment earnings				352
Authorizer fees				76,271
Other				129,871
Total general revenues				<u>2,300,933</u>
Change in net position				1,341,873
Net Position, beginning of year				<u>(6,894,347)</u>
Net Position, end of year				<u>\$ (5,552,474)</u>

See Accompanying Notes to the Financial Statements

School District of the City of Highland Park
Balance Sheet
For the Year Ended June 30, 2022

	General Fund	Sinking Fund	Debt Service Fund 2005 School and Building Bond Fund	Nonmajor Governmental Funds	Total
Assets					
Cash	\$2,163,669	\$ 407,421	\$ 87,685	\$ 286,970	\$2,945,745
Taxes receivable	1,578	-	734	-	2,312
Due from other funds	-	2,183,016	-	11,579	2,194,595
Due from other governmental units	33,407	-	-	-	33,407
Prepaid items	158,513	-	720,000	-	878,513
Total assets	<u>\$2,357,167</u>	<u>\$2,590,437</u>	<u>\$ 808,419</u>	<u>\$ 298,549</u>	<u>\$6,054,572</u>
Liabilities					
Accounts payable	\$ -	\$ -	\$ 250	\$ -	\$ 250
Due to other funds	2,173,696	-	-	20,899	2,194,595
Due to other governmental units	3,203,372	-	-	-	3,203,372
Total liabilities	<u>5,377,068</u>	<u>-</u>	<u>250</u>	<u>20,899</u>	<u>5,398,217</u>

See Accompanying Notes to the Financial Statements

School District of the City of Highland Park
Balance Sheet
June 30, 2022

	General Fund	Sinking Fund	Debt Service Fund 2005 School and Building Bond Fund	Nonmajor Governmental Funds	Total
Fund Balance					
Non-spendable					
Prepaid items	\$ 158,513	\$ -	\$ -	\$ -	\$ 158,513
Restricted for					
Debt service	-	-	808,169		808,169
Capital projects	-	2,590,437	-	11,579	2,602,016
Committed - student activity	-	-	-	266,071	266,071
Unassigned	(3,178,414)	-	-	-	(3,178,414)
Total fund balances (deficit)	(3,019,901)	2,590,437	808,169	277,650	656,355
Total liabilities and fund balance	\$2,357,167	\$2,590,437	\$ 808,419	\$298,549	\$ 6,054,572

School District of the City of Highland Park
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2022

Total fund balances for governmental funds	\$ 656,355
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 are not reported in the funds.	
Capital assets, net of depreciation	1,333,502
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(352,331)
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	(1,570,000)
Emergency loans payable	<u>(5,620,000)</u>
Net Position - Governmental activities	<u>\$ (5,552,474)</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, 2022**

	General Fund	Sinking Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
			2005 School and Building Bond Fund		
Revenues					
Local sources	\$ 1,926,130	\$ 3,754	\$ 386,814	\$ 22	2,316,720
Expenditures					
Current					
Support services					
General administration	355,654	-	-	-	355,654
Business	147,760	-	-	-	147,760
Operations and maintenance	119,901	-	-	-	119,901
Central	26,665	-	-	-	26,665
Student activity	-	-	-	49	49
Capital Outlay	-	12,230	-	-	12,230
Debt service					
Principal	220,000	-	170,000	-	390,000
Interest and other expenditures	103,155	-	89,891	-	193,046
Total expenditures	973,135	12,230	259,891	49	1,245,305
Excess of revenues over (under) expenditures	952,995	(8,476)	126,923	(27)	1,071,415
Fund balance (deficit) - beginning	(3,972,896)	2,598,913	681,246	277,677	(415,060)
Fund balance (deficit) - ending	\$ (3,019,901)	\$ 2,590,437	\$ 808,169	\$ 277,650	\$ 656,355

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, 2022**

Net change in fund balances - Total governmental funds \$ 1,071,415

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

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

Depreciation expense (50,792)

Expenses are recorded when incurred in the statement of activities

Interest (68,750)

Bond and not proceeds 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 390,000

Net Position - Governmental activities \$ 1,341,873

School District of the City of Highland Park

Notes to Financial Statements

June 30, 2022

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.

School District of the City of Highland Park

Notes to Financial Statements

June 30, 2022

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 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.

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2022

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.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2022, 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 Fund	2.9500

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.

School District of the City of Highland Park

Notes to Financial Statements

June 30, 2022

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.

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 School District's policy is to consider restricted funds spent first.

School District of the City of Highland Park

Notes to Financial Statements

June 30, 2022

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School 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.

Accounting and Reporting Changes

Statement No. 87, *Leases* increases the usefulness of the School 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 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 School District's leasing activities.

The School District doesn't meet the requirements of this Statement for the fiscal year ending June 30, 2022.

School District of the City of Highland Park

Notes to Financial Statements

June 30, 2022

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

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

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

The 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 did not incur expenditures in excess of the amounts appropriated.

Deficit Fund Balance

The School District has accumulated an unassigned deficit in the General Fund of \$3,019,901 as of June 30, 2022. 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, 2022. This is a violation of State law under Michigan Compiled Law 380.1212.

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2022

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, 2022, 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 School 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 School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, \$2,698,335 of the School District's bank balance of \$2,948,335 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 - Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets being depreciated:				
Building and improvements	\$ 2,168,673	\$ -	\$ -	\$ 2,168,673
Furniture & Equipment	61,575	-	-	61,575
Subtotal	2,230,248	-	-	2,230,248
Less accumulated depreciation:				
Building and improvements	784,379	15,033	-	799,412
Furniture & Equipment	61,575	35,759	-	97,334
Subtotal	845,954	50,792	-	896,746
Net capital assets being depreciated	\$ 1,384,294	\$ (50,792)	\$ -	\$ 1,333,502

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

**School District of the City of Highland Park
Notes to Financial Statements
June 30, 2022**

Note 5 – Interfund Receivable and Payable Transfers

Individual interfund receivables and payable balances at year end were:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sinking Fund	General Fund	\$ 2,183,016
General Fund	Nonmajor Funds	<u>(9,320)</u>
		<u>\$ 2,173,696</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.

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:

<u>Year Ending</u>	<u>Unemployment Insurance Agency</u>	<u>Michigan Department of Education</u>	<u>ORS</u>	<u>Total</u>
2023	\$ 191,058	\$ -	\$ 38,870	\$ 229,928
2024	-	-	-	-
2026	-	-	-	-
2027	-	-	-	-
2028	-	-	-	-
2029-2032	-	-	-	-
2033-2037	<u>-</u>	<u>2,973,444</u>	<u>-</u>	<u>2,973,444</u>
	<u>\$ 191,058</u>	<u>\$ 2,973,444</u>	<u>\$ 38,870</u>	<u>\$ 3,203,372</u>

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2022

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	\$ 1,740,000	\$ -	\$ 170,000	\$ 1,570,000	\$ 170,000
Notes from direct borrowings and direct placements					
Emergency Loan #1	3,480,000	-	130,000	3,350,000	135,000
Emergency Loan #2	2,360,000	-	90,000	2,270,000	90,000
	5,840,000	-	220,000	5,620,000	225,000
Total	\$ 7,580,000	\$ -	\$ 390,000	\$ 7,190,000	\$ 395,000

General obligations 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 \$170,000 to \$175,000 through May 1, 2031; interest at 3.625 percent to 5.00 percent	\$ 1,570,000
\$4,410,000 of Emergency Loan #1 due in installments of \$135,000 to \$205,000 through November 1, 2041; interest at 1.25 percent	3,350,000
\$3,000,000 of Emergency Loan #2 due in installments of \$90,000 to \$140,000 through November 1, 2041; interest at 1.25 percent	2,270,000
Total general obligation bonded debt	<u>\$ 7,190,000</u>

**School District of the City of Highland Park
Notes to Financial Statements
June 30, 2022**

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

Year Ending	Bond		Emergency Loans		Total Principal	Total Interest
	Principal	Interest	Principal	Interest		
2023	\$ 170,000	\$ 75,912	\$ 225,000	\$ 128,314	\$ 395,000	\$ 204,226
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	175,000	43,754	245,000	106,415	420,000	150,169
2028-2032	700,000	87,500	1,310,000	443,138	2,010,000	530,638
2033-2037	-	-	1,475,000	280,925	1,475,000	280,925
2038-2042	-	-	1,660,000	98,087	1,660,000	98,087
Total	<u>\$ 1,570,000</u>	<u>\$ 389,604</u>	<u>\$ 5,620,000</u>	<u>\$ 1,409,555</u>	<u>\$ 7,190,000</u>	<u>\$ 1,799,159</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 for 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 3 percent of the state aid received by the 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.

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.

There are no significant abatements made by the School District.

School District of the City of Highland Park
Notes to Financial Statements
June 30, 2022

Note 11 - Subsequent Event

On July 1, 2022, the District fulfilled the Board of Education's decision from October 2021 and instructed U.S. Bank Trust Company, National Association, its bond paying agent/transfer agent, to publish a Notice of Redemption to call a portion of the School District's outstanding Bonds on July 1, 2022 (the "Redemption Date").

The School District allocated an accumulated surplus cash balance in its Bond Debt Retirement Fund of approximately \$696,000 to redeem a portion of bonds outstanding, plus accrued interest to the Redemption Date.

The early redemption of the portion of bonds on July 1, 2022, is estimated to reduce the School District's bond debt tax rate on its taxpayers, while the remaining bonds are outstanding, by at least fifty percent (50%) and result in a net present value savings of not less than seventeen percent (17%) in interest cost to taxpayers.

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, 2022**

Revenues	<u>Original</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Local sources	\$ 1,604,956.00	\$ 1,826,415	\$ 1,926,130	\$ 99,715
Expenditures				
Supporting services				
General administration	167,000	354,685	355,654	969
Business	403,110	150,853	147,760	(3,093)
Operations and maintenance	75,888	116,610	119,901	3,291
Central	-	34,167	26,665	(7,502)
Debt service				
Principal	220,000	220,000	220,000	-
Interest and fiscal charges	133,498	103,155	103,155	-
Total expenditures	999,496	979,470	973,135	(6,335)
Excess of revenues over expenditures	605,460	846,945	952,995	106,050
Fund balance (deficit) - Beginning of year	(3,972,896)	(3,972,896)	(3,972,896)	-
Fund balance (deficit) - End of year	<u>\$ (3,367,436)</u>	<u>\$ (3,125,951)</u>	<u>\$ (3,019,901)</u>	<u>\$ 106,050</u>

OTHER SUPPLEMENTARY INFORMATION

**School District of the City of Highland Park
 Other Supplementary Information
 Nonmajor Governmental Funds
 Combining Balance Sheet
 June 30, 2022**

	Special Revenue	Capital Projects Funds				Total Nonmajor Governmental Funds
	Student Activity	Energy Bonds	Technology Equipment	2005 School Building & Site Project	Other Capital Improvements	
Assets						
Cash	\$ 286,970	\$ -	\$ -	\$ -	\$ -	\$ 286,970
Due from other funds	-	8,840	2,530	107	102	11,579
Total assets	<u>\$ 286,970</u>	<u>\$ 8,840</u>	<u>\$ 2,530</u>	<u>\$ 107</u>	<u>\$ 102</u>	<u>\$ 298,549</u>
Liabilities						
Due to other funds	20,899	-	-	-	-	20,899
Fund Balance						
Restricted for						
Capital projects	-	8,840	2,530	107	102	11,579
Committed	266,071	-	-	-	-	266,071
Total fund balances	<u>266,071</u>	<u>8,840</u>	<u>2,530</u>	<u>107</u>	<u>102</u>	<u>277,650</u>
Total liabilities and fund balance	<u>\$ 286,970</u>	<u>\$ 8,840</u>	<u>\$ 2,530</u>	<u>\$ 107</u>	<u>\$ 102</u>	<u>\$ 298,549</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, 2022**

	Special	Capital Projects Funds				Total
	Revenue					Nonmajor
	Student	Energy	Technology	2005 School	Other Capital	Governmental
	Activity	Bonds	Equipment	Building & Site Project	Improvements	Funds
Revenues						
Local sources	\$ 22	\$ -	\$ -	\$ -	\$ -	\$ 22
Expenditures						
Current						
Education						
Supporting services	49	-	-	-	-	49
Excess (deficiency) of revenues over expenditures	(27)	-	-	-	-	(27)
Fund balances - beginning	266,098	8,840	2,530	107	102	277,677
Fund balances - ending	\$ 266,071	\$ 8,840	\$ 2,530	\$ 107	\$ 102	\$ 277,650

School District of the City of Highland Park
Other Supplementary Information
Schedule of Outstanding Bonded and Loan Indebtedness
June 30, 2022

Year Ending June 30,	Emergency Loan #1	Emergency Loan #2	2005 Issuance Principal	Total
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	145,000	100,000	175,000	420,000
2028-2032	780,000	530,000	700,000	2,010,000
2033-2037	880,000	595,000	-	1,475,000
2038-2042	990,000	670,000	-	1,660,000
	<u>\$ 3,350,000</u>	<u>\$ 2,270,000</u>	<u>\$ 1,570,000</u>	<u>\$ 7,190,000</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	1.25%	1.25%	3.625% - 5.000%	
Original issue	<u>\$ 4,410,000</u>	<u>\$ 3,000,000</u>	<u>\$ 3,580,000</u>	

OTHER REPORTS



THE CLAIRMOUNT GROUP, PLC
Certified Public Accountants

**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, 2022, 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 December 4, 2022.

Report on 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 2022-001 and 2022-002 that we consider to be material weaknesses.

Report on 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 2022-001 and 2022-002.

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

Government Auditing Standards requires the auditor to perform limited procedures on the School District of the City of Highland Park's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. School District of the City of Highland Park's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

The Clairmount Group

Detroit, Michigan
December 4, 2022



School District of the City of Highland Park
Schedule of Findings and Responses
June 30, 2022

2022-001, 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, 2022.

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.

2022-002, 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, 2022.

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.



HIGHLAND PARK
SCHOOL DISTRICT

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

Findings	Responsible Individual	Management Views	Corrective Action	Anticipated Completion Date
2022-001	Chief Education Officer	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
2022-002	Chief Education Officer	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