



STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING



JENNIFER M. GRANHOLM
GOVERNOR

MICHAEL P. FLANAGAN
SUPERINTENDENT OF
PUBLIC INSTRUCTION

February 2, 2007

MEMORANDUM

TO: State Board of Education
FROM: Mike Flanagan 
SUBJECT: Public School Year-end Deficits – Annual Report to the Legislature

The Department of Education is required by Section 102 of the State School Aid Act to annually report to the Legislature the school districts incurring year-end deficits and the progress made in reducing those deficits. Accordingly, school district cost reports of revenues and expenditures for the fiscal year ending June 30, 2006, have been analyzed.

As indicated in the attached information, 23 Michigan public school districts and public school academies ended fiscal year 2005-2006 in a deficit position (Attachment A). There were 20 such districts in June 2005, seven of which eliminated their deficits during the year ending June 30, 2006 (Attachment B).

The Department of Education has a formal procedure in place that requires school districts to develop plans to eliminate their general fund deficits. This procedure includes meeting with district administrators and board members to evaluate and possibly recommend modifications to their plan. Attachments C and D contain procedures and forms for the deficit elimination plans and monthly budgetary reports, respectively.

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FINANCIAL STATUS OF MICHIGAN DEFICIT SCHOOL DISTRICTS
for the
FISCAL YEAR ENDING JUNE 30, 2006

Section 102(2) of the State School Aid Act (MCL 388.1702(2)) requires the following of the Department:

Not later than March 1 of each year, the department shall prepare a report of deficits incurred by districts and intermediate districts in the immediately preceding fiscal year and the progress made in reducing those deficits and submit the report to the standing committees of the legislature responsible for K-12 education legislation, the appropriations subcommittees of the legislature responsible for K-12 education appropriations, the house and senate fiscal agencies, the state treasurer, and the state budget director.

An analysis of the 2005-2006 (FY2006) financial data has been completed and school districts that ended the year with a deficit have been identified. The analysis is conducted using data collected on the annual comprehensive financial report (FID) which is filed by the districts and from financial audit reports prepared by Certified Public Accountants. Both reports are due to the Department in November following the end of the fiscal year and analysis of the data is usually completed by early February.

In addition to the requirement that these districts submit a board-approved deficit elimination plan (DEP) and monthly budgetary control reports for Department review and approval, the superintendents of those districts determined to be in a deficit situation are contacted and meetings between department staff and school administrators and local board members are arranged to review and discuss their DEPs in detail.

For the fiscal year that ended June 30, 2006, there were 24 districts (22 traditional districts and two public school academies) with operating deficits compared to a total of 20 as of June 30, 2005. These 24 are listed and categorized as outlined below on Attachment A.

Of the 20 districts that ended 2004-2005 (FY2005) in deficit, seven successfully eliminated the deficit by the end of FY2006. These seven are identified on Attachment B.

The 24 districts that ended FY2006 in deficit are categorized as follows:

- Three districts that began and ended FY2006 in deficit were successful in reducing the deficit to the level indicated in their plan (Category A on Attachment A).
 - One district that began and ended FY2006 in deficit reduced the deficit, but not to the extent contained in their plan (Category B).
 - Nine districts began FY2006 in deficit and ended the year with a greater deficit (Category C).
- Eleven districts began FY2006 with a positive fund balance but incurred a deficit during the year (Category D).

Michigan Public Schools with Deficits
For Fiscal Year Ending June 30, 2006
and Projections for Fiscal Year 2007

ISD/School Name	Category	General Fund Revenues	Deficit 06/30/06	% Deficit is of Revenues	Projected GF Revenues 2007	Projected Surplus/Deficit 2007	% Fund Balance is of Revenues
Alpena-Montmorency-Alcona							
Bingham Arts Academy	C	\$1,247,970	(\$616,969)	-49.44%	\$2,230,324	\$11,021	0.49%
Berrien							
Benton Harbor Area Schools	D	\$44,444,100	(\$101,482)	-0.23%	\$44,086,839	\$100,984	0.23%
Cheb-Otsego-Presque Isle							
Vanderbilt Area Schools	C	\$1,873,660	(\$177,637)	-9.48%	\$1,895,872	(\$196,605)	-10.37%
Delta-Schoolcraft							
Bark River-Harris School District	D	\$5,200,711	(\$146,920)	-2.82%	\$5,040,716	(\$144,455)	-2.87%
Genesee							
Beecher Community School	B	\$22,827,745	(\$2,107,947)	-9.23%	\$22,472,256	(\$1,587,760)	-7.07%
Gogebic-Ontonagon							
Ironwood Area Schools	A	\$9,417,628	(\$70,509)	-0.75%	\$9,134,594	\$416	0.00%
Ewen-Trout Creek Consolidated School District	C	\$3,043,949	(\$1,237,824)	-40.67%	\$3,042,835	(\$1,237,337)	-40.66%
White Pine Public Schools	A	\$614,572	(\$125,765)	-20.46%	\$423,441	\$38,598	9.12%
Hillsdale							
Litchfield Community Schools	D	\$3,798,437	(\$11,949)	-0.31%	\$3,795,414	\$7,060	0.19%
Copper Country							
Dollar Bay-Tamarack City Area Sch.	A	\$2,299,380	(\$110,520)	-4.81%	\$2,526,084	(\$3,240)	-0.13%
Ionia							
Palo Community School District	D	\$1,338,703	(\$62,899)	-4.70%	\$1,359,494	(\$55,027)	-4.05%
Macomb							
Clintondale Community Schools	D	\$28,793,866	(\$1,245,875)	-4.33%	\$31,882,651	(\$2,667,682)	-8.37%
New Haven Community Schools	C	\$10,831,964	(\$323,703)	-2.99%	\$12,579,887	\$17,346	0.14%
Muskegon							
Muskegon Heights School District	D	\$25,126,662	(\$1,263,120)	-5.03%	\$25,067,969	(\$697,945)	-2.78%
Oakland							
Madison Public Schools	C	\$15,838,620	(\$2,801,892)	-17.69%	\$15,653,392	(\$2,414,171)	-15.42%
Oak Park City School District	D	\$38,240,908	(\$2,047,455)	-5.35%	\$39,888,117	\$185,124	0.41%
Academy Of Waterford	C	\$1,446,966	(\$1,445,397)	-99.89%	\$3,123,380	(\$752,902)	-24.11%
Tuscola							
Cass City Public Schools	D	\$11,213,242	(\$242,013)	-2.16%	\$12,615,246	\$257,300	2.04%
Washtenaw							
Willow Run Community Schools	D	\$28,404,103	(\$1,775,235)	-6.25%	\$29,531,529	(\$2,798,274)	-9.48%
Wayne							
Garden City School District	D	\$40,707,840	(\$1,308,945)	-3.22%	\$44,128,132	(\$3,279,507)	-7.43%
Redford Union	C	\$33,585,909	(\$3,468,960)	-10.33%	\$34,941,058	(\$2,869,416)	-8.21%
Ecorse Public School District	C	\$10,798,611	(\$806,245)	-7.47%	\$12,481,637	\$117,447	0.94%
Wexford-Missaukee							
Manton Consolidated Schools	D	\$8,328,785	(\$314,418)	-3.78%	\$8,678,758	\$75,051	0.86%

- 3 A Districts that both began and ended the year in deficit but were successful in reducing the deficit in compliance with their approved plan.
- 1 B Districts that both began and ended the year in deficit and were successful in reducing the deficit, but not to the extent contained in their approved plan.
- 8 C Districts that began the year in deficit and ended with a greater deficit.
- 11 D Districts that began the year with a positive fund balance but ended the year in deficit.

NOTE: Detroit Public Schools is technically not in deficit as a result of a \$200 million long-term loan which was recorded in 2005.

**Michigan Public Schools
with Deficits at June 30, 2005
and Positive Fund Balances at June 30, 2006**

Attachment B

<u>School District/Academy</u>	Fund Balance as of <u>6/30/2005</u>	Fund Balance as of <u>6/30/2006</u>
Bessemer Area School District	(\$134,466)	\$164,542
Hillsdale Community Schools	(\$52,078)	\$147,025
Southgate Community Schools	(\$339,989)	\$160,880
Detroit Academy of Arts and Science	(\$806,449)	\$270,057
Allen Academy	(\$1,757,183)	\$711,127
Hancock Public Schools	(\$74,552)	\$156,506
Detroit Community High School	(\$891,377)	\$1,001,502

**Procedures for approval of a
Deficit Elimination Plan (DS4511-C)
Office of State Aid & School Finance**



- 1) Financial data for initial year must match audit.
- 2) Financial data must be mathematically correct.
- 3) Financial data must project forward to a non-negative fund balance within two fiscal years from when deficit is incurred.
- 4) If non-negative fund balance cannot be achieved within the two year period the district must request an extension in writing, providing reasons why the two year period is insufficient.
- 5) State revenue line item must closely approximate that shown on most recent State Aid Status Report, or justification for variance must be provided.
- 6) Federal revenue line item must closely approximate that shown by the MEGS system, or justification for variance must be provided.
- 7) Membership projections must appear reasonable, or justification for variance must be provided.
- 8) SEV projections must appear reasonable, or justification for variance must be provided.
- 9) Staff reductions must be in line with stated savings, and must appear reasonable, or justification for variance must be provided.
- 10) Unemployment benefit costs are compared to staff reductions, and must appear reasonable, or justification for variance must be provided.
- 11) All page three questions must be answered completely.
- 12) Savings from negotiations (questions 6 & 7) must be shown in financial data section.
- 13) A board approved budget for the current fiscal year with proof of board approval must be submitted. This budget must match the financial data section of the DEP to the major class/function level.
- 14) Proof of board approval of the DEP must be provided.
- 15) All variances of 10% or more from financial data section must be explained in a reasonable fashion.
- 16) Monthly budgetary control reports (DS4848) must be submitted by their due date. These must be submitted from approval through the end of the school year.
- 17) Failure to submit all elements of the DEP by December 15, 2006 will result in 100% withholding of State Aid payments.
- 18) Questions may arise from the complete submission received by the MDE on or before December 15, 2006. Failure to provide acceptable answers to these questions to the MDE by February 1, 2007 will result in 100% withholding of State Aid payments.
- 19) The DEP form submitted must be the current form posted on the MDE website. Out of date forms will not be considered for approval.

SCHOOL DISTRICT PLAN FOR ELIMINATING A DEFICIT BUDGET

EDUCATIONAL AGENCY	Legal Name of School District	District Code Number	Telephone (Area Code)
	Address	City	Zip Code

MAILING INSTRUCTIONS: Return ONE copy within 30 days of receipt to the State address indicated above or fax to (517) 241-0196 Attention Phil Boone.

A. FINANCIAL DATA

* Be Prepared to explain any variance greater than 10% from the previous year in section E		Actual 2005-2006	Estimated 2006-2007	% Change from Previous Year*	Estimated 2007-2008
		(1)	(2)	(3)	(4)
	BEGINNING FUND EQUITY				
2.	ADD: Revenues				
(1XX)	Local Sources				
3.	Other Political Subdivisions				
(2XX)					
(3XX)	State Sources				
(4XX)	Federal Sources				
(5XX)	Incoming Transfers & Other Transactions				
(6XX)	Fund Modification (Incoming)				
8.	TOTAL REVENUES, INCOMING TRANSFERS AND OTHER TRANSACTIONS				
9.	TOTAL RESOURCES AVAILABLE				
	LESS: Expenditures				
10.	Instruction				
(1XX)					
(21X)	Support Services: Pupil				
(22X)	Instructional Staff				
(23X)	General Administration				
(24X)	School Administration				
(25X)	Business				
(26X)	Operations and Maintenance				
(27X)	Transportation				
(28X)	Central				
(29X)	Other				
20.	Community Services				
(3XX)					
21.	Outgoing Transfers and Other Transactions				
(4XX)					
(5XX)	Debt Service				
(6XX)	Fund Modifications				
24.	TOTAL EXPENDITURES, OUTGOING TRANSFERS AND OTHER TRANSACTIONS				
25.	ENDING FUND BALANCE:				

B. STATE SCHOOL AID MEMBERSHIP PROJECTIONS

Please list your State School Aid Membership projection as defined by State School Aid Act Section 6 (4):

YEAR:	2006-2007	2007-2008	2008-2009
ENROLLMENT:			

C. TAXABLE VALUE DATA

	2006-2007	2007-2008 (Projected)
Homestead Taxable Value		
Non-Homestead Taxable Value		

D. SALARIES AND UNEMPLOYMENT BENEFITS

Estimated Gross Savings as a Result of Staff Reductions (FTE) reflected in Part A:

TITLE	STAFF REDUCTIONS in FTE		Amount of Savings Reflected in	Additional Savings Projected in
	2006-2007	2007-2008	Part A	Part A
	(1)	(2)	2006-2007	2007-2008
			(3)	(4)
Instructional			\$	\$
Support Services				
Community Services				
TOTAL			\$	\$

2. Estimated Cost of Unemployment Benefits as a Result of Staff Reductions:

	2006-2007	2007-2008
TOTAL	\$	\$

E. OTHER REQUIRED DATA

Please answer the following questions on a separate sheet of paper.

1. For which employee groups have negotiations been completed for 2006-2007?
2. For which employee groups have negotiations not been completed for 2006-2007?
3. For which employee groups have employee negotiations been completed for 2007-2008?
4. For which employee groups have employee negotiations not been completed for 2007-2008?
5. When is the next year employee negotiations will be open?
6. Are projected savings from employee negotiations included in the financial plan on page 1 for 2006-2007?
7. Are projected savings from employee negotiations included in the financial plan on page 1 for 2007-2008?
8. What factors caused the school district's deficit?
9. What is the school district's plan to eliminate the deficit?
10. What subjects or instructional programs is the district proposing to discontinue or curtail?
11. What support services would be reduced or eliminated?
12. What specific steps have been initiated to carry out the plan?
13. Give the details of staff reductions for instruction, support services and community services.
14. Please give the details of any proposed employee wage concessions. Have any of those concessions been accepted?
15. Please submit the most recent board adopted budget along with the board resolution with which it was adopted or provide the URL at which it is located.
16. Please submit the Board Resolution showing approval of the deficit elimination plan.
17. List expected savings to be achieved by eliminating specific extra-curricular activities.
18. Do you have a sinking fund? If so, what is it designated for?
19. Explain any variances of 10% or more from section A.

NOTE: Please attach any other data that are pertinent to the school district's plan to eliminate its deficit.

F. CERTIFICATION

I hereby certify as the responsible official of said school district that the information contained in this deficit elimination plan is correct and has been board approved.

Signature of Superintendent or
Authorized Official _____

Date _____

Contact Person (Type Name) _____

Telephone Number (Area Code/Local Number) _____

**Procedures for approval of a
Monthly Budgetary Control Report (DS4848)
Office of State Aid & School Finance**



The Monthly Budgetary Control Report (DS4848), can be a valuable tool for monitoring the financial health of a school district if the form is completed using actual to-date and realistic projections of revenues and expenditures over the balance of the year. It is expected that the board of a deficit district would regularly review this form in order to determine the need for mid-year budget amendments. The procedures for analysis of this form are intended to encourage the board to monitor budget vs. actual revenues and expenditures in a timely fashion.

- 1) Budget column must match approved DEP.
- 2) Brief explanation must be provided for all line items changing by 10% or more.
- 3) Variance column must appear to show actual variance. Reports that show little or no variance and are more than a month later than DEP adoption are likely to be questioned.
- 4) If ending fund balance variance is greater than 10% the district must adopt a revised budget and DEP. The Michigan Department of Education reserves the right to waive this requirement or to request a revised budget and DEP as deemed necessary.
- 5) Submission must be accompanied by the most recently approved monthly board meeting minutes. Minutes must show discussion of budgeted vs. actual revenues and expenditures.
- 6) Failure to have reports approved can result in withholding of state aid.
- 7) The Monthly Budgetary Control Report form submitted must be the current form posted on the MDE website. Out of date forms will not be considered for approval.

AUTHORITY: Section 102, Act 94, P.A. 1979, as amended.

COMPLETION: REQUIRED. (by P.A. 94 of 1979, Section 102(4)).

GENERAL FUND BUDGETARY CONTROL REPORT

NAME OF SCHOOL DISTRICT	DISTRICT CODE
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FINANCIAL DATA

Please provide an explanation for any item in column 5 rows 2-7 and 10-23 over 10%		BUDGET*	ACTUAL	PROJECTED	VARIANCE	% VARIANCE
		(Consistent with approved DEP)	Year-to-Date	To-Year-End	(Columns 2 & 3 less Column 1)	
		(1)	(2)	(3)	(4)	(5)
1.	BEGINNING FUND EQUITY		0			
ADD: REVENUES						
2.	(1XX) Local Sources				0	0.00%
3.	(2XX) Other Political Subdivisions				0	0.00%
4.	(3XX) State Sources				0	0.00%
5.	(4XX) Federal Sources				0	0.00%
6.	(5XX) Incoming Transfers & Other Transactions				0	0.00%
7.	(6XX) Fund Modification (Incoming)				0	0.00%
8.	TOTAL REVENUES, INCOMING TRANSFERS & OTHER TRANSACTIONS	0	0	0	0	0.00%
9.	TOTAL RESOURCES AVAILABLE	0	0	0	0	0.00%
LESS: Expenditures						
10.	(1XX) Instruction				0	0.00%
11.	(21X) Support Services: Pupil				0	0.00%
12.	(22X) Instructional Staff				0	0.00%
13.	(23X) General Administration				0	0.00%
14.	(24X) School Administration				0	0.00%
15.	(25X) Business				0	0.00%
16.	(26X) Operations and Maintenance				0	0.00%
17.	(27X) Transportation				0	0.00%
18.	(28X) Central				0	0.00%
19.	(29X) Other				0	0.00%
20.	(3XX) Community Services				0	0.00%
21.	(4XX) Outgoing Transfers & Other Transactions				0	0.00%
22.	(5XX) Debt Service				0	0.00%
23.	(6XX) Fund Modifications				0	0.00%
24.	TOTAL EXPENDITURES, OUTGOING TRANSFERS AND OTHER TRANSACTIONS	0	0	0	0	0.00%
25.	ENDING FUND BALANCE:	0			0	0.00%

If board adopted budget is revised, the DEP must be revised to be consistent with the revised board adopted budget.