STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

September 5, 2013

Harlan Goodrich, Secretary
Local Emergency Financial Assistance Loan Board
Local Audit and Finance Unit
Michigan Department of Treasury
Lansing, MI 48909

Dear Mr. Goodrich:

As required in § 4(2) of PA 436 of 2012, the Local Financial Stability and Choice Act, I am providing a Final Report of the Preliminary Review of East Detroit Public Schools to the Local Emergency Financial Assistance Loan Board.

On July 29, 2013, I notified the district of my approval of its Deficit Elimination Plan and, in a separate letter, that I was initiating PA 446. As required in the statute, an Interim Report of the Preliminary Review was sent to East Detroit Public Schools on August 19, 2013. The district was given five days to respond to that Interim Report. Copies of all letters and documents are attached as part of the Final Report of the Preliminary Review.

Questions may be directed to Dan Hanrahan at HanrahanD@Michigan.gov or by fax to (517) 241-0196.

Sincerely,

Mike Flanagan
State Superintendent

Attachments

cc: Senator Steven Bieda, 9th District
Representative Sarah Roberts, 18th District
Craig Wodecki, President, East Detroit Board of Education

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Paul Seibert, Vice President, East Detroit Board of Education
Jon Gruenburg, Secretary, East Detroit Board of Education
Craig Brozowski, Treasurer, East Detroit Board of Education
Jon G. Gruenberg, Trustee, East Detroit Board of Education
Margaret Podsiadlik, Trustee, East Detroit Board of Education
Deena Trocino, Trustee, East Detroit Board of Education
Joanne Lelekatch, Superintendent, East Detroit Public Schools
Mike Dixon, Fiscal Services Consultant, East Detroit Public Schools
Michael DeVault, Superintendent, Macomb ISD
Carol Wolenberg, Deputy Superintendent, Michigan Department of Education
Dan Hanrahan, Director, State Aid and School Finance, Michigan Department of Education

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

DATE: September 5, 2013

TO: Local Emergency Financial Assistance Loan Board

FROM: Mike Flanagan, State Superintendent

SUBJECT: Final Report - Preliminary Review of East Detroit Public Schools

The following represents the Final Report of findings of the Preliminary Review under the Local Financial Stability and Choice Act (PA 436 of 2012) for East Detroit Public Schools (the "District"). We appreciate the level of cooperation received from the District's administration during this process.

I. Background

In letters dated July 29, 2013, I advised the District that I was approving the Deficit Elimination Plan (DEP) but that, pursuant to my authority vested under PA 436 of 2012, I was also initiating a Preliminary Review of the District's finances to determine the existence of probable financial stress within East Detroit Public Schools. (Attachments A and B) §4(1) of the Act states that the state financial authority of a local government (the State Superintendent in the case of a school district) may conduct a Preliminary Review to determine the existence of a local government financial problem if one or more of the conditions listed in §4(1) are met. The Preliminary Review of East Detroit Public Schools resulted from the following conditions enumerated in §4(1) of the Act: "(j) the local government has violated a requirement of Sections 17 to 20 of the Uniform Budgeting and Accounting Act, 1968 PA 2, MCL 141.437 to 141.440" and "(n) the local government is in breach of its obligations under a deficit elimination plan or an agreement entered into pursuant to a deficit elimination plan."

In addition to the conditions above that initiated the Preliminary Review, the District also meets the condition in §4(1)(s) which references other facts or circumstances that in the sole discretion of the Superintendent of Public Instruction are indicative of probable financial stress. Specifically, as provided by law, I granted the District an extension of three years (until June 30, 2014) to eliminate the deficit beyond the two-year requirement. The District is unable to eliminate the deficit by that extended due date and requested an additional year to June 30, 2015. I granted that additional year when I approved the District's revised Deficit Elimination Plan

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(DEP) with contingencies on July 29, 2013, but feel that the need for additional time to eliminate the deficit indicates a degree of financial stress.

The District's DEP was approved with the understanding that I was initiating this Preliminary Review under PA 436 of 2012. The Plan as submitted would take the District out of deficit in 2014-15 if carried out with fidelity to its strategies. An approved DEP is also required in order for the District to borrow on a short-term basis for cash flow purposes through the State Aid Note (SAN) borrowing program in the Michigan Department of Treasury ("Treasury"). The cash flow borrowing is necessary for the district to pay critical vendors and employees during the period of the DEP. The DEP approval also assured that the District would receive its August state aid payment in order to repay the August 2012 SAN.

II. Final Report of Findings

The Michigan Department of Education (the "Department") has developed critical factors to determine whether probable financial stress might exist in a school district. The process calls for a review of a district's financial operation related to five (5) critical factors. The factors are:

1) The district has been in deficit for three or more consecutive years (including the current year); and

2) The district's existing deficit is greater than 15% of general fund revenues excluding incoming transfers; and

3) A fiscal review by one of the Department's program offices or an external auditor has revealed one or more material internal control weaknesses as evidenced by notes/findings in the financial audit related to:

    a) Lack of written policies and procedures or failure to follow the written policies and procedures

    b) Poor cash management

    c) Failure to provide Personnel Activity Reports (PAR) for employees paid with federal funds

    d) History of spending outside the appropriations established by the local school board (Violation of Uniform Budgeting and Accounting Act)

    e) Use of grant funds on unallowable expenditures

f) Going Concern/Qualified Opinion; and

4) The district has shown unsatisfactory progress in eliminating a deficit. This is determined by identifying one or more of the following conditions:

    a) A deficit increase from the previous year

    b) Lack of cooperation from the district in submitting deficit information (i.e., late submission of Deficit Elimination Plans (DEP), delinquent return of phone calls or correspondence relating to the DEP, chronic late submission of Monthly Budgetary Control Reports)

    c) History of supplying the Department with DEP information that is inaccurate or inconsistent with actual revenues and expenditures at year end; and/or

5) District's failure to comply with bond or note covenants, failure to make pension fund deposits, failure to make payroll, and/or closure of school prior to the end of the school year.

The Department assessed East Detroit Public Schools with regard to the above five (5) factors. The results of the assessment are as follows:

1) East Detroit Public Schools ended the 2008-2009 fiscal year with a $3.8 million deficit. The District projects that the deficit balance for the year ended June 30, 2013 will be $6.1 million. The District projected that it will remain in deficit in the 2013-14 fiscal year and emerge from deficit in the 2014-15 fiscal year.

2) East Detroit Public Schools' projected June 30, 2013 deficit balance expressed as a percentage of the general fund revenues is projected to be a negative 16%. The percentage exceeds the Department's parameter of a negative 15% to indicate concern.

3) East Detroit Public Schools' audited financial reports for the years ending June 30, 2011 and June 30, 2012 each included one finding of material weakness and noncompliance. This material weakness was that the district adopted a budget that increased the deficit as previously noted above (see Attachment C). No other material weaknesses were noted by District auditors.

4) East Detroit Public Schools has shown unsatisfactory progress in eliminating the deficit. The deficit increased from $3.8 million on June 30, 2009 to $8.2 million on June 30, 2010. Although the District

estimates that the deficit will decrease to $6.1 million on June 30, 2013, the District requires an additional year beyond the DEP that had been previously approved by the Department to eliminate the deficit.

5) The District has not failed to comply with bond or note covenants, failed to make pension fund deposits, failed to make payroll, and/or closed school prior to the end of the school year. The Department has not been notified that the District is delinquent in its payments to the Michigan Public School Employees Retirement System (MPSERS). The District did not default on its State Aid Note that was due in August 2013.

An Interim Report detailing my Preliminary Review was sent to East Detroit Public Schools on August 19, 2013. The District was given five days to respond to that report. Copies of both the Interim Report (Attachment D) and the response from East Detroit Public Schools (Attachment E) are attached.

As the state financial authority for school districts, I am forwarding this Final Report of the Preliminary Review to the Local Emergency Financial Assistance Loan Board pursuant to the language in § 4(2) of PA 436 of 2012.

Questions should be directed to Dan Hanrahan, Director of the Office of State Aid and School Finance, at hanrahand@michigan.gov or by fax to (517) 241-0196.

cc: Senator Steven Bieda, 9th District
Representative Sarah Roberts, 18th District
Craig Wodecki, President, East Detroit Board of Education
Paul Seibert, Vice President, East Detroit Board of Education
Jon Gruenburg, Secretary, East Detroit Board of Education
Craig Brozowski, Treasurer, East Detroit Board of Education
Jon G. Gruenberg, Trustee, East Detroit Board of Education
Margaret Podsiadlik, Trustee, East Detroit Board of Education
Deena Trocino, Trustee, East Detroit Board of Education
Joanne Lelekatch, Superintendent, East Detroit Public Schools
Mike Dixon, Fiscal Services Consultant, East Detroit Public Schools
Michael DeVault, Superintendent, Macomb ISD
Carol Wolenberg, Deputy Superintendent, Michigan Department of Education
Dan Hanrahan, Director, State Aid and School Finance, Michigan Department of Education

Attachment A

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

July 29, 2013

Joanne Lelekatch, Superintendent
Craig Wodecki, School Board President
East Detroit Public Schools
24685 Kelly Road
Eastpointe, MI 48021-1515

Dear Superintendent Lelekatch and Board President Wodecki:

Thank you for the submission of your Deficit Elimination Plan (DEP) as developed by the District and approved by the local board of education. The Michigan Department of Education (MDE) has approved this Plan, which includes a sixth year, based on contingencies listed below. Attached is a one-page summary of the DEP from your electronic submission. In addition to the contingencies listed below, we have several financial concerns that have prompted me to begin the PA436 (Local Financial Stability and Choice Act) process with East Detroit Public Schools. Notice of that will follow in a separate letter.

The DEP developed by the District is largely dependent on both staff reductions and wage concessions. The MDE expects that the projected staff reductions will take place according to the schedule detailed in the District's Plan. Further, MDE expects that if the District is unable to realize its own planned reductions, including staffing and the projected wage concessions, as outlined in the Plan, it will immediately institute other expenditure reductions in order to maintain the schedule of deficit elimination detailed in the DEP.

Additionally, this Plan assumes that financial incentives given to districts meeting certain conditions as well as the MPSERS cost offset given to districts will continue each year. MDE expects that if the incentives and offset are not offered, the District will immediately institute expenditure reductions in order to maintain the schedule detailed in the DEP.

MDE approval of this DEP is granted based on the following contingencies:

- The District is required to reduce projected expenditures to the levels detailed in this Plan. If the District is unable to achieve its planned staff reductions and wage concessions, it will be expected to immediately reduce expenditures in other categories in order to meet the fund balance targets in its Plan. Failure to meet the targeted deficit reduction in any year of this Plan will invalidate this Plan.

- The District is required to immediately reduce projected expenditures if the District does not receive the financial incentives and MPSERS cost offset assumed in this Plan. Failure to meet targeted deficit reduction in any year of this DEP will invalidate this Plan.

- If the District is unable to maintain the enrollment projections detailed in the Plan, it will be expected to immediately reduce expenditures in other categories in order to meet the fund balance targets in this Plan.

- The District is required to post on its website a link to this approved DEP within 30 days of this approval letter. The link should be posted on the transparency web page in the same area as the current budget.

- The District is required to submit any revisions made to the current year budget along with the corresponding local board of education resolution adopting the revised budget. If the budget revision impacts the DEP, the DEP must be revised and submitted as well. Revisions must be submitted no later than one week after they are adopted by the board.

- The District is required by law to submit Monthly Budgetary Control Reports to MDE using the tab labeled "Month1Summary2013" of the electronic DEP form used to prepare this DEP.

- The District will be required to submit its pupil count information no later than one week after the fall count.

If significant changes occur which would invalidate this DEP as approved, the District must notify MDE immediately.

Please contact Jeff Kolb at (517) 373-1908 or kolbj2@michigan.gov, or Chad Urchike at (517) 335-1261 or urchikec1@michigan.gov, if you have any questions.

I look forward to your continued submissions and cooperation.

Sincerely,

Mike Flanagan
State Superintendent

Attachment

cc: Mike Dixon, Business Manager, East Detroit Public Schools
Paul Seibert, Vice President, East Detroit Board of Education
Jon Gruenburg, Secretary, East Detroit Board of Education
Craig Brozowski, Treasurer, East Detroit Board of Education
Jon G. Gruenberg, Trustee, East Detroit Board of Education
Margaret Podsiadlik, Trustee, East Detroit Board of Education
Deena Trocino, Trustee, East Detroit Board of Education
Michael DeVault, Superintendent, Macomb ISD
Paul Bodiya, Chief Financial Officer, Macomb ISD
Carol Wolenberg, Deputy Superintendent, MDE
Dan Hanrahan, Director, State Aid and School Finance, MDE
Local Audits Unit, Michigan Department of Treasury

East Detroit Public Schools

Account		Preliminary Actual 2012-13	Board Adopted Budget 2013-14	Yearly Increase (Decrease)	% Increase (Decrease)	Target Budget 2014-15	Yearly Increase (Decrease)	% Increase (Decrease)
	Beginning Fund Equity:	($7,545,878)	($6,133,938)			($3,947,214)		
	Add: Revenues							
11x, 12x	Local Sources	$4,582,424	$4,450,136	($132,288)	-2.89%	$4,243,962	($206,174)	-4.63%
51x	Local Rec'd Thru Another Public Sch.	$511,000	$160,000	($351,000)	-68.69%	$160,000	$0	0.00%
2xx	Other Political Sub.	$0	$0	$0	0.00%	$0	$0	0.00%
3xx	State Sources	$27,691,486	$27,681,845	($9,641)	-0.03%	$27,887,998	$206,153	0.74%
4xx	Federal Sources	$4,536,994	$4,536,994	$0	0.00%	$4,536,994	$0	0.00%
52x-6xx	Incoming Transfers & Other	$125,000	$125,000	$0	0.00%	$125,000	$0	0.00%
	TOTAL REVENUES,ETC.	**$37,446,904**	**$36,953,975**	($492,929)	-1.32%	**$36,953,954**	($20)	0.00%
	TOTAL RESOURCES AVAILABLE	**$29,901,026**	**$30,820,036**	$919,011	3.07%	**$33,006,740**	$2,186,704	7.10%
	Less: Expenditures							
1xx	Classroom Inst.	$20,703,473	$20,423,322	($280,151)	-1.35%	$19,316,441	($1,106,881)	-5.42%
	Support Services:							
21x	Pupil	$2,131,574	$2,148,956	$17,382	0.82%	$1,996,948	($152,007)	-7.07%
22x	Inst. Staff	$2,126,702	$2,139,269	$12,567	0.59%	$2,023,943	($115,326)	-5.39%
23x	Gen. Adm.	$581,961	$585,712	$3,751	0.64%	$556,367	($29,345)	-5.01%
24x	Sch. Adm.	$2,434,228	$2,307,927	($126,301)	-5.19%	$2,093,293	($214,634)	-9.30%
25x	Business	$844,439	$844,439	$0	0.00%	$844,439	$0	0.00%
26x	Operation & Maintenance	$4,297,926	$3,840,628	($457,298)	-10.64%	$3,439,628	($401,000)	-10.44%
27x	Transportation	$1,283,847	$1,238,847	($45,000)	-3.51%	$1,246,789	$7,942	0.64%
28x	Central	$777,455	$781,557	$4,102	0.53%	$750,565	($30,992)	-3.97%
29X	Other	$413,765	$416,827	$3,062	0.74%	$392,175	($24,652)	-5.91%
3xx	Community Services	$39,594	$39,766	$172	0.44%	$38,957	($809)	-2.04%
41,42,43	Outgoing Transfers	$0	$0	$0	0.00%	$0	$0	0.00%
45x	Facilities Acq	$400,000	$0	($400,000)	-100.00%	$0	$0	0.00%
51x	Debt Service	$0	$0	$0	0.00%	$0	$0	0.00%
6xx	Fund Modifications	$0	$0	$0	0.00%	$0	$0	0.00%
	TOTAL EXP. & OUTGOING TRANSFE	**$36,034,964**	**$34,767,250**	**($1,267,714)**	-3.52%	**$32,699,546**	($2,067,705)	-5.95%
	ENDING FUND BALANCE	**($6,133,938)**	**($3,947,214)**	$2,186,724	-35.65%	**$307,195**	$4,254,409	-107.78%

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

July 29, 2013

Joanne Lelekatch, Superintendent
Craig Wodecki, School Board President
East Detroit Public Schools
24685 Kelly Road
Eastpointe, MI 48021-1515

Dear Superintendent Lelekatch and Board President Wodecki:

On May 22, 2013, staff from the East Detroit Public Schools met with members of my staff to review the District's deficit situation. Subsequent to that meeting, it was required that the District submit a revised Deficit Elimination Plan (DEP). We received the revised DEP by the due date and have completed our review. The revised DEP is approved with contingencies. The formal approval of this DEP is in a separate letter to you dated July 29, 2013.

I remain concerned about the financial situation of the District. The District has been in deficit since June 30, 2009. As reiterated in the May 22, 2013 meeting, the five (5) year plan previously approved by MDE required the District to eliminate the deficit by June 30, 2014. The revised Plan does not adhere to the previous timeframe. Rather, it delays the deficit elimination until June 30, 2015, a sixth year.

Consequently, I am exercising my authority under Section 4(1)(a) of Public Act 436 of 2012 (PA 436, the Local Fiscal Stability and Choice Act) to initiate a Preliminary Review of the District's financial operations to determine the level of financial stress in the District. Section 4(2) of PA 436 requires that I provide specific written notification of the Preliminary Review prior to the review taking place; this letter meets that requirement.

Specifically, I am initiating this action based on the following conditions from Section 4(1): "(j) the local government has violated a requirement of Sections 17 to 20 of the Uniform Budgeting and Accounting Act, 1968 PA 2, MCL 141.437 to 141.440" and "(n) the local government is in breach of its obligations under a deficit elimination plan or an agreement entered into pursuant to a deficit elimination plan."

To be clear, this is a Preliminary Review at this point. It does not automatically mean that the end result would be for the Governor to declare a financial emergency in the District. The law provides for certain additional steps before that could occur. I must provide a Final Report of the Preliminary Review to the Local Emergency Financial Assistance Loan Board. If a finding of probable financial stress is made by that Board, the Governor shall appoint a Review Team for the District.

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The Review Team will provide a report to the Governor, generally within 60 days of commencing its review. Should both the Review Team and the Governor determine that a financial emergency exists in the East Detroit Public Schools, the local board of education would be required to choose one of the following four (4) options to address the financial emergency:

1) Consent Agreement
2) Emergency Manager
3) Neutral evaluation process
4) Chapter 9 Bankruptcy

You will be contacted by Carol Wolenberg, Deputy Superintendent, and Dan Hanrahan, Director of State Aid and School Finance, on Monday August 5, 2013 to discuss the PA 436 process. The Preliminary Review will officially begin on Tuesday, August 6, 2013. I would strongly recommend that you meet with your team prior to this contact to determine if any circumstances, such as additional expenditure adjustments, may have changed that would be helpful as we work with you during the Preliminary Review. If you have questions, please contact Ms. Wolenberg at 517-241-0062 (wolenbergc@michigan.gov) or Mr. Hanrahan at 517-335-0521 (hanrahand@michigan.gov).

Sincerely,

Mike Flanagan
State Superintendent

cc: Andy Dillon, State Treasurer
Michael DeVault, Superintendent, Macomb ISD
Carol Wolenberg, Deputy Superintendent, MDE
Dan Hanrahan, Director of State Aid and School Finance, MDE

East Detroit Public Schools		
Findings	2011-2012	
Financial Statement		
Finding Number	**Type of Finding**	**Condition**
2012-1	Material Weakness and noncompliance	The Board of Education adopted a final amended budget that increased the deficit for the 2012 fiscal year, which is a violation of Michigan state law.
Findings	2010-2011	
Financial Statement		
Finding Number	**Type of Finding**	**Condition**
2011-1	Material Weakness and noncompliance	The Board of Education adopted a budget that increased the deficit for the 2011 fiscal year, which is a violation of Michigan state law.

Attachment D

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

DATE: August 19, 2013

TO: Joanne Lelekatch, Superintendent, East Detroit Public Schools
Craig Wodecki, President, East Detroit Board of Education

FROM: Mike Flanagan, State Superintendent

SUBJECT: Interim Report - Preliminary Review of East Detroit Public Schools

The following represents the Interim Report of findings of the Preliminary Review under the Local Financial Stability and Choice Act (PA 436 of 2012) for East Detroit Public Schools (the "District"). We appreciate the level of cooperation received from the District's administration during this process.

I. Background

In a letters dated July 29, 2013, I advised East Detroit Public Schools I advised the District that I was approving the Deficit Elimination Plan (DEP) but that, pursuant to my authority vested under PA 436 of 2012, I was also initiating a Preliminary Review of the District's finances to determine the existence of probable financial stress within East Detroit Public Schools. (Attachments A and B) §4(1) of the Act states that the state financial authority of a local government (the State Superintendent in the case of a school district) may conduct a Preliminary Review to determine the existence of a local government financial problem if one or more of the conditions listed in §4(1) are met. The Preliminary Review of East Detroit Public Schools resulted from the following conditions enumerated in §4(1) of the Act: "(j) the local government has violated a requirement of Sections 17 to 20 of the Uniform Budgeting and Accounting Act, 1968 PA 2, MCL 141.437 to 141.440" and "(n) the local government is in breach of its obligations under a deficit elimination plan or an agreement entered into pursuant to a deficit elimination plan."

In addition to the conditions above that initiated the Preliminary Review, the District also meets the condition in §4(1)(s) which references other facts or circumstances that in the sole discretion of the Superintendent of Public Instruction are indicative of probable financial stress. Specifically, as provided by law, I granted the District an extension of three years (until June 30, 2014) to eliminate the deficit beyond the two-year requirement. The District is unable to eliminate the deficit by that

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extended due date and requested an additional year to June 30, 2015. I granted that additional year when I approved the District's revised Deficit Elimination Plan (DEP) with contingencies on July 29, 2013, but feel that the need for additional time to eliminate the deficit indicates a degree of financial stress.

The District's DEP was approved with the understanding that I was initiating this Preliminary Review under PA 436 of 2012. The Plan as submitted would take the District out of deficit in 2014-15 if carried out with fidelity to its strategies. An approved DEP is also required in order for the District to borrow on a short-term basis for cash flow purposes through the State Aid Note (SAN) borrowing program in the Michigan Department of Treasury ("Treasury"). The cash flow borrowing is necessary for the district to pay critical vendors and employees during the period of the DEP. The DEP approval also assured that the District would receive its August state aid payment in order to repay the August 2012 SAN.

II. Interim Report of Findings

The Michigan Department of Education (the "Department") has developed critical factors to determine whether probable financial stress might exist in a school district. The process calls for a review of a district's financial operation related to five (5) critical factors. The factors are:

1) The district has been in deficit for three or more consecutive years (including the current year); and

2) The district's existing deficit is greater than 15% of general fund revenues excluding incoming transfers; and

3) A fiscal review by one of the Department's program offices or an external auditor has revealed one or more material internal control weaknesses as evidenced by notes/findings in the financial audit related to:

    a) Lack of written policies and procedures or failure to follow the written policies and procedures

    b) Poor cash management

    c) Failure to provide Personnel Activity Reports (PAR) for employees paid with federal funds

d) History of spending outside the appropriations established by the local school board (Violation of Uniform Budgeting and Accounting Act)

e) Use of grant funds on unallowable expenditures

f) Going Concern/Qualified Opinion; and

4) The district has shown unsatisfactory progress in eliminating a deficit. This is determined by identifying one or more of the following conditions:

a) A deficit increase from the previous year

b) Lack of cooperation from the district in submitting deficit information (i.e., late submission of Deficit Elimination Plans (DEP), delinquent return of phone calls or correspondence relating to the DEP, chronic late submission of Monthly Budgetary Control Reports)

c) History of supplying the Department with DEP information that is inaccurate or inconsistent with actual revenues and expenditures at year end; and/or

5) District's failure to comply with bond or note covenants, failure to make pension fund deposits, failure to make payroll, and/or closure of school prior to the end of the school year.

The Department assessed East Detroit Public Schools with regard to the above five (5) factors. The results of the assessment are as follows:

1) East Detroit Public Schools ended the 2008-2009 fiscal year with a $3.8 million deficit. The District projects that the deficit balance for the year ended June 30, 2013 will be $6.1 million. The District projected that it will remain in deficit in the 2013-14 fiscal year and emerge from deficit in the 2014-15 fiscal year.

2) East Detroit Public Schools' projected June 30, 2013 deficit balance expressed as a percentage of the general fund revenues is projected to be a negative 16%. The percentage exceeds the Department's parameter of a negative 15% to indicate concern.

3) East Detroit Public Schools' audited financial reports for the years ending June 30, 2011 and June 30, 2012 each included one finding of material weakness and noncompliance. This material weakness was

that the district adopted a budget that increased the deficit as previously noted above (see Attachment C). No other material weaknesses were noted by District auditors.

4) East Detroit Public Schools has shown unsatisfactory progress in eliminating the deficit. The deficit increased from $3.8 million on June 30, 2009 to $8.2 million on June 30, 2010. Although the District estimates that the deficit will decrease to $6.1 million on June 30, 2013, the District requires an additional year beyond the DEP that had been previously approved by the Department to eliminate the deficit.

5) The District has not failed to comply with bond or note covenants, failed to make pension fund deposits, failed to make payroll, and/or closed school prior to the end of the school year. The Department has not been notified that the District is delinquent in its payments to the Michigan Public School Employees Retirement System (MPSERS). The District did not default on their State Aid Note that was due in August 2013.

III. Next Steps

As the state financial authority for school districts, I am forwarding this Interim Report to East Detroit Public Schools pursuant to the language in §4(2) of PA 436. The District may provide comments on this Interim Report within five (5) days after the date that this Report is provided. Please direct these comments to Dan Hanrahan at hanrahand@michigan.gov and Carol Wolenberg at wolenbergc@michigan.gov or by fax to (517) 241-0196. A Final Report of the Preliminary Review incorporating the District's comments will be provided to the District and the Local Emergency Financial Assistance Loan Board on or before the 30-day timeframe required in law or no later than September 5, 2013. The Local Emergency Financial Assistance Loan Board will determine if probable financial stress exists for the District.

cc: Senator Steven Bieda, 9th District
Representative Sarah Roberts, 18th District
Carol Wolenberg, Deputy Superintendent, Michigan Dept. of Education
Dan Hanrahan, Director, State Aid and School Finance, Michigan Department of Education

STATE OF MICHIGAN
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July 29, 2013

Joanne Lelekatch, Superintendent
Craig Wodecki, School Board President
East Detroit Public Schools
24685 Kelly Road
Eastpointe, MI 48021-1515

Dear Superintendent Lelekatch and Board President Wodecki:

Thank you for the submission of your Deficit Elimination Plan (DEP) as developed by the District and approved by the local board of education. The Michigan Department of Education (MDE) has approved this Plan, which includes a sixth year, based on contingencies listed below. Attached is a one-page summary of the DEP from your electronic submission. In addition to the contingencies listed below, we have several financial concerns that have prompted me to begin the PA436 (Local Financial Stability and Choice Act) process with East Detroit Public Schools. Notice of that will follow in a separate letter.

The DEP developed by the District is largely dependent on both staff reductions and wage concessions. The MDE expects that the projected staff reductions will take place according to the schedule detailed in the District's Plan. Further, MDE expects that if the District is unable to realize its own planned reductions, including staffing and the projected wage concessions, as outlined in the Plan, it will immediately institute other expenditure reductions in order to maintain the schedule of deficit elimination detailed in the DEP.

Additionally, this Plan assumes that financial incentives given to districts meeting certain conditions as well as the MPSERS cost offset given to districts will continue each year. MDE expects that if the incentives and offset are not offered, the District will immediately institute expenditure reductions in order to maintain the schedule detailed in the DEP.

MDE approval of this DEP is granted based on the following contingencies:

- The District is required to reduce projected expenditures to the levels detailed in this Plan. If the District is unable to achieve its planned staff reductions and wage concessions, it will be expected to immediately reduce expenditures in other categories in order to meet the fund balance targets in its Plan. Failure to meet the targeted deficit reduction in any year of this Plan will invalidate this Plan.

- The District is required to immediately reduce projected expenditures if the District does not receive the financial incentives and MPSERS cost offset assumed in this Plan. Failure to meet targeted deficit reduction in any year of this DEP will invalidate this Plan.

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- If the District is unable to maintain the enrollment projections detailed in the Plan, it will be expected to immediately reduce expenditures in other categories in order to meet the fund balance targets in this Plan.

- The District is required to post on its website a link to this approved DEP within 30 days of this approval letter. The link should be posted on the transparency web page in the same area as the current budget.

- The District is required to submit any revisions made to the current year budget along with the corresponding local board of education resolution adopting the revised budget. If the budget revision impacts the DEP, the DEP must be revised and submitted as well. Revisions must be submitted no later than one week after they are adopted by the board.

- The District is required by law to submit Monthly Budgetary Control Reports to MDE using the tab labeled "Month1Summary2013" of the electronic DEP form used to prepare this DEP.

- The District will be required to submit its pupil count information no later than one week after the fall count.

If significant changes occur which would invalidate this DEP as approved, the District must notify MDE immediately.

Please contact Jeff Kolb at (517) 373-1908 or kolbj2@michigan.gov, or Chad Urchike at (517) 335-1261 or urchikec1@michigan.gov, if you have any questions.

I look forward to your continued submissions and cooperation.

Sincerely,

Mike Flanagan
State Superintendent

Attachment

cc: Mike Dixon, Business Manager, East Detroit Public Schools
Paul Seibert, Vice President, East Detroit Board of Education
Jon Gruenburg, Secretary, East Detroit Board of Education
Craig Brozowski, Treasurer, East Detroit Board of Education
Jon G. Gruenberg, Trustee, East Detroit Board of Education
Margaret Podsiadlik, Trustee, East Detroit Board of Education
Deena Trocino, Trustee, East Detroit Board of Education
Michael DeVault, Superintendent, Macomb ISD
Paul Bodiya, Chief Financial Officer, Macomb ISD
Carol Wolenberg, Deputy Superintendent, MDE
Dan Hanrahan, Director, State Aid and School Finance, MDE
Local Audits Unit, Michigan Department of Treasury

Attachment A, cont.

East Detroit Public Schools

Account		Preliminary Actual 2012-13	Board Adopted Budget 2013-14	Yearly Increase (Decrease)	% Increase (Decrease)	Target Budget 2014-15	Yearly Increase (Decrease)	% Increase (Decrease)
	Beginning Fund Equity:	**($7,545,878)**	**($6,133,938)**			**($3,947,214)**		
	Add: Revenues							
11x, 12x	Local Sources	$4,582,424	$4,450,136	($132,288)	-2.89%	$4,243,962	($206,174)	-4.63%
51x	Local Rec'd Thru Another Public Sch.	$511,000	$160,000	($351,000)	-68.69%	$160,000	$0	0.00%
2xx	Other Political Sub.	$0	$0	$0	0.00%	$0	$0	0.00%
3xx	State Sources	$27,691,486	$27,681,845	($9,641)	-0.03%	$27,887,998	$206,153	0.74%
4xx	Federal Sources	$4,536,994	$4,536,994	$0	0.00%	$4,536,994	$0	0.00%
52x-6xx	Incoming Transfers & Other	$125,000	$125,000	$0	0.00%	$125,000	$0	0.00%
	TOTAL REVENUES,ETC.	**$37,446,904**	**$36,953,975**	($492,929)	-1.32%	**$36,953,954**	($20)	0.00%
	TOTAL RESOURCES AVAILABLE	**$29,901,026**	**$30,820,036**	$919,011	3.07%	**$33,006,740**	$2,186,704	7.10%
	Less: Expenditures							
1xx	Classroom Inst.	$20,703,473	$20,423,322	($280,151)	-1.35%	$19,316,441	($1,106,881)	-5.42%
	Support Services:							
21x	Pupil	$2,131,574	$2,148,956	$17,382	0.82%	$1,996,948	($152,007)	-7.07%
22x	Inst. Staff	$2,126,702	$2,139,269	$12,567	0.59%	$2,023,943	($115,326)	-5.39%
23x	Gen. Adm.	$581,961	$585,712	$3,751	0.64%	$556,367	($29,345)	-5.01%
24x	Sch. Adm.	$2,434,228	$2,307,927	($126,301)	-5.19%	$2,093,293	($214,634)	-9.30%
25x	Business	$844,439	$844,439	$0	0.00%	$844,439	$0	0.00%
26x	Operation & Maintenance	$4,297,926	$3,840,628	($457,298)	-10.64%	$3,439,628	($401,000)	-10.44%
27x	Transportation	$1,283,847	$1,238,847	($45,000)	-3.51%	$1,246,789	$7,942	0.64%
28x	Central	$777,455	$781,557	$4,102	0.53%	$750,565	($30,992)	-3.97%
29X	Other	$413,765	$416,827	$3,062	0.74%	$392,175	($24,652)	-5.91%
3xx	Community Services	$39,594	$39,766	$172	0.44%	$38,957	($809)	-2.04%
41,42,43	Outgoing Transfers	$0	$0	$0	0.00%	$0	$0	0.00%
45x	Facilities Acq	$400,000	$0	($400,000)	-100.00%	$0	$0	0.00%
51x	Debt Service	$0	$0	$0	0.00%	$0	$0	0.00%
6xx	Fund Modifications	$0	$0	$0	0.00%	$0	$0	0.00%
	TOTAL EXP. & OUTGOING TRANSFE	**$36,034,964**	**$34,767,250**	**($1,267,714)**	-3.52%	**$32,699,546**	($2,067,705)	-5.95%
	ENDING FUND BALANCE	**($6,133,938)**	**($3,947,214)**	$2,186,724	-35.65%	**$307,195**	$4,254,409	-107.78%

Attachment B

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

July 29, 2013

Joanne Lelekatch, Superintendent
Craig Wodecki, School Board President
East Detroit Public Schools
24685 Kelly Road
Eastpointe, MI 48021-1515

Dear Superintendent Lelekatch and Board President Wodecki:

On May 22, 2013, staff from the East Detroit Public Schools met with members of my staff to review the District's deficit situation. Subsequent to that meeting, it was required that the District submit a revised Deficit Elimination Plan (DEP). We received the revised DEP by the due date and have completed our review. The revised DEP is approved with contingencies. The formal approval of this DEP is in a separate letter to you dated July 29, 2013.

I remain concerned about the financial situation of the District. The District has been in deficit since June 30, 2009. As reiterated in the May 22, 2013 meeting, the five (5) year plan previously approved by MDE required the District to eliminate the deficit by June 30, 2014. The revised Plan does not adhere to the previous timeframe. Rather, it delays the deficit elimination until June 30, 2015, a sixth year.

Consequently, I am exercising my authority under Section 4(1)(a) of Public Act 436 of 2012 (PA 436, the Local Fiscal Stability and Choice Act) to initiate a Preliminary Review of the District's financial operations to determine the level of financial stress in the District. Section 4(2) of PA 436 requires that I provide specific written notification of the Preliminary Review prior to the review taking place; this letter meets that requirement.

Specifically, I am initiating this action based on the following conditions from Section 4(1): "(j) the local government has violated a requirement of Sections 17 to 20 of the Uniform Budgeting and Accounting Act, 1968 PA 2, MCL 141.437 to 141.440" and "(n) the local government is in breach of its obligations under a deficit elimination plan or an agreement entered into pursuant to a deficit elimination plan."

To be clear, this is a Preliminary Review at this point. It does not automatically mean that the end result would be for the Governor to declare a financial emergency in the District. The law provides for certain additional steps before that could occur. I must provide a Final Report of the Preliminary Review to the Local Emergency Financial Assistance Loan Board. If a finding of probable financial stress is made by that Board, the Governor shall appoint a Review Team for the District.

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Joanne Lelekatch
Craig Wodecki
Page 2
July 29, 2013

The Review Team will provide a report to the Governor, generally within 60 days of commencing its review. Should both the Review Team and the Governor determine that a financial emergency exists in the East Detroit Public Schools, the local board of education would be required to choose one of the following four (4) options to address the financial emergency:

1) Consent Agreement
2) Emergency Manager
3) Neutral evaluation process
4) Chapter 9 Bankruptcy

You will be contacted by Carol Wolenberg, Deputy Superintendent, and Dan Hanrahan, Director of State Aid and School Finance, on Monday August 5, 2013 to discuss the PA 436 process. The Preliminary Review will officially begin on Tuesday, August 6, 2013. I would strongly recommend that you meet with your team prior to this contact to determine if any circumstances, such as additional expenditure adjustments, may have changed that would be helpful as we work with you during the Preliminary Review. If you have questions, please contact Ms. Wolenberg at 517-241-0062 (wolenbergc@michigan.gov) or Mr. Hanrahan at 517-335-0521 (hanrahand@michigan.gov).

Sincerely,

Mike Flanagan
State Superintendent

cc: Andy Dillon, State Treasurer
Michael DeVault, Superintendent, Macomb ISD
Carol Wolenberg, Deputy Superintendent, MDE
Dan Hanrahan, Director of State Aid and School Finance, MDE

Attachment C

East Detroit Public Schools		
Findings	2011-2012	
Financial Statement		
Finding Number	**Type of Finding**	**Condition**
2012-1	Material Weakness and noncompliance	The Board of Education adopted a final amended budget that increased the deficit for the 2012 fiscal year, which is a violation of Michigan state law.
Findings	2010-2011	
Financial Statement		
Finding Number	**Type of Finding**	**Condition**
2011-1	Material Weakness and noncompliance	The Board of Education adopted a budget that increased the deficit for the 2011 fiscal year, which is a violation of Michigan state law.

Attachment E

EAST DETROIT PUBLIC SCHOOLS / ADMINISTRATIVE CENTER

24685 KELLY
EASTPOINTE, MI 48021

Joanne Lelekatch
Superintendent

(586) 533-3022
FAX (586) 533-3025
jlelekatch@eds.misd.net

August 22, 2013

Mike Flanagan, State Superintendent
Department of Education
608 West Allegan Street
PO Box 30008
Lansing, MI 48909

Dear State Superintendent Flanagan,

We have received the Interim Report Findings of the Preliminary Review dated August 19, 2013. East Detroit Public Schools welcomed the review as an opportunity to share the efforts that have been made to eliminate the district's deficit. We are confident our responses to the findings will support the position that the district will be out of deficit by June 30, 2015.

Listed below are the Interim Report Findings and the district's responses (in blue).

The Department assessed East Detroit Public Schools with regard to the above five (5) factors. The results of the assessment are as follows:

1) East Detroit public Schools ended the 2008-2009 fiscal year with a $3.8 million deficit. The District projects that the deficit balance for the year ended June 30, 2013 will be $6.1 million. The District projected that it will remain in deficit in the 2013-14 fiscal year and emerge from deficit in the 2014-15 fiscal year.

We concur; as stated, the deficit continued to increase in 2009-10 to $8.2 million (see MDE comment #4 below). Every year since 2009-10 the district has balanced the budget and reduced the deficit. Since 2008-09 the district has reduced its operating expenditures by approximately $16 million.

2) East Detroit Public Schools' projected June 30, 2013 deficit balance expressed as a percentage of the general fund revenues is projected to be a negative 16%. The percentage exceeds the Department's parameter of a negative 15% to indicate concern.

We concur.

3) East Detroit Public Schools' audited financial reports for the years ending June 30, 2011 and June 30, 2012 each included one finding of material weakness and noncompliance. This material weakness was that the district adopted a budget that increased the deficit as previously noted above (see Attachment C). No other material weaknesses were noted by District auditors.

We concur; although the adopted budgets for fiscal years 2011-12 and 2012-13, had projected increases in the deficit, the audited financial statements for both years illustrate an excess of revenues over expenditures, a balanced budget, and a reduced deficit.

4) East Detroit Public Schools has shown unsatisfactory progress in eliminating the deficit. The deficit increased from \$3.8 million on June 30, 2009 to \$8.2 million on June 30, 2010. Although the District estimates that the deficit will decrease to \$6.1 million on June 30, 2013, the District requires an additional year beyond the DEP that had been previously approved by the Department to eliminate the deficit.

We concur.

5) The District has not failed to comply with bond or note covenants, failed to make pension fund deposits, failed to make payroll, and/or closed school prior to the end of the school year. The Department has not been notified that the District is delinquent in its payments to the Michigan Public School Employees Retirement System (MPSERS). The District did not default on their State Aid Note that was due in August 2013.

We concur.

ADDITIONAL COMMENTS

Since 2008-09 the district has reduced its operating expenditures by approximately \$16 million. These reductions were done without reducing programs and services to the students of the district. Included in these expenditures were the closing of five school buildings, in addition to the two closed previously, to deal with declining enrollment and the realignment of our instructional programs. Over the last two fiscal years the district has reduced expenditures through significant wage and benefit concessions from all bargaining units (teachers 10% one year and another 14.5% the second year), outsourced transportation, custodial, grounds, maintenance, central office clerical, and the business office. In addition, we have shared payroll services with the MISD, shared childcare services with the YMCA, and shared Food Services with two neighboring districts. These strategies are built in and the resulting reduction in expenditures will need additional time to flow through future years' budgets to assist the district in eliminating the deficit.

In addition to reducing expenditures, we have pursued an aggressive marketing/public relations campaign to Retain, Return and Recruit students to the district. Every year since 1997-98, the district has lost pupil enrollment. Enrollment has declined from 7007 FTEs in 1997-98 to 3725 in 2011-12. In 2012-13 the district reversed the 14-year declining enrollment trend by entering into 105c Schools of Choice. Through our marketing efforts, enrollment increased by 110 FTEs. We believe the future of East Detroit Public Schools is in the growth of our student population through a marketing/public relations campaign coupled with the significant enhancements to our instructional programs. Some of the significant program enhancements are highlighted below:

- *Partnered with General Motors and United Way of Southeastern Michigan to designate East Detroit High School as a Johns Hopkins Talent Development High School*
- *Partnered with Macomb Community College to offer high school students the opportunity to participate in the Early College Program*
- *Partnered with Eastern Michigan University to offer college credit courses at the high school for juniors and seniors*
- *Partnered with Wayne State University to offer after school tutoring through C2 Pipeline Program sponsored by the College of Nursing*
- *Partnered with AmeriCorps City Year Detroit Program to offer academic, behavioral, and emotional support to high school students*
- *Added Accelerated Programs at the Middle School and all elementary schools for students in grades 1–8*
- *Expanded instrumental band to include elementary school students*
- *Expanded Alternative Education program to include middle school students*
- *Expanded on-line learning opportunities*

In summary, we are confident that we have laid the foundation for the district to move out of the deficit by 2014-15. Our aggressive marketing campaign to increase enrollment along with the reduced operating expenditures, already inherent in the budget, will achieve this goal. If the assumptions used in the budget do not materialize, then the district will pursue whatever means necessary to alleviate the deficit by June 30, 2015. We take pride as a school community that during these very difficult financial times, the students of East Detroit Public Schools have not lost educational opportunities through reduction in programs and/or services.

After reviewing our responses, please feel free to contact Joanne Lelekatch, Superintendent, with any questions or concerns.

Sincerely,

Joanne C. Lelekatch

Joanne C. Lelekatch, Superintendent
East Detroit Public Schools

Craig Wodecki

Craig Wodecki, President
East Detroit Board of Education

cc: Senator Steven Bieda, 9th District
Representative Sarah Roberts, 18th District
East Detroit Board of Education
Mike Dixon, Fiscal Services Consultant, East Detroit Public Schools
Michael DeVault, Superintendent, Macomb ISD
Carol Wolenberg, Deputy Superintendent, Michigan Department of Education
Dan Hanrahan, Director, State Aid and School Finance, Michigan Department of Education