



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY

RICK SNYDER  
GOVERNOR

R. KEVIN CLINTON  
STATE TREASURER

**DATE:** August 1, 2014

**TO:** Governor Snyder

**FROM:** Benton Harbor Area Schools Financial Review Team:  
Frederick Headen  
Max R. Chiddister  
Michael Gilliland  
Kyle Guerrant  
Michael Krouse  
Bret E. Witkowski

**SUBJECT:** Report of the Benton Harbor Area Schools Financial Review Team

On July 2nd, 16th, 24th, and 31st, Benton Harbor Area Schools Financial Review Team members met and reviewed information relevant to the financial condition of the Benton Harbor Area Schools. Based upon that review, the Review Team concludes, in accordance with Section 5(4)(b) of Public Act 436 of 2012, the Local Financial Stability and Choice Act, that a financial emergency exists within the Benton Harbor Area Schools.

## I. Background

### A. Preliminary Review

On March 24, 2014, the Michigan Department of Education commenced a preliminary review of the finances of the Benton Harbor Area Schools to determine whether or not probable financial stress existed. Section 4(1) of the Act permits a preliminary review to be conducted if one, or more, of the conditions enumerated therein occurs. The preliminary review of the Benton Harbor Area Schools resulted from the conditions enumerated in subdivisions (j) and (n) of Section 4(1) having occurred within the School District.<sup>1</sup>

To facilitate preliminary reviews of school districts, the Michigan Department of Education has developed critical factors to determine whether probable financial stress might exist in a school district. Those factors are:

1. A school district has been in a deficit condition for three or more consecutive years (including the current year); and

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<sup>1</sup> Subdivision (j) provides that “[t]he 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. Subdivision (n) provides that “[t]he local government is in breach of its obligations under a deficit elimination plan or an agreement entered into pursuant to a deficit elimination plan.”

2. A school district's existing deficit is greater than 15 percent of general fund revenues, excluding incoming transfers; and
3. A fiscal review by one of the Department [of Education]'s program offices or an external auditor has revealed one or more material internal control weaknesses as evidenced by notes or findings in a financial audit related to any of the following:
  - (a) A lack of written policies and procedures or failure to follow the written policies and procedures.
  - (b) Poor cash management.
  - (c) A failure to provide personnel activity reports for employees paid with federal funds.
  - (d) A history of spending outside appropriations established by the local school board in violation of Public Act 2 of 1968, the Uniform Budgeting and Accounting Act.
  - (e) The use of grant funds on unallowable expenditures.
  - (f) Going concern issues, or a qualified financial audit opinion, or both; and
4. A school district shows 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 school district officials in submitting deficit information (i.e., late submission of deficit elimination plans, delinquent return of phone calls or correspondence relating to deficit elimination plans, and chronic late submission of monthly budgetary control reports).
  - (c) A history of supplying the Department of Education with deficit elimination plan information which either was inaccurate or inconsistent with actual revenues and expenditures at year end.
5. A school district fails to comply with bond or note covenants or fails to make pension fund deposits.

Based upon the foregoing critical factors, the preliminary review found, or confirmed, the following for the School District:

- The School District had been in deficit since ending its 2007 fiscal year with a \$3.0 million deficit. At the time of the preliminary review, School District officials projected a cumulative deficit of \$14.7 million as of June 30, 2014. Furthermore, School District officials projected that the School District would not eliminate its deficit until the 2028 fiscal year.
- When expressed as a percentage of General Fund revenues, the \$14.7 million deficit projected for June 30, 2014 by School District officials was a negative 46 percent, far exceeding the Department of Education's parameter of a negative 15 percent to indicate concern.
- The financial audit report of the School District for the 2013 fiscal year included 3 findings of material weaknesses, significant deficiencies, or noncompliance. The financial audit report of the School District for the 2012 fiscal year had included 6 findings of material weaknesses, significant deficiencies, or noncompliance.
- The School District had shown unsatisfactory progress in eliminating its cumulative General Fund deficit. That deficit had increased from \$3.0 million on June 30, 2007, to \$15.5 million on June 30, 2013. In addition, School District officials projected that in order to eliminate the cumulative General Fund deficit, they would require an additional 12 years beyond those contained in the deficit elimination plan that had been approved by the Department of Education.
- The Department of Education had received no notification that the School District had failed to comply with bond or note covenants or to make pension fund deposits.

In addition to the foregoing preliminary review findings for the School District, the Michigan Department of Education gave consideration to the following information:

- As provided by law, the Superintendent of Public Instruction granted School District officials six years (i.e., the standard two years, plus an additional four years) to eliminate the cumulative general fund deficit. However, as noted above, School District officials requested an additional 12 years to June 30, 2028 for a total of 18 years.
- Cash flow within the School District continued to be distressed even though the School District had received from the Michigan Department of Treasury two \$2.0 million emergency loans, in September 2012 and December 2013, respectively. Then most recent cash flow information provided by School District officials depicted a cash shortfall occurring in May 2014. Based on discussions between Department of Education staff and School District officials, the cash shortfall was to be addressed by managing accounts payable. This course of action was expected to result in significant vendor payment issues that could affect services provided to the School District and its students.
- Historically, the School District had participated in the Michigan Finance Authority's pooled State aid note program, borrowing the maximum amount permitted, which most recently had

been set at not to exceed 55 percent of annual State aid revenue. The School District also had participated in the so-called “no-set aside pool” meaning that the only payment made by the School District on an annual short-term note had been a final balloon payment at maturity.

Beginning in 2013, the Michigan Finance Authority required eight school districts (including Benton Harbor Area Schools) that repeatedly had rolled over their short-term cash flow notes to make mandatory set aside payments. The purpose was to prevent the amount a school district paid at maturity in August from exceeding 45 percent of that school district’s annual State aid revenue. Pursuant to this approach, Benton Harbor Area Schools was required to make equal payments in May, June, and July of this year totaling \$1.6 million. Despite this, it was anticipated the amount repaid at maturity by the School District likely would be from proceeds of a new State aid note borrowed for the ensuing fiscal year. If so, this would continue the cycle of School District officials borrowing in an effort to stay solvent, but without addressing the growing structural deficit.

On April 22, 2014, the Superintendent of Public Instruction submitted the foregoing preliminary review to the Local Emergency Financial Assistance Loan Board. On April 28, 2014, the Local Emergency Financial Assistance Loan Board determined that probable financial stress existed for the Benton Harbor Area Schools.<sup>2</sup>

## B. Review Team Findings

On June 23, 2014, the Governor appointed a six-member Financial Review Team. The Review Team convened on July 2nd, 16th, 24th, and 31st, 2014.

### 1. Conditions Indicative of a Financial Emergency

The Review Team found, or confirmed, the existence of the following conditions based upon information provided by School District officials, or the School District’s audit firm, or other relevant sources:

- According to the School District’s 2013 fiscal year financial audit report, the School District’s cumulative General Fund deficit decreased by 3.6 percent, from \$16.1 million on June 30, 2012,

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<sup>2</sup> Under the prior emergency management statutes (Public Act 101 of 1988; Public Act 72 of 1990, the Local Government Fiscal Responsibility Act; and Public Act 4 of 2011, the Local Government and School District Fiscal Accountability Act), a preliminary review reached a conclusion regarding whether a serious financial problem or probable financial stress existed in the unit of local government that was subject to the review. However, under the current Act, a preliminary review reaches no such conclusion. Instead, pursuant to Section 4(2) of the Act, “[t]he state financial authority [the State Treasurer or Superintendent of Public Instruction] shall prepare and provide a final report detailing its preliminary review to the local emergency financial assistance loan board... Within 20 days after receiving the final report from the state financial authority, the local emergency financial assistance loan board shall determine if probable financial stress exists for the local government.”

to \$15.5 million on June 30, 2013. General Fund expenditures exceeded General Fund revenues by \$1.3 million; however, the net change in fund balance was a positive \$581,671, owing primarily to receipt of a \$2.0 million emergency loan from the State. But for the emergency loan, the cumulative General Fund deficit would have increased 8.7 percent, from \$16.1 million to \$17.5 million.

- As summarized in **Table 1**, financial audit reports for the School District for its last three fiscal years reflect notable variances between General Fund revenues and expenditures, as initially budgeted and as finally amended, versus revenues and expenditures actually realized. For example, School District officials overestimated General Fund revenues by \$822,112 in fiscal year 2011, underestimated revenues by \$903,925 the following fiscal year, and again overestimated revenues by \$1.1 million in fiscal year 2013. Similarly, expenditures were overestimated in fiscal year 2011, but were underestimated in the remaining two fiscal years by \$323,140 and \$115,317, respectively.

It is noteworthy that in all three fiscal years, General Fund expenditures as finally budgeted exceeded General Fund revenues as finally budgeted. In other words, not only did the General Fund of the School District end in a deficit condition in each fiscal year, those budgets began in a deficit condition at the time of final adoption.

**Table 1**

**General Fund Revenues as Initially Budgeted, Finally Budgeted, and Actual**

	<u>2010-11</u>	<u>%</u>	<u>2011-12</u>	<u>%</u>	<u>2012-13</u>	<u>%</u>
<u>Revenues</u>						
Original	\$37,152,562		\$36,015,793		\$28,460,928	
Final	\$36,975,516		\$30,575,928		\$30,406,096	
Actual	<u>\$36,153,404</u>		<u>\$31,479,853</u>		<u>\$29,341,940</u>	
Variance	(\$822,112)	(2.22)	\$903,925	2.96	(\$1,064,156)	(3.50)
<u>Expenditures</u>						
Original	\$35,744,930		\$35,252,347		\$25,354,431	
Final	\$39,553,807		\$31,240,208		\$30,522,806	
Actual	<u>\$36,458,777</u>		<u>\$31,563,348</u>		<u>\$30,638,123</u>	
Variance	\$3,095,030	7.82	(\$323,140)	(1.03)	(\$155,317)	(0.38)

Source: Annual Financial Audits

- School District officials violated Section 17 of Public Act 2 of 1968, the Uniform Budgeting and Accounting Act, by permitting expenditures in excess of budgeted appropriations.<sup>3</sup> Expenditures in excess of budgeted appropriations during the 2013 fiscal year are depicted by program area in **Table 2**.

**Table 2**

**Excess of Expenditures Over Appropriations in Budgeted Funds  
 2013 Fiscal Year**

<u>Program Area</u>	<u>Budget</u>	<u>Actual Expenditure</u>	<u>Over Expenditure</u>
Pupil	\$925,167	\$949,907	(\$24,740)
Instruction Staff	\$2,774,392	\$2,776,769	(\$2,377)
General Administrative	\$622,845	\$631,745	(\$8,900)
Operations/Maintenance	\$3,270,222	\$3,530,568	(\$260,346)
Pupil Transportation	\$2,082,939	\$2,123,773	(\$40,834)
Central Office	\$566,580	\$818,985	(\$252,405)
Other Support Services	\$368,573	\$406,761	(\$38,188)
Community Services	\$347,373	\$565,804	(\$218,431)
Debt Service	\$115,290	\$116,168	(\$878)
Other Transactions	\$0	\$122,146	(\$122,146)
Total	\$11,073,381	\$12,042,626	(\$969,245)

Source: 2013 Annual Financial Audit

<sup>3</sup> Section 17 of Public Act 2 of 1968, the Uniform Budgeting and Accounting Act, reads, in part, as follows:

(1) Except as otherwise provided in section 19, a deviation from the original general appropriations act shall not be made without amending the general appropriations act. Subject to section 16(2), the legislative body of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined. An amendment shall indicate each intended alteration in the purpose of each appropriation item affected by the amendment. The legislative body may require that the chief administrative officer or fiscal officer provide it with periodic reports on the financial condition of the local unit.

(2) If, during a fiscal year, it appears to the chief administrative officer or to the legislative body that the actual and probable revenues from taxes and other sources in a fund are less than the estimated revenues, including an available surplus upon which appropriations from the fund were based and the proceeds from bonds or other obligations issued under the fiscal stabilization act, 1981 PA 80, MCL 141.1001 to 141.1011, or the balance of the principal of these bonds or other obligations, *the chief administrative officer or fiscal officer shall present to the legislative body recommendations which, if adopted, would prevent expenditures from exceeding available revenues for that current fiscal year.* Emphasis supplied.

- According to the School District’s 2013 fiscal year financial audit report, General Fund liabilities of the School District as of June 30, 2013, were \$21.4 million, while General Fund assets totaled only \$5.9 million.
- As shown in **Table 3**, as of June 30, 2014, the School District owed more than \$3.6 million in total accounts payable to various vendors. This total included more than \$1.3 million that was more than 211 days past due. Furthermore, the accounts payable situation has worsened markedly, increasing by roughly 21 percent during just the one-month period May 31 to June 30.

To an extent, the increase in accounts payable reflects a deliberate decision by School District officials to manage scarce cash by delaying the timely payment of obligations. The April 22, 2014, preliminary review noted that the then most recent cash flows provided by School District officials depicted a cash shortfall occurring in May, 2014, but that “[b]ased on discussions with the District, the shortfall will be addressed by managing accounts payable to get through the year. This will result in significant vendor payment issues which could affect services provided to the District and its students.”

**Table 3**

**Accounts Payable**

<u>Period Outstanding</u>	<u>As of May 31, 2014</u>	<u>As of June 30, 2014</u>
Less than 30 days	\$604,701.69	\$877,207.14
31-60 days	\$329,586.32	\$361,850.20
61-90 days	\$247,059.64	\$312,733.70
91-120 days	\$164,083.11	\$246,799.46
121-150 days	\$256,152.36	\$163,571.86
151-180 days	\$195,001.00	\$256,152.36
181-210 days	--	\$181,667.00
More than 211 days	\$1,255,281.44	\$1,348,615.44
Total	<u>\$3,051,865.56</u>	<u>\$3,688,597.16</u>

Source: School District Financial Data filed with the Michigan Department of Education

2. Review Team Meetings

On July 2nd, 2014, Review Team members Michael Gilliland, Kyle Guerrant, Frederick Headen, Michael Krouse, and Bret E. Witkowski met with Dan Hanrahan, Director, State Aid and School

Finance, Michigan Department of Education; Glenda Rader, Office of State Aid and School Finance, Michigan Department of Education; and with Jane Saurman and Phillip Saurman, of the certified public accounting firm Hungerford, Aldrin, Nichols, & Carter, PC.

On July 16, 2014, Review Team members Max R. Chiddister, Michael Gilliland, Kyle Guerrant, Frederick Headen, Michael Krouse, and Bret E. Witkowski conducted a series of interviews in the School District with Leonard Seawood, Superintendent; Jeff Egberts (Plante Moran), Business Consultant; Carol Burke, Business Manager; Martha Momany, School Board President; Willie Lark, School Board Vice President; Joseph Taylor, School Board Treasurer; Angelika MacGowan, School Board member; Lue Buchana, School Board member; Lisa Gulley, School Board member; Sharon James, School Board Secretary (by telephone); Troy Sanders, Transportation Director; Laura Montey, Information Technology Manager; Kevin Ivers, Superintendent, Berrien Regional Education Authority; Eric Hoppstock, Assistant Superintendent, Berrien Regional Education Authority; Mary Brown, President, Benton Harbor Education Association; Bill Reece, Director, Benton Harbor Education Association/Michigan Education Association (Uniserv); and William Kuiper, Field Support Services Consultant, Michigan Education Association.

Also, on July 16, 2014, Review Team members Max R. Chiddister, Michael Gilliland, Kyle Guerrant, Frederick Headen, Michael Krouse, and Bret E. Witkowski conducted a public information meeting in the Benton Harbor Area Schools pursuant to Section 5(2) of the Local Financial Stability and Choice Act. The Review Team informed approximately 52 School District residents in attendance of the statutory scope of its responsibilities, indicated that the Review Team had met with various School District and union officials, and received comments from 11 School District residents concerning the financial condition of the School District.

### 3. Other Considerations

We think noteworthy several observations. First, we observed among the School District officials with whom we met none of the dysfunction or interpersonal acrimony which too often characterizes relationships between local governing bodies and chief administrative officers in units of local government or school districts that are in a condition of financial emergency. Rather, the School District Superintendent, Board members, and staff exhibited a reasoned understanding of the School District's financial plight, a commitment to its resolution and, in doing so, a willingness to work together in a harmonious fashion.

The present situation is to be contrasted with an earlier period during which, as the Review Team was informed, recurring turnover among Board members rendered all but impossible consistent stewardship of the School District; Board members would adopt a given initiative, often at considerable expense to the School District, only to prematurely abandon it before the intended benefits of the initiative could be achieved; and School District Superintendents and Board members spent resources whether or not they were available because of the view that the importance of the enterprise in which they were engaged (i.e., educating students) demanded no less. That sentiment



still exists, and was expressed to the Review Team by several School District officials; however, it now seems tempered by the reality of the School District's present financial condition.

Second, no single, precipitating event brought the School District to the financial crossroads at which it now stands. The School District has struggled with declining student enrollments, deficit spending, and related issues for some number of years. Hence, the financial challenges confronting the School District have been longstanding, as have been State efforts to assist School District officials in addressing them. A chronology of the more significant aspects of that State oversight is set out in Appendix A.

Finally, there was a virtual unanimity of acknowledgement among School District officials, union officials, and staff with whom the Review Team met that a financial emergency exists within the School District. And, even those individuals who preferred a nomenclature different than financial emergency readily acknowledged that the financial challenges confronting the School District are serious indeed.

One explanation for this acknowledgement lies in the number of financial obligations owed by the School District. Those obligations include, in addition to payroll and vendor payments, two emergency loans from this State, annual tax-anticipation notes, annual State-aid notes, payment set-aside requirements associated with the latter, and elimination of the accumulated General Fund deficit in accordance with the deficit elimination plan approved by the Michigan Department of Education. The conclusion expressed to the Review Team by a number of School District officials is that the School District simply cannot satisfy all of these obligations within currently required timeframes and that those timeframes cannot be adequately lengthened without resort to the remedies afforded by the Local Financial Stability and Choice Act, chiefly a consent agreement.

### C. Conclusion

Based upon the foregoing information, meetings, and review, the Review Team confirms the findings of the preliminary review, the determination of the Local Emergency Financial Assistance Loan Board, and concludes that a financial emergency exists within the Benton Harbor Area Schools.

## II. Section 5(3) Requirements

Section 5(3) of the Act requires that this report include the existence or an indication of the likely occurrence of any of the conditions set forth in subdivisions (a) through (m).<sup>4</sup> The conditions in subdivisions (d), (e), (f), (g), and (j) of Section 5(3) exist or are likely to occur, as follows:

- As previously noted, School District officials reported more than \$3.6 million in accounts payable as of June 30, 2014. This amount will exceed 10 percent of the \$28.8 million in estimated expenditures which the School District has budgeted for the 2015 fiscal year as reported in its fiscal year 2015 budget. (Section 5(3)(d).)
- The School District had a general fund deficit of \$15.5 million as of June 30, 2013, which will not likely be eliminated within the two-year period preceding the end of the fiscal year of the School District during which this Review Team report is received. (Section 5(3)(e).)
- The projected General Fund deficit of \$15.7 million as of June 30, 2014, exceeds 5 percent of the \$31.0 million in General Fund revenues which the School District had budgeted for the 2014 fiscal year as reported in its fiscal year 2014 budget. (Section 5(3)(f).)
- The School District officials failed to abide by the terms of a previous deficit elimination plan. (Section 5(3)(g).)
- A structural operating deficit has existed in the School District's general fund during at least the last three fiscal years in the amount of \$305,373 in fiscal year 2011, \$83,495 in fiscal year 2012, and \$1.3 million in fiscal year 2013. (Section 5(3)(j).)

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<sup>4</sup> Subdivisions (a) through (m) of Section 5(3) of the Act provide as follows:

(a) A default in the payment of principal or interest upon bonded obligations, notes, or other municipal securities for which no funds or insufficient funds are on hand and, if required, segregated in a special trust fund.

(b) Failure for a period of 30 days or more beyond the due date to transfer 1 or more of the following to the appropriate agency:

(i) Taxes withheld on the income of employees.

(ii) For a municipal government, taxes collected by the municipal government as agent for another governmental unit, school district, or other entity or taxing authority.

(iii) Any contribution required by a pension, retirement, or benefit plan.

(c) Failure for a period of 7 days or more after the scheduled date of payment to pay wages and salaries or other compensation owed to employees or benefits owed to retirees.

### III. Review Team Report Transmittal Requirements

Section 5(3) of the Act also requires that a copy of this report be transmitted to the Benton Harbor Area Schools Superintendent, the Benton Harbor Board of Education, the Speaker of the House of Representatives, the Senate Majority Leader, the Superintendent of Public Instruction, and each State Senator and Representative who represents the Benton Harbor Area Schools.

cc: Leonard Seawood, Superintendent  
Benton Harbor Board of Education  
James Bolger, Speaker of the House of Representatives  
Randy Richardville, Senate Majority Leader  
Mike Flanagan, Superintendent of Public Instruction  
John Proos, Michigan Senator  
Al Pscholka, Michigan Representative

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(d) The total amount of accounts payable for the current fiscal year, as determined by the state financial authority's uniform chart of accounts, is in excess of 10% of the total expenditures of the local government in that fiscal year.

(e) Failure to eliminate an existing deficit in any fund of the local government within the 2-year period preceding the end of the local government's fiscal year during which the review team report is received.

(f) Projection of a deficit in the general fund of the local government for the current fiscal year in excess of 5% of the budgeted revenues for the general fund.

(g) Failure to comply in all material respects with the terms of an approved deficit elimination plan or an agreement entered into pursuant to a deficit elimination plan.

(h) Existence of material loans to the general fund from other local government funds that are not regularly settled between the funds or that are increasing in scope.

(i) Existence after the close of the fiscal year of material recurring unbudgeted subsidies from the general fund to other major funds as defined under government accounting standards board principles.

(j) Existence of a structural operating deficit.

(k) Use of restricted revenues for purposes not authorized by law.

(l) The likelihood that the local government is or will be unable to pay its obligations within 60 days after the date of the review team's reporting its findings to the governor.

(m) Any other facts and circumstances indicative of local government financial emergency.

## Appendix A

### Chronology of Benton Harbor Area Schools Financial Condition

#### 2006

November School District officials notify Michigan Department of Education (Department) of a \$101,482 deficit. A decline of 400 pupils from 2005 to 2006 is noted. School District officials anticipate eliminating the deficit by the end of the 2007 fiscal year and having a positive fund balance of \$100,984.

#### 2007

January Department approves School District's deficit elimination plan.

November School District officials notify Department of a \$2.9 million deficit. A decline of 200 pupils from 2006 to 2007 is noted. School District officials anticipate reducing the deficit to \$2.8 million by the end of the 2008 fiscal year.

December Department approves School District's deficit elimination plan.

#### 2008

November School District officials notify Department of a \$7 million deficit. A decline of 200 pupils from 2007 to 2008 is noted. School District officials anticipate reducing the deficit to \$6.986 million by the end of the 2009 fiscal year.

#### 2009

March Department approves School District's deficit elimination plan.

November School District officials notify Department of an \$11 million deficit. A decline of 200 pupils from 2008 to 2009 is noted.

#### 2010

March Department staff meets with School District officials to discuss the serious nature of the deficit.

May School District officials develop new deficit elimination plan to reduce expenditures and anticipate reducing the deficit to \$10.3 million by the end of the 2010 fiscal year.

Department approves School District's deficit elimination plan.

June Department receives from Carole Schmidt, School District Superintendent, correspondence indicating extreme dysfunction on the School Board.

School Board dismisses Carole Schmidt.

October Department staff meets School District officials who notify Department of a \$15.9 million deficit. A decline of 200 pupils from 2009 to 2010 is noted. A \$16.9 million deficit is anticipated by the end of the 2011 fiscal year.

## Appendix A (Continued)

### Chronology of Benton Harbor Area Schools Financial Condition

#### 2010

December Department staff meets with School District officials to discuss their roles and responsibilities to ensure that School District officials understand the critical nature of the School District's financial situation and the plan to address it.

#### 2011

April Department approves School District's deficit elimination plan, but with contingencies. School District officials are granted an extension of time to eliminate the deficit by end of the 2015 fiscal year.

June Department notifies Leonard Seawood, School District Superintendent, of the need for School District officials to deficit elimination plan August 1, 2011. Department receives revised plan, but concludes it is not approvable.

October Department and Michigan Department of Treasury staffs meet with School District officials who note the loss of an additional 350 pupils during the 2011 fiscal year. The deficit by end of the 2011 fiscal year is \$16.393 million.

November Superintendent of Public Instruction commences preliminary review of School District's financial condition pursuant to Public Act 4 of 2011, the Local Government and School District Fiscal Accountability Act.

December Superintendent of Public Instruction notifies the Governor that financial stress exists, but School District officials have taken several steps to resolve that stress.

#### 2012

January School District officials resubmit deficit elimination plan which Department concludes is initially unacceptable because School District officials are unable to reach agreement on employee concessions.

March School District officials meet with Michigan Department of Treasury staff to discuss cash flow issues.

April Department approves School District's deficit elimination plan. School District officials are granted an extension of time to eliminate the deficit by end of the 2016 fiscal year.

June Department and Michigan Department of Treasury staffs meet with School District officials to discuss cash flow issues. It is determined that the School District will have difficulty meeting cash flow obligations beginning in August 2012.

## Appendix A (Continued)

### Chronology of Benton Harbor Area Schools Financial Condition

#### 2012

June

Department staff is informed that School Board failed to adopt a budget for the 2013 fiscal year which would begin July 1, 2012. Subsequently, at a special meeting on June 29, 2012, School Board adopts budget.

July

Department staff reviews School District budget revealing that deficit is anticipated to be \$700,000 greater than projected at end of 2012 fiscal year. However, budget also projects that by June 30, 2013, School District again will be in compliance with deficit elimination plan approved on April 2, 2012.

Department receives a revised deficit elimination plan which confirms the deficit is likely to be greater than originally projected, but that by June 30, 2012, the School District again will be in compliance with the deficit elimination plan approved on April 2, 2012.

August

Department and Michigan Department of Treasury staffs meet with School District officials to discuss cash flow issues.

September

Department approves School District's deficit elimination plan, but with multiple contingencies.

Local Emergency Financial Assistance Loan Board approves a \$2.0 million emergency loan for School District

#### 2013

February

Michigan Department of Treasury initiates meeting to discuss a second emergency loan.

July

School District officials submit to Department updated deficit elimination plan projecting a deficit of \$14.6 million, roughly \$1.0 million greater than the deficit contained in the plan approved in September 2012. The updated deficit elimination plan projects eliminating the deficit by the end of the 2016 fiscal year, but only if additional emergency loans are received.

August

Department and Michigan Department of Treasury staffs meet with School District officials and others to discuss the seriousness of the School District's financial condition and potential of initiating another preliminary review.

#### 2014

February

School District officials submit to Department a deficit elimination plan which requests an extension to the 2028 fiscal year to eliminate the deficit.

Appendix A (Continued)

Chronology of Benton Harbor Area Schools Financial Condition

2014

March

Superintendent of Public Instruction notifies School District officials that he will commence preliminary review of School District's financial condition pursuant to Public Act 436 of 2012, the Local Financial Stability and Choice Act.

April

Superintendent of Public Instruction provides School District officials with interim preliminary review.

School District officials submit response to the interim preliminary review.

Superintendent of Public Instruction submits finalized preliminary review to Local Emergency Financial Assistance Loan Board.

Local Emergency Financial Assistance Loan Board determines that probable financial stress exists for the School District.

June

Governor appoints Financial Review Team.

Source: Michigan Department of Education