FINANCIAL RECOVERY AGREEMENT

This Financial Recovery Agreement is dated **July 19, 2016**, and is between STATE TREASURER NICK A. KHOURI, a Michigan state officer ("**Treasurer**"), and SCHOOL DISTRICT OF THE CITY OF HAZEL PARK, a Michigan public school district ("**District**").

Whereas, pursuant to 2015 PA 111, District oversight was transferred from the Michigan Department of Education (MDE) to the Michigan Department of Treasury ("**Treasury**") on January 1, 2016.

Whereas, pursuant to 2015 PA 111, the District is subject to an Enhanced Deficit Elimination Plan ("**EDEP**") and a Financial Recover Agreement ("**FRA**").

Whereas, pursuant to 2015 PA 111, the Treasurer may appoint a Financial Recovery Agreement Consultant ("**FRAC**" or "**Consultant**") to provide financial management and technical assistance to assist the District in alleviating its financial stress and to provide for the financial stability of the District.

Whereas, the Treasurer and the District agree to engage in a collaborative effort to expeditiously as possible restore financial stability in the District while also assuring the provision of essential and effective public educational services to residents of the District.

Whereas, the Treasurer and the District agree to the following remedial measures to address financial distress within the District and to provide for the financial stability of the District.

Whereas, the Treasurer and the District agree as follows:

1) **Remedial Measures.** The District shall implement the remedial measures detailed in schedule 1 (each a "**Remedial Measure**") by the date provided in schedule 1. After attempting to implement or comply with a Remedial Measure, if the District is unable to do so, the District may request a waiver as necessary.

2) **State Assistance.** Treasury shall provide the District with financial and technical assistance.

3) **Reports.** (a) By the 15th day of each month, the District shall provide Treasury a monthly financial status report in the form prescribed by Treasury, with a copy provided to the District's board of education (the "**Board**"), beginning September 15, 2016.

   Beginning October 15, 2016 and ending on the date that the Treasurer notifies the District that the Remedial Measures have been implemented, the District shall transmit to Treasury, with a copy to the Board, a quarterly written report indicating the status of the District's implementation of Remedial Measures during the prior quarter.

   Beginning October 15, 2016 the District shall transmit to Treasury, with a copy to the Board, a written quarterly report listing pending lawsuits or other legal actions in which the District is a party during the previous three months. For each listing, the District shall include (1) the name of the plaintiff or plaintiffs, (2) the name of the defendant or defendants, (3) the name of the court and judge with jurisdiction, (4) the name of the attorney representing the District, (5) the cause of action, (6) the length of time pending, (7) an estimate of the budgetary impact on the District if the District does not prevail, (8) the details of any settlement agreement, and (9) any applicable insurance coverage. Treasury also may require the District to produce other financial reports to assure that the department, the FRAC, and MDE have access to accurate and timely financial information about the District including but not limited to a monthly cash flow and budget to actual reports. Representatives of the District and Treasury shall meet at least annually to review the District's progress under the agreement and discuss any measures that may be taken to improve the same.

In addition to the reporting above, the District shall immediately inform Treasury of an occurrence, event, action or problem not otherwise accounted for in the budget to the extent the same may reasonably impact the District's finances by more than $50,000.00 as soon as the occurrence, event, action or problem becomes known or is otherwise projected to occur based upon reasonable assumptions.

4) **Budget.** With assistance from the FRAC, if appointed, the Board shall adopt and adhere to a budget for each District fiscal year consistent with applicable law and this agreement. Each budget shall comply with all of the following:

   a) be approved by Treasury before taking effect;

   b) be prepared, presented, and adopted in compliance with the Uniform Budgeting and Accounting Act, 1968 PA 2, MCL 141.421 to 141.440a ("**Budget Act**"), and 1963 (Ex Sess) PA 43, MCL 141.411 to 141.415; and

   c) be based upon an 18-month forecast of monthly cash demands necessary to satisfy the expenditures authorized in the budget, with an appropriation not being a mandate to spend.

   d) Before final approval of the amended budget by the Board, the amended budget must be approved by Treasury.

   e) Any amendments to an adopted budget after the District's 2015-16 fiscal year must be approved by Treasury before adoption by the Board and transmitted to Treasury within 10 calendar days of adoption by the Board.

   f) If a shortfall in anticipated revenue occurs in any District fund, then the District shall reduce budgeted expenditures in the adopted annual budget on a timely basis as provided under the Budget Act so that the District may close the fiscal year with a balanced budget. As used in this paragraph, "**a timely basis**" means the time period necessary to adjust budgeted expenditures or budgeted revenues, or both, so as to preclude an expenditure being made for which adequate revenues are unavailable or are projected to be unavailable.

   g) The District shall not incur an operating deficit during a fiscal year in a fund according to the uniform minimum standards of and guidelines for financial accounting and reporting standards for state and local governments issued by the Government Accounting Standards Board ("**GASB**"), including GASB's hierarchy of generally accepted accounting principles for state and local governments ("**Generally Accepted Accounting Principles**"), unless both of the following occur:

      i) the fund in which the operating deficit occurred had a sufficient beginning balance to offset the deficit consistent with the Budget Act;

      ii) and the financial statements of the District indicate that the sufficient beginning balance fairly represents the financial position of the District according to an independent auditor in a qualified or unqualified opinion using Generally Accepted Accounting Principles and the professional standards and guidance included in government accounting standards issued by the Comptroller General of the United States ("**Generally Accepted Government Auditing Standards**")

5) **Audits.** For each District fiscal year ending after the effective date of this agreement the District shall retain a recognized independent certified public accounting firm to perform an annual audit of the District ("Independent Auditor"). The FRAC, if appointed, may assist the District in identifying and selecting a firm. The Independent Auditor selected by the District must be approved by

Treasury. If the District fails to retain an Independent Auditor in compliance with this subdivision (a) or the annual audit required under this section 4 is not completed, Treasury shall conduct the audit or appoint a firm to perform the audit, with the cost paid by District.

a) The annual audit required under this section 4 must:

   i) comply with Generally Accepted Government Auditing Standards;

   ii) include an opinion as to whether the District's financial statements for the fiscal year were prepared in accordance with Generally Accepted Accounting Principles;

   iii) state whether the audit of the District's financial statements was made in accordance with Generally Accepted Government Accounting Standards and accordingly included tests of the District's accounting records and other auditing procedures as considered necessary under the circumstances;

   iv) disclose any fiscal irregularities, including defalcations, misfeasance, nonfeasance, or malfeasance identified by the Independent Auditor;

   v) note the nature and extent of any variations from Generally Accepted Accounting Principles reflected in the District's financial statements; and

   vi) comply with the requirements of the Budget Act, and other applicable law.

b) The Independent Auditor shall prepare a report of the auditing procedures applied in each annual audit.

c) An annual audit required under this section 4 shall be completed on or before November 1st following the end of a fiscal year. The District shall require the Independent Auditor to transmit upon completion copy of the annual audit and the audit procedures report required under subdivision (c) to the Board, the FRAC, if appointed, and Treasury.

d) The District shall make available for inspection and duplication all records required by the Independent Auditor to perform the annual audit required under this section 4. The District shall make its officers and employees available to, and shall cooperate with, the Independent Auditor to facilitate timely completion of the annual audit by the Independent Auditor.

6) **Financial Recovery Agreement Consultant.** To assist the District in implementing this agreement, within 14 days after the effective date of this agreement, Treasury may consider the appointment of a FRAC. Prior to the appointment of a FRAC, Treasury and the District shall meet to discuss the specific need for the FRAC and the potential duties and services of the FRA Consultant. If Treasury requires the District to hire a FRAC, Treasury will reimburse the District for the cost of the FRAC.

   The District shall not alter the duties, functions, and responsibilities of the Consultant or terminate the Consultant without the approval of Treasury. If the Consultant violates this agreement or takes action inconsistent with the department, the District shall terminate the Consultant as requested by Treasury.

   To assist the District in implementing this agreement, the Consultant shall exercise the powers, duties, functions, and responsibilities vested in the Consultant under this agreement. When assisting officials of the District in implementing this agreement, the Consultant shall provide District officials with written monthly reports on actions taken by the Consultant to implement this agreement, beginning on the first day of the month following the first month of the Consultant's employment contract and shall advise the Board on the District's compliance with this agreement. The Consultant also shall coordinate communications with the Treasurer under this agreement on behalf of the District.

The Consultant, with the approval of Treasury, may appoint additional staff and secure professional assistance to fulfill the Consultant's responsibilities under this agreement.

7) **Contracts.** By August 15, 2016, the District shall provide a report detailing all District contracts for services and all individual District employment contracts to Treasury, excluding collective bargaining agreements ("**CBA**"). For each contract, the report must detail the nature the contract, the scope of services provided under the contract, the duration of the contract, whether the contract was awarded using a competitive process, and compensation payable under the contract.

The District shall not enter into a contract or contract amendment with a value of more than $25,000.00 without approval by Treasury. Before final approval or award of a contract or contract amendment by the District, the District shall submit information relating to the contract or contract amendment in a form and manner prescribed by Treasury. The District may enter into new contracts or contract amendments with an estimated value of up to $25,000.00 but shall keep a detailed log of contracts and contract amendments entered into under the $25,000.00 threshold for inspection and review by the FRA Consultant, if appointed, or Treasury.

Subject to any contrary provisions in an applicable CBA, the District may take the following actions only with the prior approval of the Treasurer to the extent such actions may reasonably impact the District's finances by more than $50,000.00:

a) change the salary, wage rate, or benefits payable to officers, employees, or retirees of the District;

b) change a rate or price payable to an outside vendor providing services to the District under a contract with the District, or otherwise materially modify or terminate a contract for a service which is currently outsourced ;

c) settle a workers' compensation claim;

d) challenge or appeal, or decide not to challenge or appeal, an unemployment insurance claim by former employee of the District;

e) settle a grievance under a CBA or other employment contract;

f) initiate or settle any adversarial proceeding;

Furthermore, the District may take the following actions only with the prior approval of the Treasurer:

g) Terminate, non-renew or modify the employment contract with the Superintendent;

h) Terminate, non-renew or modify the Intergovernmental Agreement between the District and Oakland Schools for Services including the sharing of services with other school districts;

j) Sale of real property;

k) Outsource any non-instructional support service functions;

l) Close a building.

8) **Debt.** The District shall not issue or incur Debt without the approval of Treasury. The District may, with the approval of Treasury, enter into agreements with creditors or other persons or entities for

the payment of existing Debts, including the settlement of claims by the creditors. The District also may, with the approval of the Treasury, enter into agreements with creditors or other persons or entities to restructure debt, on terms, at rates of interest, and with security as agreed among the parties, subject to approval by Treasury. As used in this section 12, "**Debt**" means that term as defined in section 103 of the Revised Municipal Finance Act, 2001 PA 34, MCL 141.2103, and also includes all of the following, to the extent that the District's finances are impacted by more than $50,000.00:

a) capital lease transactions and certificates of participation entered into by or on behalf the District;

b) lease transactions, installment purchase transactions, certificate of participation transactions, or contractual payment obligations supporting indebtedness issued or incurred by or on behalf of the District; and

c) any other indebtedness issued or incurred by or on behalf of the District that obligates the District under generally accepted accounting principles.

9) **Public Employees.** By August 15, 2016 the District shall provide Treasury with a copy of each effective CBA between the District and District employees.

The District shall not sign, enter into, or execute a CBA, nor sign, enter into, or execute any amendment of a CBA unless the CBA or amendment receives the prior written approval of Treasury. Absent special circumstances, the District shall not propose to enter into a CBA longer than a period of 12 months.

10) **Bankruptcy.** This agreement does not authorize the District to initiate an action under chapter 9 of title 11 of the United States Code, 11 USC 901 to 946.

11) **Term.** This agreement is effective on the date signed by the parties and remains effective until the District eliminates its audited General Fund deficit fund balance and has an audited positive fiscal year-end fund balance.

12) **Compliance and Breach.** The District, through its Board and officers is bound by, and shall comply with this agreement. Failure of the District to comply with this agreement is a breach of this agreement. Violation of state or federal law, including Open Meetings Act and the Freedom of Information Act, 1976 PA 442, MCL 15.231 to 15.246, by the District, the Board or an officer of the District also is a breach of this agreement. The obligations of the District under this agreement are not subject to release or discharge due to any contingencies, including missed due dates, clerical errors, computer failures, late mailings or deliveries, adverse weather, natural disaster, or acts of third parties.

Material Breach. An uncured breach of this agreement is a material breach of this agreement if, in the judgment of Treasury any of the following apply:

a) the uncured breach materially impairs the timely and complete implementation of the Remedial Measures;

b) if an FRA Consultant is appointed, the uncured breach materially impairs the Consultant's ability to perform the Consultant's functions and responsibilities under this agreement; and

Notice of Material Breach. If Treasury determines that a material breach of this agreement has occurred or is occurring, Treasury shall immediately notify the Board, the Superintendent, and the Consultant, if appointed, of the determination. The District will take all lawful steps necessary to cure the material breach within 14 days and report to Treasury the steps taken to cure the material breach, unless Treasury determines that the material breach is of a nature that cannot be cured

within 14 days. If Treasury determines that the material breach cannot be cured within 14 days, Treasury will provide the District with a longer period to cure the material breach and the District will report the steps taken to cure the material breach within the longer period provided by the Treasurer. If Treasury determines that a material breach must be cured within fewer than 14 days to address a projected deficiency in the District's cash flow, Treasury will require the District cure the deficiency in a shorter time period and the District will report the steps taken to cure the material breach within time period provided by Treasury.

If the district fails to comply with any section of this agreement, 2012 PA 436, MCL 141.1541 to 141.1575, section 7a states that the State Treasurer may declare that a financial emergency exists and recommend that the Governor appoint an Emergency Manager to the school district.

13) **Treasury Designees.** The Treasurer may designate an individual within Treasury to perform the Treasurer's functions and responsibilities under this agreement. The Treasurer may designate an individual or agency, division, or other organizational unit within Treasury to receive reports or other notifications under this agreement and will notify the District of a designation under this section.

    In the event of a vacancy in the position of Superintendent, the District shall not fill the vacancy or designate an acting Superintendent without the approval of Treasury. The Superintendent shall not be terminated by the Board without the approval of Treasury. If the Superintendent fails to comply with this agreement or violates Michigan law, the Board, upon request of Treasury shall terminate the Superintendent.

14) **Due Dates.** If a due date for a report or other document under this agreement falls on a Saturday, Sunday, or legal holiday, then the due date for the report or document will be the first day after the listed due date that is not a Saturday, Sunday, or legal holiday. If a report or other document is provided to Treasury by the Consultant, the report, or other document shall be deemed to have been received by Treasury from the District.

15) **Modification; Waiver.** No amendment of this agreement will be effective unless it is in writing and signed by the parties. The parties shall amend this agreement if necessary to comply with applicable law. Treasury may waive a provision of this agreement if the department determines that the District demonstrates good cause for the waiver, including a material breach of this agreement caused by a third party or solely by the Consultant. No waiver of satisfaction of a condition or failure to comply with an obligation under this agreement will be effective unless it is in writing and signed by the party granting the waiver and no such waiver will constitute a waiver of satisfaction of any other condition or failure to comply with any other obligation. If requested by Treasury, a document signed on behalf of the District may be required to be first approved by the Board.

16) **Severability.** The parties intend as follows:
    a) that if any provision of this agreement is held to be unenforceable, then that provision will be modified to the minimum extent necessary to make it enforceable, unless that modification is not permitted by law, in which case that provision will be disregarded;

    b) that if an unenforceable provision is modified or disregarded in accordance with this section, then the rest of the agreement will remain in effect as written; and

    c) that any unenforceable provision will remain as written in any circumstances other than those in which the provision is held to be unenforceable.

17) **Counterparts.** If the parties sign this agreement in several counterparts, each will be deemed an original but all counterparts together will constitute one instrument.

18) **Governing Law.** The laws of the state of Michigan, without giving effect to its principles of conflicts of law, govern all adversarial proceedings arising out of this agreement.

19) **Entire agreement.** This agreement constitutes the entire understanding between the parties with respect to the subject matter of this agreement and supersedes all other agreements, whether written or oral, between the parties, except agreements relating to Debt of the District.

The parties are signing this agreement on the date stated in the introductory clause. [*signatures on following page]*

SCHEDULE 1 REMEDIAL MEASURES

Action	Date (on or Before)	Remedial Measure
1	Effective Date of Agreement	The District shall not enter into new contracts (including CBAs) more than $25,000 without approval from Treasury.
2	August 15, 2016	The District shall transmit to Treasury an updated report listing all District contracts with a value of more than $25,000. The report must include for each contract, a vendor name, a description of goods or services provided, an indication as to whether the contract is a new contract or extension, the term of the contract, compensation payable under contract, an indication as to whether the contract was competitively bid, and the date on which the contract was approved by the Board.
3	June 30 (2016-17 Budget to be provided within 10 days of execution of this agreement)	Final Budget and Plan. The district shall develop a written Budget and narrative detailing the cost reductions by the end of each fiscal year. The budget shall also include a listing of all the assumptions made during the creation of the budget. The District must detail each assumption and the plan for accomplishing the budget.
4	August 15, 2016	The District shall submit its marketing plan to recruit and retain students for the 2016-17 school year.
5	Within 20 Business Days after the October and February Count Dates	The District shall provide an update to Treasury on student enrollment projections.
6	August 15, 2016	Based on the District's recently completed facility assessment, the District shall submit to Treasury a five-year capital expenditure plan that outlines the use of its sinking fund.
7	September 30, 2016	The District shall submit a marketing plan for renewing its sinking fund that includes a proposed timeline for approving the ballot for the anticipated election date.
8	August 15, 2016	The District shall submit its plans to enhance its cyber program outlining how it will attract and retain students.
9	December 15, 2016	The District shall submit its application to Oakland Schools for capital needs funding for its Edison MAX center-based program.

SCHOOL DISTRICT OF THE CITY OF HAZEL PARK

Superintendent Signature

Amy Kruppe
Print Name

Board President

Rachel Noth
Print Name

THE MICHIGAN DEPARTMENT OF TREASURY

for State Treasurer (or designee)

Joseph L. Fielek
Print Name

CERTIFICATION

I, Sue Hemple, Secretary of the Board of Education of SCHOOL DISTRICT OF THE CITY OF HAZEL PARK certify all of the following:

that this Financial Recovery Agreement was approved and then signed by the Board of Education President by a resolution adopted at a meeting of the Board of Education held on July 19, 2016;

that the resolution remains in effect;

that the meeting was held in compliance with the Open Meetings Act, 1976 PA 267, MCL 15.261 to 15.275; and

(3) that the minutes of the meeting were kept and have been or will be made available as required by the Open Meetings Act, 1976 PA 267, MCL 15.261 to 15.275.

Date: July 19, 2016

Secretary of the Board of Education

Sue Hemple
Print Name