

Local Emergency Financial Assistance Loan Board
Monday, October 29, 2018
9:00 AM

Richard H. Austin Building
State Treasurers' Board Room, 1st Floor
430 W. Allegan Street
Lansing, Michigan 48922

I. CALL TO ORDER

II. APPROVAL OF MINUTES

- a. Approval of Local Emergency Financial Assistance Loan Board ELB minutes
 - i. April 9th, 2018 Special Meeting Minutes

III. PUBLIC COMMENT

IV. NEW BUSINESS

- a. Determination if Probable Financial Stress exists for South Lake Schools
 - i. Final Preliminary Review
 - 1. Executive summary from OSRFA
 - 2. ELB Order 2018-10**
 - a. Probable Financial Stress
 - b. No Probable Financial Stress
- b. Determination if Probable Financial Stress exists for Detroit Public Safety Academy
 - i. Final Preliminary Review
 - 1. Executive summary from OSRFA
 - 2. ELB Order 2018-11**
 - a. Probable Financial Stress
 - b. No Probable Financial Stress

V. ADJOURNMENT



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET
LANSING

DAVID L. DEVRIES
DIRECTOR

ALTERNATE DESIGNATION

FOR MEETINGS OF THE

LOCAL EMERGENCY FINANCIAL ASSISTANCE LOAN BOARD

Members of the Board:

I am hereby designating the person named below as my representative at any meeting of the Local Emergency Financial Assistance Loan Board, and to sign on my behalf any Order of this Board.

This designation shall remain in effect until it is rescinded in writing.

Name: John J. Walsh

Title: State Budget Director

Office Name: State Budget Office

David L. DeVries

21 Feb 2018
Date

David L. DeVries
Signature



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

ALTERNATE DESIGNATION

FOR MEETINGS OF THE

LOCAL EMERGENCY FINANCIAL ASSISTANCE LOAN BOARD

Members of the Board:

I am hereby designating the person named below as my representative at any meeting of the Local Emergency Financial Assistance Loan Board, and to sign on my behalf any Order of this Board.


Name: Anne Wohlfert

Title: Interim Deputy Treasurer

Office Name: State and Local Finance

N.A. Khouri, State Treasurer

10/8/18
Date



Signature



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
LANSING

SHELLY EDGERTON
DIRECTOR

ALTERNATE DESIGNATION

FOR MEETINGS OF THE

LOCAL EMERGENCY FINANCIAL ASSISTANCE LOAN BOARD

Members of the Board:

I am hereby designating the person named below as my representative at any meeting of the Local Emergency Financial Assistance Loan Board, and to sign on my behalf any Order of this Board.

Name: Leanne Droste

Title: Director of Finance and Administrative Services

Shelly Edgerton, Director – Licensing and Regulatory Affairs

9/6/2018
Date

Shelly Edgerton
Signature



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

NICK A. KHOURI
STATE TREASURER

**LOCAL EMERGENCY FINANCIAL ASSISTANCE
LOAN BOARD MINUTES**

April 9, 2018 - 10:00 A.M.

Richard H. Austin Building
State Treasurers' Board Room, 1st Floor
430 West Allegan Street
Lansing, Michigan 48922

Members Present:

Eric Scorsone, Deputy Treasurer for Finance, Department of Treasury
John J. Walsh, State Budget Director, Department of Technology, Management and Budget
Shelly Edgerton, Director, Department of Licensing and Regulatory Affairs

Others Present:

Maha Abu-Rumman, Department of Treasury
Klein Allison, Office of the Attorney General
John Barton, Department of Treasury
Jake Bower, Department of Treasury
Paul Connors, Department of Treasury
Danelle Gittus, Department of Treasury
Harlan Goodrich, Department of Treasury
Edward Koryzno, Department of Treasury
Ron Leix, Department of Treasury
Kyle Llano, Department of Treasury
Laurie McCann, Department of Treasury
John Millhouse, Office of the Attorney General
William Sanders, Department of Treasury
Jeffrey Schwartz, Department of Treasury
Rodney Taylor, Department of Treasury
Thy Tran, Department of Treasury
Michael Wrobel, Department of Treasury

I. Call to Order

Eric Scorsone called the meeting to order at 10:09 A.M.

II. Approval of Minutes

A motion was made by Shelly Edgerton to approve the minutes from the meeting of December 15, 2016, as presented. John J. Walsh abstained from the approval as he was not present at the last meeting. The minutes were approved as presented.

III. Public Comment

None.

IV. Orders 2018-1, 2018-2, 2018-3, and 2018-4, Muskegon Heights Public Schools, Orders of Approval of Restructured Emergency Loans (3) and Approval of Emergency Loan (1)

Mike Wrobel from the Department of Treasury was asked to speak. Muskegon Heights is seeking to restructure three emergency loans. Muskegon Heights is also seeking a fourth loan in the amount of \$2,449,000 which will be used to cover outstanding liabilities to the Office of Retirement Services and Unemployment Insurance Agency. Amounts owed to these agencies total roughly \$2,500,000 and have interest rates of 12% and 8% respectively, which are statutorily determined. The Emergency Loan would carry an interest rate of 2.7%.

Eric Scorsone asked if John Lewis, Assistant Superintendent, would like to speak. He agreed with Michael Wrobel on how important the restructuring of the three emergency loans is and how equally important the new loan is.

Eric Scorsone called for a motion regarding the Approval of Order 2018-1, in the amount of \$7,130,000. A motion was made by Shelly Edgerton to approve the Order of Approval as presented. The motion was supported by John J. Walsh. The motion was unanimously approved by the Board. M/S/P

Eric Scorsone called for a motion regarding the Approval of Order 2018-2, in the amount of \$3,235,000. A motion was made by Shelly Edgerton to approve the Order of Approval as presented. The motion was supported by John J. Walsh. The motion was unanimously approved by the Board. M/S/P

Eric Scorsone called for a motion regarding the Approval of Order 2018-3, in the amount of \$1,400,000. A motion was made by Shelly Edgerton to approve the Order of Approval as presented. The motion was supported by John J. Walsh. The motion was unanimously approved by the Board. M/S/P

Eric Scorsone called for a motion regarding the Approval of Order 2018-4, in the amount of \$2,449,000. A motion was made by Shelly Edgerton to approve the Order of Approval as presented. The motion was supported by John J. Walsh. The motion was unanimously approved by the Board. M/S/P

V. Orders 2018-5 and 2018-6, School District of the City of Pontiac, Orders of Approval of Restructured Emergency Loans

Paul Connors from the Department of Treasury was asked to speak. Pontiac has requested to restructure its two emergency loans. Both emergency loans are in the amount of \$10,000,000.

Kelly Williams, Superintendent, spoke indicating she concurs with the information presented, stating it is in line with the School's financial and operating plan.

Eric Scorsone called for a motion regarding the Approval of Order 2018-5, in the amount of \$10,000,000. A motion was made by John J. Walsh to approve the Order. The motion was supported by Shelly Edgerton. The motion was unanimously approved by the Board. M/S/P

Eric Scorsone called for a motion regarding the Approval of Order 2018-6, in the amount of \$10,000,000. A motion was made by John J. Walsh to approve the Order. The motion was supported by Shelly Edgerton. The motion was unanimously approved by the Board. M/S/P

VI. Order 2018-7, Bay City Academy, Order Determination if Probable Financial Stress exists for Bay City Academy

Mike Wrobel from the Department of Treasury was asked to speak. In fiscal year 2015 Bay City Academy closed the fiscal year with an operating deficit. The Academy began working with the Michigan Department of Education on a deficit elimination plan. Two years into the plan, it was determined the deficit elimination plan would last longer than five years. Under statute, because the plan was longer than five years, the Academy would go under a review process. Treasury conducted a preliminary review and noted an enrollment spike, an approved surplus budget as well as a recent budget amendment which increases the original budgeted surplus. His recommendation is the Academy's financial stress is manageable and that no probable financial stress exists.

Eric Scorsone called for a motion regarding the proposal. A motion was made by Shelly Edgerton to approve the Order of No Probable Financial Stress. The motion was supported by John J. Walsh. The motion was unanimously approved by the Board. M/S/P

VII. Order 2018-8, Order Approving Subordination of Emergency Loans to Other Obligations of Municipalities

Brian Lefler, Financial Advisor to the State of Michigan, was asked to speak. In supporting emergency loans subordinate to other obligations, this would make sure other entities who provide capital know they will be paid prior to any emergency loans. This helps in trying to have outside parties come from capital markets to provide financial support to local units.

Eric Scorsone called for a motion regarding the proposal. A motion was made by Shelly Edgerton to approve the Order Approving Subordination of Emergency Loans to Other

Obligations. The motion was supported by John J. Walsh. The motion was unanimously approved by the Board. M/S/P

VIII. Order 2018-9, Action Related to School District of the City of Highland Emergency Loans

Paul Connors from the Department of Treasury was asked to speak. At the end of the month, Kevin Smith's 18-month appointment as Emergency Manager will expire. This Order assures the School is in compliance, and will remain in compliance, with the 2012 and 2013 outstanding emergency loans. The 2012 loan is \$4,400,000 being repaid over 30 years and the 2013 loan is \$3,000,000 being repaid over 30 years.

Kevin Smith, Emergency Manager, spoke as to the current financial situation of the School.

Eric Scorsone called for a motion based on the recommendation of staff regarding the Approval of Order 2018-9. A motion was made by Shelly Edgerton to approve the Order. The motion was supported by John J Walsh. The motion was unanimously approved by the Board. M/S/P

The meeting was adjourned by Eric Scorsone at 10:23 A.M.



Michael Wrobel, Secretary
Local Emergency Financial Assistance Loan Board



Anne Wohlfert, Deputy Treasurer for Finance
As Designee for Nick A. Khouri, State Treasurer
Local Emergency Financial Assistance Loan Board

Date Approved: 10/29/18



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

DATE: October 11, 2018
TO: Local Emergency Financial Assistance Loan Board
FROM: Shelbi Frayer, Director of the Office of School Review and Fiscal Accountability
SUBJECT: Final Preliminary Review Report – South Lake Schools

I. Background

On September 11, 2018 the Department of Treasury (the “Department”) initiated a Preliminary Review of the finances of South Lake Schools (the “District”) to determine whether the school district exhibits probable financial stress. Pursuant to MCL §141.1544(2)(b), the District is statutorily mandated to undergo a preliminary review of its finances to determine the existence of probable financial stress. In part, this section provides that the Department, as the State Financial Authority, shall conduct a preliminary review of any school district that is subject to a Deficit Elimination Plan (DEP) that provides for the elimination of deficit over a period exceeding 5 years.

II. Final Review Findings

The following are facts or circumstances determined by the Department that are indicative of probable financial stress pursuant to MCL §141.1544(1)(s):

- 1) The last approved DEP exceeds seven or more consecutive years (including the current year); and/or

Finding:

The District’s current DEP (attachment A) was submitted to Michigan Department of Education in August 2018 and extends through FY 2022. The District incurred a deficit in FY 2014, the DEP eliminates the deficit in FY 2019. This results to a five-year deficit.

The District does not meet this criteria.

- 2) The district’s existing deficit is greater than 15% of general fund revenues;

Finding:

The District’s FY 2017 audit (attachment B) reflects total general fund revenues of \$19,853,419. The District’s total fund balance for FY 2017 is \$(1,282,078) indicating their deficit is 6.5% of their total general fund revenues.

The District's FY 2018 budget amendment (attachment C) reflects total general fund revenues \$20,143,443 for FY 2018. The District's total projected fund balance for FY 2018 is \$(839,535) indicating a deficit of 4.2% of total general fund revenues.

The District does not meet this criteria.

- 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) Immediate concerns with cash shortfalls in current fiscal year which may lead to additional financings or emergency loan
 - c) Excessive variances on Final Expenditure Reports (FER) for grants with federal funds
 - d) History of spending outside the appropriations established by the local school board in violation of Uniform Budgeting and Accounting Act (UBAA)
 - e) Significant audit findings and/or material weaknesses identified in the single audit; and

Finding:

- a) No deficiency noted.
- b) District is currently not anticipating a cash flow shortfall for FY 19.
- c) There are no excessive variances on FER for grants with federal funds (attachment D).
- d) The board passed a deficit budget on June 19, 2013 for FY 2014 calling for a fund balance of \$(1,912,031) on budgeted revenues of \$21,008,414. During the year the board passed a budget amendment, which had a fund balance of \$(448,330). They closed FY 2014 with an audited decrease in the fund balance by \$918,901 with an end of year fund deficit of \$(229,385). The District received \$20,865,602 in revenue.

For the FY 2015, the board was able to close the year with an audited decrease in the fund balance by \$902,040 with an end of year fund deficit of \$(1,131,425). For FY 2016, the board was able to close the year with an audited decrease in the fund balance by \$164,943 with an end of year fund deficit of \$(1,296,368). For FY 2017, the board passed a budget that decreased the fund balance by \$448,862, with an end of year fund deficit of \$(1,745,230). The District ended up with an audited surplus of \$14,290 and reduced their deficit to a balance of \$(1,282,078).

The FY 2018 budget predicts a savings of \$604,913 with an outstanding general fund deficit of \$(677,165). On October 18, 2017, the board passed a budget amendment to

match the deficit elimination plan. The amendment predicts a savings of \$442,543 with an outstanding general fund deficit of \$(839,535).

This information is summarized below:

Fiscal Year	Budgeted Rev-Exp	Actual Rev-Exp	Fund Balance
2014	\$(1,912,031)	\$(918,901)	\$(229,385)
2015	\$(985,437)	\$(902,040)	\$(1,131,425)
2016	\$(963,607)	\$(164,943)	\$(1,296,368)
2017	\$(448,862)	\$14,290	\$(1,282,078)
2018	\$604,913	TBD	TBD

The District does meet this criteria.

- e) The District received 3 audit findings for Fiscal Year 17: (attachment E):
 - i. 2017-001 (Repeat Finding 2016-001): Material noncompliance with laws and regulations (material weakness) for closing the year in a deficit condition
 - ii. 2017-002: Bank reconciliation should be completed timely with all reconciling items thoroughly investigated
 - iii. 2017-003: Disbursement process should be reviewed

The District does meet this criteria.

- 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 is planned the future fiscal year
 - b) Lack of cooperation from the district in submitting deficit information (i.e., late submission of the DEP, delinquent return of phone calls or correspondence relating to the DEP, and 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

Finding:

- a) No deficiency noted. The District’s deficit is showing a decrease from \$(839,535) in FY 2018 to a projected \$7,533 for FY 2019. The District has submitted a new Deficit Elimination Plan that will span to FY 2022. The Department and District will work on revised projections during the Enhanced Deficit Elimination Plan (EDEP) process.
- b) No deficiency noted.
- c) The District has passed budgets in recent years that are inconsistent when viewed from year end. Furthermore, budgets submitted for review by the District and those posted on their website are not consistent with numbers pulled from the Financial Information Database within the Center for Education Information and Performance.

The District first projected a deficit in FY 2011, a Deficit Elimination Plan was submitted to MDE and approved by MDE on March 3, 2011. The District expected to be out of deficit in FY 2015 with a positive fund balance of \$11,209. The District continued to project a deficit budget and submit DEPs until a deficit occurred and the board approved a deficit budget in FY 2014.

For FY 2016, the District submitted a revised DEP projecting to be out of deficit in FY 2018 with a positive fund balance of \$71,038. For FY 2017, the District submitted a revised DEP that expected to have them out of deficit in FY 2019 with a positive fund balance of \$56,234. For FY 2018, the District submitted a revised DEP that expected to have them out of deficit in FY 2019 with a positive fund balance of \$7,553. The District has consistently overestimated their annual progress in eliminating the general fund deficit.

The District does meet this criteria.

Deficit Elimination Plan

Attachment A

South Lake Schools

Account	Preliminary Actual 2016-17	Budgeted 2017-18	Yearly Increase (Decrease)	% Increase (Decrease)	Estimated 2018-19	Yearly Increase (Decrease)	% Increase (Decrease)	Estimated 2019-20	Yearly Increase (Decrease)	% Increase (Decrease)	Estimated 2020-21	Yearly Increase (Decrease)	% Increase (Decrease)	Estimated 2021-22	Yearly Increase (Decrease)	% Increase (Decrease)	
1	Beginning Fund Equity:	(\$1,296,368)	(\$1,282,078)		(\$839,535)			\$7,553			\$678,040			\$1,269,648			
2	Add: Revenues																
3 11x	Local Sources	\$4,741,995	\$4,759,982	\$17,987	0.38%	\$4,825,775	\$65,793	1.38%	\$4,871,893	\$46,118	0.96%	\$4,918,472	\$46,579	0.96%	\$4,965,517	\$47,045	0.96%
4 51x	Local Rec'd Thru Another Public Sch.	\$742,827	\$629,576	(\$113,251)	-15.25%	\$782,484	\$152,908	24.29%	\$782,484	\$0	0.00%	\$782,484	\$0	0.00%	\$782,484	\$0	0.00%
5 2xx	Other Political Sub.	\$0	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%
6 3xx	State Sources	\$13,358,513	\$13,551,874	\$193,361	1.46%	\$13,396,570	(\$245,304)	-1.81%	\$13,273,639	(\$32,931)	-0.25%	\$13,339,866	\$66,228	0.50%	\$13,406,427	\$66,561	0.50%
7 4xx	Federal Sources	\$956,610	\$863,311	(\$93,299)	-9.75%	\$859,969	(\$3,342)	-0.39%	\$859,969	\$0	0.00%	\$859,969	\$0	0.00%	\$859,969	\$0	0.00%
8 52x-6xx	Incoming Transfers & Other	\$53,475	\$294,816	\$241,341	451.32%	\$51,000	(\$23,475)	-46.00%	\$51,000	\$0	0.00%	\$51,000	\$0	0.00%	\$51,000	\$0	0.00%
9	TOTAL REVENUES, ETC.	\$19,853,420	\$20,099,559	\$246,139	1.24%	\$19,825,798	(\$27,622)	-0.14%	\$19,838,985	\$13,187	0.07%	\$19,951,792	\$112,807	0.57%	\$20,065,397	\$113,605	0.57%
10	TOTAL RESOURCES AVAILABLE	\$18,557,052	\$18,817,481	\$260,429	1.40%	\$18,986,264	\$168,782	0.90%	\$19,846,538	\$860,274	4.53%	\$20,629,831	\$783,294	3.95%	\$21,335,046	\$705,214	3.42%
11	Less: Expenditures																
12 1xx	Classroom Inst.	\$11,386,131	\$10,924,581	(\$461,550)	-4.05%	\$10,846,092	(\$78,489)	-0.72%	\$10,954,553	\$108,461	1.00%	\$11,064,098	\$109,546	1.00%	\$11,174,739	\$110,641	1.00%
13	Support Services:																
14 21x	Pupil	\$2,078,562	\$2,050,000	(\$28,562)	-1.37%	\$2,050,000	\$0	0.00%	\$2,070,500	\$20,500	1.00%	\$2,091,205	\$20,705	1.00%	\$2,112,117	\$20,912	1.00%
15 22x	Inst. Staff	\$1,126,878	\$1,150,000	\$23,122	2.04%	\$1,150,000	\$0	0.00%	\$1,161,500	\$11,500	1.00%	\$1,173,115	\$11,615	1.00%	\$1,184,846	\$11,731	1.00%
16 23x	Gen. Adm.	\$536,131	\$475,000	(\$61,131)	-11.40%	\$419,000	(\$56,000)	-13.36%	\$423,190	\$4,190	1.00%	\$427,422	\$4,232	1.00%	\$431,696	\$4,274	1.00%
17 24x	Sch. Adm.	\$1,081,311	\$1,120,000	\$38,689	3.58%	\$1,120,000	\$0	0.00%	\$1,131,200	\$11,200	1.00%	\$1,142,512	\$11,312	1.00%	\$1,153,937	\$11,425	1.00%
18 25x	Business	\$346,829	\$305,000	(\$41,829)	-12.06%	\$305,000	\$0	0.00%	\$308,050	\$3,050	1.00%	\$311,131	\$3,081	1.00%	\$314,242	\$3,111	1.00%
19 26x	Operation & Maintenance	\$1,955,460	\$2,170,000	\$214,540	10.97%	\$1,926,184	(\$24,276)	-1.26%	\$1,945,446	\$19,262	1.00%	\$1,964,900	\$19,454	1.00%	\$1,984,549	\$19,649	1.00%
20 27x	Transportation	\$442,128	\$450,000	\$7,872	1.78%	\$450,000	\$0	0.00%	\$454,500	\$4,500	1.00%	\$459,045	\$4,545	1.00%	\$463,635	\$4,590	1.00%
21 28x	Central	\$74,756	\$72,000	(\$2,756)	-3.69%	\$72,000	\$0	0.00%	\$72,720	\$720	1.00%	\$73,447	\$727	1.00%	\$74,182	\$734	1.00%
22 29x	Other	\$248,588	\$275,000	\$26,412	10.63%	\$275,000	\$0	0.00%	\$277,500	\$2,500	1.00%	\$280,528	\$3,028	1.00%	\$283,533	\$3,005	1.00%
23 3xx	Community Services	\$555,306	\$660,155	\$104,849	18.88%	\$360,155	(\$300,000)	-83.30%	\$363,757	\$3,602	1.00%	\$367,394	\$3,638	1.00%	\$371,068	\$3,674	1.00%
24 41, 42, 43	Outgoing Transfers	\$5,940	\$5,280	(\$660)	-11.11%	\$5,280	\$0	0.00%	\$5,333	\$53	1.00%	\$5,386	\$53	1.00%	\$5,440	\$54	1.00%
25 45x	Facilities Acq	\$0	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%
26 51x	Debt Service	\$0	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%
27 6xx	Fund Modifications	\$0	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%
28	TOTAL EXP. & OUTGOING TRANSFERS	\$19,839,130	\$19,657,016	(\$182,114)	-0.92%	\$19,378,711	(\$678,305)	-3.45%	\$19,168,498	\$189,787	1.00%	\$19,360,183	\$191,685	1.00%	\$19,553,785	\$193,602	1.00%
29	ENDING FUND BALANCE	(\$1,282,078)	(\$839,535)	\$442,543	-34.52%	\$7,553	\$847,087	-100.90%	\$678,040	\$670,487	99.97%	\$1,269,648	\$591,609	87.25%	\$1,781,261	\$511,613	40.30%

Notes:

Half Step Cost - \$115,564+28,891 = \$144,455	Half Step Cost - \$115,564+28,891 = \$144,455	1% inflation increase	1% inflation increase	1% inflation increase
Half H.S.A. contribution - \$46,000	H.S.A. contribution - \$27,500			
Principal resignation - (\$193,600)	Foundation increase of \$120	No Foundation increase	Foundation increase of \$60	Foundation increase of \$60
New Principal - \$150,537				
Psych resignation (214) - (\$131,822)	FTE reduced by 30 to reflect loss of parochial	FTE stabilized at 1,722	FTE stabilized at 1,722	FTE stabilized at 1,722
Reductions of \$175,000	1% increase in property taxes	1% increase in property taxes	1% increase in property taxes	1% increase in property taxes
Psych contract service \$65,000	Reduce Comm by \$300,000 for parochial loss			
Reduce Bus Cont. Serv. (\$24,000)				
Restructure Maint. Savings (\$20,000)	Reduce Basic by \$100.00 through resignations			
FTE at 1,760.44				
2% increase in property taxes				

SOUTH LAKE SCHOOLS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Local sources	\$ 4,855,874	\$ 4,732,804	\$ 4,744,470	\$ 11,666
State sources	13,568,254	13,345,186	13,358,512	13,326
Federal sources	1,037,344	1,042,814	956,610	(86,204)
Interdistrict sources	784,374	825,266	742,827	(82,439)
Total Revenues	<u>20,245,846</u>	<u>19,946,070</u>	<u>19,802,419</u>	<u>(143,651)</u>
Expenditures:				
Current -				
Instruction -				
Basic programs	9,924,874	9,609,017	9,675,819	(66,802)
Added needs	1,865,271	1,719,836	1,711,301	8,535
Support Services -				
Pupil	2,066,693	2,037,385	2,078,563	(41,178)
Instructional staff	1,275,426	1,158,299	1,125,987	32,312
General administration	489,567	537,706	536,130	1,576
School administration	1,121,410	1,118,683	1,081,311	37,372
Business services	507,896	330,269	346,830	(16,561)
Operation and maintenance	1,937,756	1,984,519	1,955,460	29,059
Pupil transportation services	437,386	441,864	442,128	(264)
Central	116,496	91,912	74,756	17,156
Athletics	295,947	264,794	249,598	15,196
Community Services -				
Custody and care of children	12,819	12,655	6,348	6,307
Non-public school pupils	675,764	541,780	548,958	(7,178)
Outgoing Transfers	18,403	18,403	5,940	12,463
Total Expenditures	<u>20,745,708</u>	<u>19,867,122</u>	<u>19,839,129</u>	<u>27,993</u>
Revenues over (under) expenditures)	(499,862)	78,948	(36,710)	(115,658)
Other Financing Sources:				
Transfers from other funds	<u>51,000</u>	<u>51,000</u>	<u>51,000</u>	<u>-</u>
Net Change in Fund Deficit	(448,862)	129,948	14,290	(115,658)
Fund Deficit at beginning of year	<u>(1,296,368)</u>	<u>(1,296,368)</u>	<u>(1,296,368)</u>	<u>-</u>
Fund Deficit at end of year	<u><u>\$(1,745,230)</u></u>	<u><u>\$(1,166,420)</u></u>	<u><u>\$(1,282,078)</u></u>	<u><u>\$(115,658)</u></u>

2017-2018 BUDGET
GENERAL FUND
AMENDED

	ACTUAL AUDIT 6/30/2017	ADOPTED BUDGET 6/21/2017	AMENDED TO MATCH DEP 10/18/2018	AMENDED BUDGET 6/20/2018	PROPOSED BUDGET 6/20/2018	AMENDMENT INCREASE (DECREASE)
REVENUES						
Local Sources	\$4,744,470	\$4,902,452	\$5,628,055	\$5,633,378	\$5,674,530	\$5,323
State Sources	13,358,512	13,134,505	13,465,120	13,551,870	13,528,145	\$86,750
Federal Sources	956,610	1,015,922	999,268	863,311	999,268	(\$135,957)
TOTAL REVENUES	\$19,059,592	\$19,052,879	\$20,092,443	\$20,048,559	\$20,201,943	(\$43,884)
Incoming Transfers & Other	\$793,827	\$835,374	\$51,000	\$51,000	\$51,000	\$0
TOTAL REVENUES, INCOMING TRANSFERS & OTHER	\$19,853,419	\$19,888,253	\$20,143,443	\$20,099,559	\$20,252,943	(\$43,884)
EXPENDITURES						
INSTRUCTION						
Basic Program	\$9,675,819	\$8,811,704	\$9,699,122	\$9,223,201	\$9,425,077	(\$475,921)
Added Needs	1,711,301	1,991,629	1702464	1,722,164	1,702,464	\$19,700
TOTAL INSTRUCTION	\$11,387,120	\$10,803,333	\$11,401,586	\$10,945,365	\$11,127,541	(\$456,221)
SUPPORT SERVICES						
Pupil	\$2,078,563	\$2,015,537	\$2,011,940	\$2,045,187	\$2,011,940	\$33,247
Instructional Staff	1,125,987	1,120,349	1,126,978	1,241,128	1,126,978	\$114,150
General Administration	536,130	489,567	536,131	481,328	480,131	(\$54,803)
School Administration	1,081,311	944,899	1,038,248	1,122,739	1,038,248	\$84,491
Business	346,830	507,896	322,829	353,960	322,829	\$31,131
Operations & Maintenance	1,955,460	1,912,756	1,935,460	2,265,575	1,970,460	\$330,115
Pupil Transportation	442,128	392,252	442,128	486,064	442,128	\$43,936
Central	74,756	116,496	74,756	72,518	74,756	(\$2,238)
Athletic Activities	249,598	289,091	249,598	264,734	249,598	\$15,136
TOTAL SUPPORT SERVICE	\$7,890,763	\$7,788,843	\$7,738,068	\$8,333,233	\$7,717,068	\$595,165
COMMUNITY SERVICES	555,306	672,761	555,306	811,188	555,306	\$255,882
TOTAL EXPENDITURES	\$19,833,189	\$19,264,937	\$19,694,960	\$20,089,786	\$19,399,915	\$394,826
OUTGOING TRANSFERS FUND MODIFICATION & OTHER	5,940	18,403	\$5,940	\$5,280	\$5,940	(\$660)
TOTAL APPROPRIATED	\$19,839,129	\$19,283,340	\$19,700,900	\$20,095,066	\$19,405,855	\$394,166
EXCESS REVENUE (APPROP)	14,290	604,913	442,543	4,493	847,088	(\$438,050)
FUND BALANCE, JULY 1	(\$1,296,368)	(\$1,282,078)	(\$1,282,078)	(\$1,282,078)	(\$839,535)	\$0
FUND BALANCE, JUNE 30	(\$1,282,078)	(\$677,165)	(\$839,535)	(\$1,277,585)	\$7,553	(\$438,050)
	6/30/2017	6/30/2018	6/30/2018	6/30/2018	6/30/2019	
Fund Balance as a Percent of Expenses	-6.46%	-3.51%	-4.26%	-6.36%	0.04%	

Robert Penn
Secretary
South Lake Schools Board of Education

Grant Auditor Report

50200

7/1/2017 - 9/30/2018

ISD 50

South Lake Schools
23101 STADIUM DR
SAINT CLAIR SHORES, MI 480803208

Grant #	Project #	Project End Date	Allocation	Approved	Paid During Date Range	Cumulative Payments	Balance Approved-Cumulative	Final Expenditure Report?
10.553								
School Breakfast Program								
171970	1217		\$0.00	\$14,725.35	\$14,725.35	\$14,725.35	\$0.00	None
181970	118		\$0.00	\$21,351.61	\$21,351.61	\$21,351.61	\$0.00	None
181970	218		\$0.00	\$18,336.33	\$18,336.33	\$18,336.33	\$0.00	None
181970	318		\$0.00	\$14,273.37	\$14,273.37	\$14,273.37	\$0.00	None
181970	418		\$0.00	\$16,039.33	\$16,039.33	\$16,039.33	\$0.00	None
181970	518		\$0.00	\$16,200.02	\$16,200.02	\$16,200.02	\$0.00	None
181970	618		\$0.00	\$20,921.33	\$20,921.33	\$20,921.33	\$0.00	None
181970	718		\$0.00	\$16,099.19	\$16,099.19	\$16,099.19	\$0.00	None
181970	818		\$0.00	\$22,141.80	\$22,141.80	\$22,141.80	\$0.00	None
181970	918		\$0.00	\$9,918.49	\$9,918.49	\$9,918.49	\$0.00	None
Total for 10.553			\$0.00	\$170,006.82	\$170,006.82	\$170,006.82	\$0.00	
10.555								
National School Lunch Program								
171960	1217		\$0.00	\$37,066.49	\$37,066.49	\$37,066.49	\$0.00	None

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Grant Auditor Report

Grant #	Project #	Project End Date	Allocation	Approved	Paid During Date Range	Cumulative Payments	Balance Approved-Cumulative	Final Expenditure Report?
181960	118		\$0.00	\$49,824.77	\$49,824.77	\$49,824.77	\$0.00	None
181960	218		\$0.00	\$42,802.95	\$42,802.95	\$42,802.95	\$0.00	None
181960	318		\$0.00	\$35,735.26	\$35,735.26	\$35,735.26	\$0.00	None
181960	418		\$0.00	\$34,929.86	\$34,929.86	\$34,929.86	\$0.00	None
181960	518		\$0.00	\$34,478.23	\$34,478.23	\$34,478.23	\$0.00	None
181960	618		\$0.00	\$46,705.55	\$46,705.55	\$46,705.55	\$0.00	None
181960	718		\$0.00	\$35,907.43	\$35,907.43	\$35,907.43	\$0.00	None
181960	818		\$0.00	\$45,817.44	\$45,817.44	\$45,817.44	\$0.00	None
181960	918		\$0.00	\$19,725.97	\$19,725.97	\$19,725.97	\$0.00	None
Total for 10.555			\$0.00	\$382,993.95	\$382,993.95	\$382,993.95	\$0.00	
10.558								
CACFP Meals								
171920	1217		\$0.00	\$642.97	\$642.97	\$642.97	\$0.00	None
171920	917		\$0.00	\$136.99	\$136.99	\$136.99	\$0.00	None
172010	1217		\$0.00	\$27.67	\$27.67	\$27.67	\$0.00	None
172010	917		\$0.00	\$3.22	\$3.22	\$3.22	\$0.00	None
181920	118		\$0.00	\$1,431.43	\$1,431.43	\$1,431.43	\$0.00	None
181920	218		\$0.00	\$1,262.35	\$1,262.35	\$1,262.35	\$0.00	None
181920	318		\$0.00	\$793.45	\$793.45	\$793.45	\$0.00	None
181920	418		\$0.00	\$805.80	\$805.80	\$805.80	\$0.00	None

Grant Auditor Report

Grant #	Project #	Project End Date	Allocation	Approved	Paid During Date Range	Cumulative Payments	Balance Approved-Cumulative	Final Expenditure Report?
181920	518		\$0.00	\$832.39	\$832.39	\$832.39	\$0.00	None
181920	618		\$0.00	\$1,221.58	\$1,221.58	\$1,221.58	\$0.00	None
181920	718		\$0.00	\$762.77	\$762.77	\$762.77	\$0.00	None
181920	818		\$0.00	\$822.13	\$822.13	\$822.13	\$0.00	None
181920	918		\$0.00	\$84.68	\$84.68	\$84.68	\$0.00	None
182010	118		\$0.00	\$65.33	\$65.33	\$65.33	\$0.00	None
182010	218		\$0.00	\$65.33	\$65.33	\$65.33	\$0.00	None
182010	318		\$0.00	\$36.04	\$36.04	\$36.04	\$0.00	None
182010	418		\$0.00	\$38.13	\$38.13	\$38.13	\$0.00	None
182010	518		\$0.00	\$33.71	\$33.71	\$33.71	\$0.00	None
182010	618		\$0.00	\$52.54	\$52.54	\$52.54	\$0.00	None
182010	718		\$0.00	\$28.60	\$28.60	\$28.60	\$0.00	None
182010	818		\$0.00	\$27.67	\$27.67	\$27.67	\$0.00	None
Total for 10.558			\$0.00	\$9,174.78	\$9,174.78	\$9,174.78	\$0.00	
10.559								
SFSP OPERATING								
170900	1017		\$0.00	\$5,368.26	\$5,368.26	\$5,368.26	\$0.00	None
170900	1117		\$0.00	\$3,855.33	\$3,855.33	\$3,855.33	\$0.00	None
171900	1017		\$0.00	\$551.19	\$551.19	\$551.19	\$0.00	None
171900	1117		\$0.00	\$396.03	\$396.03	\$396.03	\$0.00	None

Grant Auditor Report

Grant #	Project #	Project End Date	Allocation	Approved	Paid During Date Range	Cumulative Payments	Balance Approved-Cumulative	Final Expenditure Report?
180900	1018		\$0.00	\$6,676.11	\$6,676.11	\$6,676.11	\$0.00	None
180900	1118		\$0.00	\$3,549.35	\$3,549.35	\$3,549.35	\$0.00	None
181900	1018		\$0.00	\$688.73	\$688.73	\$688.73	\$0.00	None
181900	1118		\$0.00	\$366.02	\$366.02	\$366.02	\$0.00	None
Total for 10.559			\$0.00	\$21,451.02	\$21,451.02	\$21,451.02	\$0.00	
84.010								
Title I Part A								
171530	1617	9/30/2017	\$393,253.00	\$452,240.00	\$30,708.00	\$403,396.00	\$48,844.00	Received
181530	1718	9/30/2018	\$333,808.00	\$382,650.00	\$295,953.38	\$295,953.38	\$86,696.62	None
Total for 84.010			\$727,061.00	\$834,890.00	\$326,661.38	\$699,349.38	\$135,540.62	
84.367								
TITLE II PART A								
170520	1617	9/30/2017	\$81,634.00	\$137,743.00	\$8,200.00	\$116,848.00	\$20,895.00	Received
180520	1718	9/30/2018	\$80,760.00	\$101,655.00	\$101,655.00	\$101,655.00	\$0.00	None
Total for 84.367			\$162,394.00	\$239,398.00	\$109,855.00	\$218,503.00	\$20,895.00	
84.424								
Title IV Part A Student Support & Academic Enrich.								
180750	1718	9/30/2018	\$10,000.00	\$10,000.00	\$3,857.50	\$3,857.50	\$6,142.50	None
Total for 84.424			\$10,000.00	\$10,000.00	\$3,857.50	\$3,857.50	\$6,142.50	
Total for South Lake Schools			\$899,455.00	\$1,667,914.57	\$1,024,000.45	\$1,505,336.45	\$162,578.12	

**SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

Section II - Financial Statement Findings:

2017-001: (Repeat Comment - Prior Year Finding 2016-001)

Type: Material noncompliance with laws and regulations

Criteria: Section 103 of the State of Michigan School Aid Act and the State of Michigan Uniform Budgeting and Accounting Act prohibits a school district to adopt or operate under a deficit budget and a district shall not incur an operating deficit in a fund during the school year.

Condition: The School District's original budget estimated a General Fund fund balance deficit of \$(1,745,230) with the final amended budget estimating a deficit of \$(1,166,420). The actual deficit for June 30, 2017 amounted to \$(1,282,078). The School District has filed and is operating under a deficit reduction plan which was originally approved by the State Treasury in September 2013.

Cause: Current operating revenues and carryover fund balance are not sufficient to cover operating expenditures.

Effect: The School District is not operating in accordance with the Michigan State School Aid Act.

Questioned Costs: None

Recommendation: The Board should continue to monitor its budget very closely and adopt a balanced budget as soon as possible.

View of Responsible Official and Planned Corrective Action: Management agrees with the finding. See corrective action plan.

2017-002: Bank reconciliation should be completed timely with all reconciling items thoroughly investigated.

Type: Material weakness in internal controls over financial reporting.

Criteria: A required element of internal control over cash is to require a monthly bank reconciliation to be performed on all cash accounts within an entity to determine that the ending bank balance is reconciled to the General Ledger balance and all reconciling items are properly accounted for and recorded.

Condition: During the audit it appears that the bank reconciliations were performed on a monthly basis however two (2) accounts had material reconciling items that were not properly investigated and recorded in the accounting system. These reconciling items carried forward for a number of months. In addition, it appears that the reconciliation focuses more on reconciling the bank accounts to the Microsoft Excel workbooks that carried the activity of the account rather than the General Ledger. As a result, two material journal entries regarding these issues were proposed and accepted during the audit process.

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

Context: We noted that the MILAF account had a reconciling item of approximately \$130,000 from a transaction that occurred in December 2016 while the other account had a reconciling item of approximately \$203,000 where the School District anticipated a refund of amounts spent however only a small refund was received.

Cause: The School District has not implemented controls over cash in which the monthly bank reconciliations are required to be completed with all reconciling items thoroughly investigated and that the accounts are reconciled to the General Ledger and not just the Microsoft Excel worksheets maintained.

Effect: The failure to implement the aforementioned internal control exposes the School District to risk of not identifying unrecorded or improperly recorded transactions and potential fraudulent financial reporting or misappropriation of assets.

Recommendation: We recommend that all bank accounts to be reconciled monthly with any reconciling items thoroughly investigated and supported. In addition, although the process can include the Microsoft Excel worksheets, the reconciliation process should be primarily focused on reconciling the bank accounts to the General Ledger.

View of Responsible Officials and Planned Corrective Action: Management agrees with the finding. See corrective action plan.

2017-003: Disbursement process should be reviewed.

Type: Material weakness in internal controls over financial reporting.

Criteria: Segregation of duties is crucial to internal controls over the School District's processes to ensure a single individual does not have access to each step of a transaction cycle.

Condition: An employee has access to all aspects of the disbursement process, including the ability to write checks, keeping the sequence of checks written, completing bank reconciliations, ability to record journal entries, and maintenance of the General Ledger.

Context: There is a potential for misstatements, fraud, and errors due to the lack of segregation of duties within this transaction cycle.

Cause: During the year one of the key accounting personnel retired and was not replaced, as a result a number of duties were reassigned which eliminated controls that were in place in prior years.

Effect: The lack of segregation of duties exposes the School District to increased risk of misstatement, errors, fraudulent financial reporting, and misappropriation of assets.

Recommendation: We recommend evaluating the current controls over the disbursement process in order to determine where other individuals can be inserted into the process to strengthen the controls over disbursements.

View of Responsible Official and Planned Corrective Action: Management agrees with the finding. See corrective action plan.

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

Section III - Federal Award Findings and Questioned Costs:

There were no federal award findings or questioned costs.

Section IV - Prior Years Findings and Questioned Costs:

See summary schedule of prior audit findings.

**SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

Audit Finding Number: 2016-001

Initial Year Finding Occurred: 2014

Status of Finding: The School District continues to monitor budget and spending. However, the finding has been repeated in the current year as finding 2017-001.

Revision or Deviation from Previous Corrective Action Reported: None. The School District continues to work closely with MDE to make significant strides in meeting all required milestones in the elimination of the School District's deficit.

Reasons for Belief Finding No Longer Valid or Warrants Further Action: N/A



October 16, 2017

District corrective action plan to the findings reported in the Schedule of Findings and Questioned Costs for the year ending June 30, 2017.

Section II – Financial Statement Findings:

2017-001: (Repeat Comment – Prior Year Finding 2016-001) Budget Noncompliance with the Michigan State School Aid Act

- As noted in the Summary Schedule of Prior Audit Findings, the District continues to monitor their budget and spending. The District continues to submit the required monthly reports to the State to show progress on the Deficit Elimination Plan (DEP) that was approved by the Michigan Department of Education (MDE) on September 4, 2014. At the request of the MDE, the district amends the DEP annually to update prior year forecasted budget projections to reflect current year budgeted revenues and expenditures. The District continues to work closely with the Michigan Department of Education to make significant strides in meeting all required milestones in the elimination of the District's deficit.

2017-002: Bank reconciliation should be completed timely with all reconciling items thoroughly investigated.

- When reconciling monthly bank statements, focus will shift on recording account activity in the Microsoft Excel workbooks to recording account activity in the General Ledger. Reconciling items that are discovered during the monthly reconciliation will be reviewed and investigated as the General Ledger is updated. The corrective action will take place immediately and be implemented for the 2017-2018 fiscal year.

2017-003: Disbursement process should be reviewed.

- Management will evaluate current internal controls and determine how to best insert individuals to strengthen controls so one employee does not have access to all aspects of the disbursement process. The corrective action will take place immediately and be implemented for the 2017-2018 fiscal year.

<i>Theodore VonHiltmayer</i> Superintendent 586 • 435-1602	<i>Frank Thomas</i> Business/Human Resources 586 • 435-1660	<i>John Thero</i> Instruction & Assessment 586 • 435-1640	<i>David Hambaum</i> Operations/Maintenance 586 • 435-1660	<i>Karen Wrona</i> Special Education 586 • 435-1610
BOARD OF EDUCATION				
<i>Charlotte Rebelein</i> President	<i>Michael Damiani</i> Vice-President	<i>Robert Penn</i> Secretary	<i>Melissa Gordon</i> Treasurer	<i>Kelly Gattuso</i> Trustee
			<i>Lois Cardenas</i> Trustee	<i>Julle Ann Magee</i> Trustee



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We appreciate the opportunity to submit our corrective action plan to the findings reported in the Schedule of Findings and Questioned Costs for the year ending June 30, 2017. We believe the implementation of the aforementioned comments and suggestions and our improvements or changes in procedures will not only correct the findings, but prevent them from reoccurring in the future.

Sincerely,

Frank Thomas
Director of Business & H.R.

Theodore VonHiltmayer
Superintendent
586 • 435- 1602

Frank Thomas
Business/Human Resources
586 • 435-1660

John Thero
Instruction & Assessment
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David Hambaum
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STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

DATE: October 1, 2018

TO: Ted VonHiltmayer, Superintendent
Charlotte Rebelein, Board President

FROM: Shelbi Frayer, Director of the Office of School Review and Fiscal Accountability

SUBJECT: Interim Preliminary Review Report – South Lake Schools

I. Background

On September 11, 2018 the Department of Treasury (the “Department”) initiated a Preliminary Review of the finances of South Lake Schools (the “District”) to determine whether the school district exhibits probable financial stress. Pursuant to MCL §141.1544(2)(b), the District is statutorily mandated to undergo a preliminary review of its finances to determine the existence of probable financial stress. In part, this section provides that the Department, as the State Financial Authority, shall conduct a preliminary review of any school district that is subject to a Deficit Elimination Plan (DEP) that provides for the elimination of deficit over a period exceeding 5 years.

Under MCL §141.1544(3), the Department shall provide an interim report of its findings to the District within 20 days following the commencement of the preliminary review. The school district may provide comments within 5 days after the interim report is provided to the District. Thereafter, the Department shall prepare and provide a final report detailing its preliminary review to the Emergency Loan Board within 30 days following commencement of the preliminary review.

II. Final Review Findings

The following are facts or circumstances determined by the Department that are indicative of probable financial stress pursuant to MCL §141.1544(1)(s):

- 1) The last approved DEP exceeds seven or more consecutive years (including the current year); and/or

Finding:

The District’s current DEP (attachment A) was submitted to Michigan Department of Education in August 2018 and extends through FY 2022. The District incurred a deficit in FY 2014, the DEP eliminates the deficit in FY 2019. This results to a five-year deficit.

The District does not meet this criteria.

- 2) The district's existing deficit is greater than 15% of general fund revenues;

Finding:

The District's FY 2017 audit (attachment B) reflects total general fund revenues of \$19,853,419. The District's total fund balance for FY 2017 is \$(1,282,078) indicating their deficit is 6.5% of their total general fund revenues.

The District's FY 2018 budget amendment (attachment C) reflects total general fund revenues \$20,143,443 for FY 2018. The District's total projected fund balance for FY 2018 is \$(839,535) indicating a deficit of 4.2% of total general fund revenues.

The District does not meet this criteria.

- 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) Immediate concerns with cash shortfalls in current fiscal year which may lead to additional financings or emergency loan
 - c) Excessive variances on Final Expenditure Reports (FER) for grants with federal funds
 - d) History of spending outside the appropriations established by the local school board in violation of Uniform Budgeting and Accounting Act (UBAA)
 - e) Significant audit findings and/or material weaknesses identified in the single audit; and

Finding:

- a) No deficiency noted.
- b) District is currently not anticipating a cash flow shortfall for FY 19.
- c) There are no excessive variances on FER for grants with federal funds (attachment D).
- d) The board passed a deficit budget on June 19, 2013 for FY 2014 calling for a fund balance of \$(1,912,031) on budgeted revenues of \$20,990,414. During the year the board passed a budget amendment, which had a fund balance of \$(1,137,846). They closed FY 2014 with an audited decrease in the fund balance by \$918,901 with an end of year fund deficit of \$(229,385). The District received \$20,814,602 in revenue.

For the FY 2015, the board was able to close the year with an audited decrease in the fund balance by \$902,040 with an end of year fund deficit of \$(1,131,425). For FY 2016, the board was able to close the year with an audited decrease in the fund

balance by \$ 164,943 with an end of year fund deficit of \$(1,296,368). For FY 2017, the board passed a budget that decreased the fund balance by \$448,862, with an end of year fund deficit of \$(1,794,230). The District ended up with an audited surplus of \$14,920 and reduced their deficit to a balance of \$(1,282,078).

The FY 2018 budget predicts a savings of \$604,913 with an outstanding general fund deficit of \$(677,165). On October 18, 2017, the board passed a budget amendment to match the deficit elimination plan. The amendment predicts a savings of \$442,543 with an outstanding general fund deficit of \$(839,535).

This information is summarized below:

Fiscal Year	Budgeted Rev-Exp	Actual Rev-Exp	Fund Balance
2014	\$(1,912,031)	\$(969,901)	\$(229,385)
2015	\$(985,437)	\$(902,040)	\$(1,131,425)
2016	\$(963,607)	\$(164,943)	\$(1,296,368)
2017	\$(448,862)	\$14,290	\$(1,282,078)
2018	\$604,913	TBD	TBD

- e) The District received 3 audit findings for Fiscal Year 17: (attachment E):
 - i. 2017-001: (Repeat Finding 2016-001) Material noncompliance with laws and regulations (material weakness) for closing the year in a deficit condition
 - ii. 2017-002: Bank reconciliation should be completed timely with all reconciling items thoroughly investigated
 - iii. 2017-003: Disbursement process should be reviewed

The District does meet this criteria.

- 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 is planned the future fiscal year
 - b) Lack of cooperation from the district in submitting deficit information (i.e., late submission of the DEP, delinquent return of phone calls or correspondence relating to the DEP, and 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

Finding:

- a) No deficiency noted. The District’s deficit is showing a decrease from \$(839,535) in FY 2018 to a projected \$7,533 for FY 2019. The District has submitted a new Deficit

Elimination Plan that will span to FY 2022. The Department and District will work on revised projections during the Enhanced Deficit Elimination Plan (EDEP) process.

- b) No deficiency noted.
- c) The District has passed budgets in recent years that are inconsistent when viewed from year end. Furthermore, budgets submitted for review by the District and those posted on their website are not consistent with numbers pulled from the Financial Information Database within the Center for Education Information and Performance.

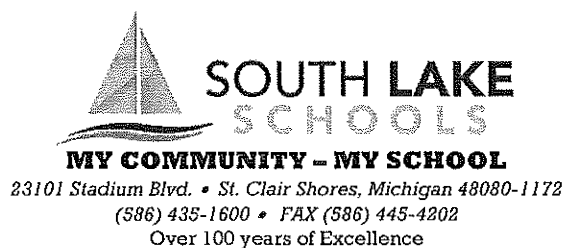
The District first projected a deficit in FY 2011, a Deficit Elimination Plan was submitted to MDE and approved by MDE on March 3, 2011. The District expected to be out of deficit in FY 2015 with a positive fund balance of \$11,209. The District continued to project a deficit budget and submit DEPs until a deficit occurred and the board approved a deficit budget in FY 2014.

For FY 2016, the District submitted a revised DEP projecting to be out of deficit in FY 2018 with a positive fund balance of \$71,038. For FY 2017, the District submitted a revised DEP that expected to have them out of deficit in FY 2019 with a positive fund balance of \$56,234. For FY 2018, the District submitted a revised DEP that expected to have them out of deficit in FY 2019 with a positive fund balance of \$7,553. The District has consistently overestimated their annual progress in eliminating the general fund deficit.

The District does meet this criteria.

The District has five days to respond to these findings. Please send documents and questions to Michael Wrobel at WrobelM@michigan.gov or (517) 335-3247.

- cc. Michael Damiani, Board Vice President, South Lake Schools
Robert Penn, Board Secretary, South Lake Schools
Kelly Gattuso, Board Treasurer, South Lake Schools
Lois Cardenas, Board Trustee, South Lake Schools
Melissa Gordon, Board Trustee, South Lake Schools
Julie Ann Magee, Board Trustee, South Lake Schools
Michael DeVault, Superintendent, Macomb Intermediate School District
Sheila Alles, Interim State Superintendent, MDE
Kyle Guerrant, Deputy Superintendent, Administrative Services, MDE
Phil Boone, Director, State Aid and School Finance, MDE
Jack Brandenburg, State Senator, Michigan Senate
Kevin Hertel, State Representative, Michigan House of Representatives



Date: October 5, 2018

To: Shelbi Frayer
Director of the Office of School Review and Fiscal Accountability

From: Frank Thomas
Director of Business and Human Resources

Re: South Lake Schools Comments on Interim Preliminary Review Report

The District has received and reviewed the Interim Preliminary Review Report from Mrs. Chelan Burks-Andrews. The District would like to take the opportunity to provide comments that would be included in the final report.

The District has worked closely with the Michigan Department of Education in the development and implementation of the district's Deficit Elimination Plan, which has then been approved by the Board of Education. In conjunction with MDE, the District has tried to put a plan in place, with each DEP submitted, to show a positive fund balance within the DEP time-line.

District employee's that were part of the DEP filed in FY 2011, when the first DEP was filed, to FY 2016 are no longer with the district. Since then, we have worked closely with MDE to communicate with staff and develop a strategy to eliminate the deficit within the time-line given. The District has not intentionally overestimated their annual progress in eliminating the deficit. Unfortunately, some of those plans did not come to pass. For example, the 2015-2016 DEP included a fund modification that changed the way accrued salaries were recorded at the end of the year. The change in accruing salaries at the end of the year would not have resulted in employee's losing pay, but would have reduced expenses for the 2016-2017 school year by \$1,884,313, thus eliminating the deficit. The mechanics of this accrual change was a negotiable issue, that unfortunately was not agreed to by the union.

In addition to conference calls with Chad Urchike, MDE, the district has also gone to Lansing to meet with other individuals from MDE and Treasury. The District met with MDE and Treasury on February 22, 2016, with a follow-up conference call on July 20, 2016. MDE was instrumental in communications with the teachers bargaining union, Michigan Education Association. These communications resulted in wages being reduced by 9% beginning with the 2016-2017 school year. At that time, in addition to the employee concessions there were three other factors that were discussed as an integral part in the district eliminating its deficit, and they were: 1) Enrollment 2) Accrual of

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Superintendent
586 • 435- 1602

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Business/Human Resources
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John Thero
Instruction & Assessment
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David Hambaum
Operations/Maintenance
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Karen Wrona
Special Education
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BOARD OF EDUCATION

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summer payroll 3) Promotion of the district. Enrollment and promotion of the district still remain as key factors to eliminating the deficit, but are not the only factors being considered.

Progress has been made to reduce and eliminate the structural deficit that existed in the district. Wage concessions in 2016-2017 was the main factor in eliminating the structural deficit. The 2016-2017 school year was the first year, in 10 years, that the district showed revenues exceeding expenditures despite losing over 100 FTE's.

Enrollment was the key factor when working with MDE to extend the DEP to 2018-2019. On October 20, 2016 the district requested an extension of its DEP until the 2018-2019 school year. The main reason for this extension request was a larger than anticipated decline in enrollment, by 50 FTE's. Enrollment declined for the 2016-2017 school year by 109.62 FTE's. Since the 2013-2014 school year, first year of the deficit, enrollment has declined by 300 FTE's.

As enrollment declines, the district has reduced staff through attrition and when new staff are hired they are started at lower salary. This practice has helped maintain the structural balance between revenues and expenses going forward. However, the existing deficit created in FY 14, FY15, and FY16 is difficult to address as enrollment declines.

The District has also outsourced/contracted positions or reduced/eliminated positions as part for the deficit plan. Some of these eliminations have led to audit findings and/or material weakness for internal controls. For example, #6 has created audit findings because there are not enough people in the business office, after the retirement, to accomplish the internal controls as outlined by the auditors. The three staff in the business office are now doing two or three different jobs with little or no background in their new responsibilities, and learning as they go. This has allowed for budget savings, but has created both short and long-term issues as noted in the audit. Contracting for services has helped reduce expenditures, but has also had some unintended consequences that now are a cost to the district. The following is a list of some of the contracted positions in the district:

1. Custodial services are contracted to Enviro-Clean
2. Lawn and Snow Removal are contracted
3. Special Education Director is contracted to PESG
4. Substitute teachers are contracted to EduStaff
5. Psychological services are contracted
6. One Speech and Language position is contracted to Sunbelt
7. Business Office Accountant position was eliminated and distributed to remaining staff

<i>Theodore VonHiltmayer</i> Superintendent 586 • 435- 1602	<i>Frank Thomas</i> Business/Human Resources 586 • 435-1660	<i>John Thero</i> Instruction & Assessment 586 • 435-1640	<i>David Hambaum</i> Operations/Maintenance 586 • 435-1660	<i>Karen Wrona</i> Special Education 586 • 435-1610
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BOARD OF EDUCATION

<i>Charlotte Rebelein</i> President	<i>Michael Damiani</i> Vice-President	<i>Kelly Gattuso</i> Secretary	<i>Robert Penn</i> Treasurer	<i>Julie Magee</i> Trustee	<i>Melissa Gordon</i> Trustee	<i>Lois Cardenas</i> Trustee
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8. Human Resources secretary position was eliminated and distributed to remaining staff
9. Teaching positions that become open during the year are filled by substitutes for the remainder of the year. Sometimes the substitute is not certified for the subject due to lack of applicants or substitutes available

Other major expenditure cost controls or reductions include:

- Multiple year staff salary and step freezes
- Wage reduction of 9% starting in 2016-2017
- Bus replacements take place only when a bus is "Red Tagged" and cannot be repaired. There has not been a bus replacement schedule until FY18. The District has 12 buses with an average mileage of 205,707 per bus. Two buses were purchased in 2016 with bond funds, but the remainder of the fleet is 10 to 20 years old.
- Building and grounds repairs and maintenance – General Fund expenditures have been limited to safety and security issues. Because of limited or no routine maintenance procedures, the district is now facing failing mechanical systems. For example, classroom HVAC unit compressors are failing due to clogged filters and lack of routine maintenance.

South Lake appreciates the Michigan Department of Education's help and guidance through the deficit elimination plan process. The district would not have been able to eliminate its structural deficit without their help. The District looks forward to working with Treasury through the enhance deficit elimination plan process, and is committed to continue making the difficult decisions necessary to eliminate its deficit situation.

Cc: Michael Wrobel, Administrative Manager, Treasury
Ted VonHiltmayer, Superintendent, South Lake
Charlotte Rebelein, Board President, South Lake

Theodore VonHiltmayer
Superintendent
586-435-1602

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RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

NICK A. KHOURI
STATE TREASURER

LOCAL EMERGENCY FINANCIAL ASSISTANCE LOAN BOARD

ORDER 2018-10

DETERMINATION OF PROBABLE FINANCIAL STRESS

FOR SOUTH LAKE SCHOOLS STATE OF MICHIGAN

WHEREAS, Subsection 4(2)(b) of 2012 Public Act (PA) 436, the Local Financial Stability and Choice Act (“the Act”), mandates that the State Treasurer conduct a preliminary review to determine the existence of probable financial stress in a school district if the school district is subject to a deficit elimination plan under Section 1220 of 1976 PA 451, the Revised School Code, which exceeds five (5) years; And

WHEREAS, on September 11, 2018, the State Treasurer commenced a preliminary review of South Lake Schools (“the District”) based upon, among other things, a determination that the District’s deficit elimination plan exceeded a time period of five (5) years; And

WHEREAS, in accord with Subsection 4(3) of the Act, an interim report was provided to the District’s officials on October 1, 2018, and the District’s officials were afforded the five (5) days allowed under the Act to offer comment; And

WHEREAS, Subsection 4(3) of the Act requires a final preliminary review report to be submitted to the Local Emergency Financial Assistance Loan Board within thirty (30) days of being commenced; And

WHEREAS, on October 11, 2018, the State Treasurer submitted to the Local Emergency Financial Assistance Loan Board the final report detailing the preliminary review of the District; And

WHEREAS, Subsection 4(3) of the Act requires that, within twenty (20) days of receiving the final preliminary review report, the Local Emergency Financial Assistance Loan Board shall determine if probable financial stress exists in the District; And

WHEREAS, on October 29, 2018, at a duly noticed public meeting, the Local Emergency Financial Assistance Loan Board reviewed and considered the final report of the State Treasurer detailing the preliminary review of the District, which review, and consideration included an opportunity for representatives of the District to be heard concerning the matter; And

WHEREAS, Section 2 of 1980 PA 243, the Emergency Municipal Loan Act, established the Local Emergency Financial Assistance Loan Board and enumerates its powers, among which is the power “to act by an order issued in the name of the board and signed by the members of the board.”

NOW, THEREFORE, be it ordered by the Local Emergency Financial Assistance Loan Board as follows:

1. That, having reviewed and considered the final report of the State Treasurer detailing the preliminary review of the District and being fully advised in the premises, the Local Emergency Financial Assistance Loan Board determines, pursuant to Subsection 4(3) of the Act, that probable financial stress exists in the District.
2. That the Michigan Department of Treasury transmit respectfully and forthwith to the Office of the Governor a copy of this Order and a copy of the final report of the State Treasurer detailing the preliminary review of the District.

3. This Order shall have immediate effect.

IN WITNESS WHEREOF, the members of the Board, or their designees, have signed and executed this Order.

LOCAL EMERGENCY FINANCIAL ASSISTANCE
LOAN BOARD

By _____
Anne Wohlfert, Interim Deputy Treasurer for Finance
As Designee for Nick A. Khouri, State Treasurer

By _____
John J. Walsh, State Budget Director
As Designee for David L. DeVries, Director
Department of Technology, Management and Budget

By _____
Leanne Droste, Director of Finance
As Designee for Shelly Edgerton, Director
Department of Licensing and Regulatory Affairs

Date: October 29, 2018

Lansing, Michigan



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

NICK A. KHOURI
STATE TREASURER

LOCAL EMERGENCY FINANCIAL ASSISTANCE LOAN BOARD

ORDER 2018-10

DETERMINATION OF NO PROBABLE FINANCIAL STRESS

FOR SOUTH LAKE SCHOOLS STATE OF MICHIGAN

WHEREAS, Subsection 4(2)(b) of 2012 Public Act (PA) 436, the Local Financial Stability and Choice Act (“the Act”), mandates that the State Treasurer conduct a preliminary review to determine the existence of probable financial stress in a school district if the school district is subject to a deficit elimination plan under Section 1220 of 1976 PA 451, the Revised School Code, which exceeds five (5) years; And

WHEREAS, on September 11, 2018, the State Treasurer commenced a preliminary review of South Lake Schools (“the District”) based upon, among other things, a determination that the District’s deficit elimination plan exceeded a time period of five (5) years; And

WHEREAS, in accord with Subsection 4(3) of the Act, an interim report was provided to the District’s officials on October 1, 2018, and the District’s officials were afforded the five (5) days allowed under the Act to offer comment; And

WHEREAS, Subsection 4(3) of the Act requires a final preliminary review report to be submitted to the Local Emergency Financial Assistance Loan Board within thirty (30) days of being commenced; And

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WHEREAS, Subsection 4(3) of the Act requires that, within twenty (20) days of receiving the final preliminary review report, the Local Emergency Financial Assistance Loan Board shall determine if probable financial stress exists in the District; And

WHEREAS, on October 29, 2018, at a duly noticed public meeting, the Local Emergency Financial Assistance Loan Board reviewed and considered the final report of the State Treasurer detailing the preliminary review of the District, which review, and consideration included an opportunity for representatives of the District to be heard concerning the matter; And

WHEREAS, Section 2 of 1980 PA 243, the Emergency Municipal Loan Act, established the Local Emergency Financial Assistance Loan Board and enumerates its powers, among which is the power “to act by an order issued in the name of the board and signed by the members of the board.”

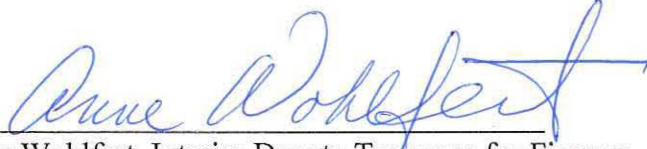
NOW, THEREFORE, be it ordered by the Local Emergency Financial Assistance Loan Board as follows:

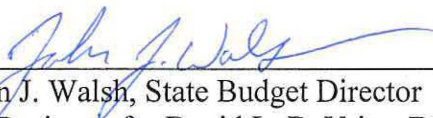
1. That, having reviewed and considered the final report of the State Treasurer detailing the preliminary review of the District and being fully advised in the premises, the Local Emergency Financial Assistance Loan Board determines, pursuant to Subsection 4(3) of the Act, that probable financial stress does not exist in the District.
2. That the Michigan Department of Treasury transmit respectfully and forthwith to the Office of the Governor a copy of this Order and a copy of the final report of the State Treasurer detailing the preliminary review of the District.

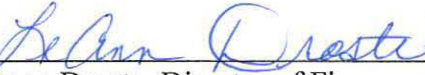
3. This Order shall have immediate effect.

IN WITNESS WHEREOF, the members of the Board, or their designees, have signed and executed this Order.

LOCAL EMERGENCY FINANCIAL ASSISTANCE
LOAN BOARD

By 
Anne Wohlfert, Interim Deputy Treasurer for Finance
As Designee for Nick A. Khouri, State Treasurer

By 
John J. Walsh, State Budget Director
As Designee for David L. DeVries, Director
Department of Technology, Management and Budget

By 
Leanne Droste, Director of Finance
As Designee for Shelly Edgerton, Director
Department of Licensing and Regulatory Affairs

Date: October 29, 2018

Lansing, Michigan



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

DATE: October 11, 2018
TO: Local Emergency Financial Assistance Loan Board
FROM: Shelbi Frayer, Director of the Office of School Review and Fiscal Accountability
SUBJECT: Final Preliminary Review Report – Detroit Public Safety Academy

I. Background

On September 10, 2018, the Department of Treasury (the “Department”) initiated a Preliminary Review of the finances of Detroit Public Safety Academy (the “Academy”) to determine whether the Academy exhibits probable financial stress. Pursuant to MCL §141.1544(2)(b), the Academy is statutorily mandated to undergo a preliminary review of its finances to determine the existence of probable financial stress. In part, this section provides that the Department, as the State Financial Authority, shall conduct a preliminary review of any school district or academy subject to a Deficit Elimination Plan (DEP) that provides for the elimination of deficit over a period exceeding 5 years.

II. Final Review Findings

The following are facts or circumstances determined by the Department that are indicative of probable financial stress pursuant to MCL §141.1544(1)(s):

- 1) The last approved DEP exceeds seven or more consecutive years (including the current year);

Finding:

The Academy’s previous DEP (attachment A) was submitted to Michigan Department of Education in June 2018 and extends through the 2021-2022 fiscal year. The Academy incurred a deficit in FY 2014 and is currently projecting 8 total years in deficit.

The Academy does meet this criteria.

- 2) The Academy’s existing deficit is greater than 15% of general fund revenues;

Finding:

The Academy’s 2016-2017 fiscal year audit (attachment B) reflects total general fund revenues of \$2,860,640. The Academy’s total fund balance for 2016-2017 was \$(621,393) indicating a deficit of 21.7% of general fund revenues.

The Academy's 2017-2018 draft audit (attachment C) reflects total general fund revenues of \$3,120,234. According to the draft audit, the Academy's total fund balance for 2017-2018 is \$(543,862) indicating a deficit of 17.4% of general fund revenues.

The Academy does meet this criteria.

- 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) Immediate concerns with cash shortfalls in current fiscal year which may lead to additional financings or emergency loan
 - c) Excessive variances on Final Expenditure Reports (FER) for grants with federal funds
 - d) History of spending outside the appropriations established by the local school board in violation of Uniform Budgeting and Accounting Act (UBAA); and
 - e) Significant audit findings and/or material weaknesses identified in the single audit;

Finding:

- a) No deficiency noted.
- b) The Academy is currently anticipating a cash flow shortfall for FY 19. Detroit Public Safety Academy's cash forecast statement shows a negative cash ending balance of \$(828,573.95) in June 2019 (attachment D). The cash forecast statement reflects the total amount due to the management company in unpaid expenses. If the Academy maintains their contract with The Leona Group, the expenses will only be collected if cash is available. At this time, the Academy believes an emergency loan will not be needed.
- c) There are excessive variances on FER for grants with federal funds (attachment E).

Title II Part A Grant #180520 is scheduled to end on 9/30/2018 which includes the previous grant ending 9/30/2017. The allocation of the grant is \$26,148 with a current balance of \$34,588.32 indicating the Academy will lose \$8,440.32 if not used by 9/30/2018. As of this report, the Academy has not used a majority of their allocation.

On September 27, 2018, the business manager communicated that \$4,440.57 is being spent in summer school with a note that Title II Part A is transferred to Title I. The Academy is also paying out \$12,000 in merit and retention bonuses on 9/30/18. The Academy ensures that all funds are planned to be used during the eligible period.

- d) For FY 2014, the board passed a balanced budget projecting a fund balance of \$4,180 on budgeted revenue of \$2,023,738. On January 21, 2014, the board passed their first

budget amendment, which projected a fund balance of \$(667,456). They closed FY 2014 with an audited fund balance of \$(537,992) receiving only \$635,683 in revenue.

For FY 2015, the Academy closed the year with an audited fund balance of \$(763,191), increasing the deficit by \$225,199.

For FY 2016, the Academy closed the year with an audited fund balance of \$(714,853), reducing the deficit by \$48,338.

For FY 2017, the Academy budgeted to reduce the deficit by \$30,068 and closed the year with an audited fund balance of \$(621,393), reducing the deficit by \$93,460.

For FY 2018, the Academy's original budget projected savings of \$137,734 with an ending fund balance of \$(560,213). The draft audit shows savings of \$77,531 with an ending fund balance of \$(543,862).

This information is summarized below:

Fiscal Year	Budgeted Rev-Exp	Actual Rev-Exp	Fund Balance
2014	\$4,180	\$(537,992)	\$(537,992)
2015	\$295,902	\$(225,199)	\$(763,191)
2016	\$24,318	\$48,338	\$(714,853)
2017	\$30,068	\$93,460	\$(621,393)
2018	\$137,734	\$77,531	\$(543,862)

The Academy does meet this criteria.

e) The Academy received 1 audit findings for Fiscal Year 17: (attachment F):

2017-001 (Repeat Finding 2014-001, 2015-001, 2016-001): Material noncompliance with laws and regulations (material weakness)

The Academy operates under a deficit budget. The Academy does meet this criteria.

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

- a) A deficit increase is planned the future fiscal year
- b) Lack of cooperation from the Academy in submitting deficit information (i.e., late submission of the DEP, delinquent return of phone calls or correspondence relating to the DEP, and 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;

Finding:

- a) No deficiency noted. The Academy's deficit is showing a decrease from (\$621,392) in the 2017-2018 fiscal year to a projected (\$543,862). The Academy has submitted a

new Deficit Elimination Plan that will span to 2021-22 fiscal year. The deficit plan shows that the deficit will continue to decrease to (\$532,996) by the end of FY 19. The Department and District will work on revised projections during the Enhanced Deficit Elimination Plan (EDEP) process.

- b) No deficiency noted.
- c) The Academy has passed budgets in recent years that are inconsistent when viewed from year end. The Academy originally expected to be out of deficit in FY 2016 with a positive fund balance of \$69,545. At the beginning of January 2015, the Academy submitted a revised DEP that expected to have them out in FY 2019 with a fund balance of \$193,414. In June 2018, a new DEP was submitted, expecting to have the Academy out of the deficit in FY 2022 with a fund balance of \$81,987. The Academy has consistently overestimated their annual progress in eliminating the general fund deficit. The posted budget for FY 2019 reduces their deficit to (\$557,263). The Academy's 2017-2018 draft audit shows a decrease in their deficit to (\$543,862). The Academy will be amending their budget soon to reflect their audited FY18 fund balance and current enrollment numbers.

The Academy does meet this criteria.

Other Findings:

- a) The Academy pays a management fee of 10% of state aid revenue of the Academy to their management company, The Leona Group. In FY 2014, the Academy incurred management fees of \$60,446. In FY 2015, the fees increased by 60% to \$150,829. In FY 2016, the fees continued to increase to \$218,229. The Academy has incurred management fees totaling \$293,647 for FY 2017. The contact with The Leona Group was renewed this year and will end on 6/30/2022.
- b) The FY 2017 audit states "the Academy faced continued financial challenges due to inflationary cost pressures and limited increases in funding. The outlook for 2017-2018 and beyond suggests future funding increases for operations will not be significant." According to the submitted DEP, the Academy budgeted lower operations and maintenance expenses for FY 2018. From FYs 2019-2022, operations and maintenance is projected to increase by an amount over \$40,000 every year.
- c) From FYs 2014-2017, the Academy experienced increasing enrollment, but at a slower pace than budgeted. When the Academy opened, the budgeted enrollment was 275 students; however, enrollment turned out to be much lower than anticipated. Their marketing efforts and attempt to add a community liaison did not reflect in enrollment increases. This resulted in lower state aid revenue than projected. In the Academy's DEP, they state an increase of about 20 students in FY 2018. Based on Fall counts, the Academy's enrollment increased by 1.30 FTE. Based on projections, the Academy expects enrollment to increase in the upcoming fiscal years by targeting students in middle school grades and reaching out to surrounding communities.

The Academy was contacted for current enrollment information for FY 2019. The Department of Treasury was provided with a roster count of 286 students, as well as a

head count of 264 students as of 10/3/2018. The Academy is budgeting for 350 FTE. Based on the data provided, the 2017-2018 Fall count of 333.99 students is much higher than what the current count is at the Academy. For the 2018-2019 school year, there is an estimated decline of 70 students, rather than an increase of about 16 students. Geographically, the Academy has 27 schools within a 2-mile radius, which include 8 private schools, 10 public schools and 9 charter schools.

Fiscal Year	2014	2015	2016	2017	2018
Student Count	59.80	144.65	244.91	332.69	333.99
Change		84.85	100.26	87.78	1.30

Table 1: Fall Counts for Detroit Public Safety Academy

Attachment A

Deficit Elimination Plan

Detroit Public Safety Academy

Account	Preliminary Actual 2016-17	Budgeted 2017-18	Yearly Increase (Decrease)	% Increase (Decrease)	Estimated 2018-19	Yearly Increase (Decrease)	% Increase (Decrease)	Estimated 2019-20	Yearly Increase (Decrease)	% Increase (Decrease)	Estimated 2020-21	Yearly Increase (Decrease)	% Increase (Decrease)	Estimated 2021-22	Yearly Increase (Decrease)	% Increase (Decrease)
1	Beginning Fund Equity	(\$714,854)	(\$621,392)		(\$554,433)			(\$532,996)			(\$316,102)			(\$99,569)		
2	Add: Revenues															
3	Local Sources	\$20,333	\$37,695	\$17,332	85.24%	\$24,700	(\$12,866)	-\$4.42%	\$25,000	\$300	\$25,000	\$0	0.00%	\$25,000	\$0	0.00%
4	Local Rec'd Thru Another Public Sch.	\$11,483	\$26,285	\$14,802	128.90%	\$19,875	(\$6,310)	-24.01%	\$20,375	\$400	\$20,782	\$407	2.00%	\$20,375	(\$407)	-1.98%
5	Other Political Sub.	\$848	\$0	(\$848)	-100.00%	\$0	\$0	0.00%	\$0	\$0	\$0	\$0	0.00%	\$0	\$0	0.00%
6	State Sources	\$2,819,800	\$2,765,313	(\$54,487)	-1.93%	\$2,850,269	\$184,876	6.69%	\$3,356,995	\$406,707	\$3,586,073	\$229,078	6.83%	\$3,797,689	\$210,713	5.87%
7	Federal Sources	\$208,178	\$325,649	\$117,471	56.43%	\$340,491	\$14,842	4.36%	\$364,098	\$23,607	\$382,053	\$17,955	4.93%	\$420,008	\$37,955	9.94%
8	Incoming Transfers & Other	\$2,282	\$3,050	\$768	33.65%	\$0	(\$3,050)	-100.00%	\$0	\$0	\$0	\$0	0.00%	\$0	\$0	0.00%
9	TOTAL REVENUES, ETC.	\$2,882,922	\$3,157,962	\$299,040	10.31%	\$3,335,454	\$177,482	5.32%	\$3,766,467	\$431,013	\$4,024,808	\$258,340	6.86%	\$4,263,068	\$238,261	5.92%
10	TOTAL RESOURCES AVAILABLE	\$2,167,068	\$2,536,570	\$369,502	17.05%	\$2,781,021	\$244,451	8.81%	\$3,233,472	\$452,450	\$3,708,706	\$475,234	14.70%	\$4,163,500	\$454,794	12.26%
11	Less: Expenditures															
12	Classroom Inst.	\$872,082	\$971,390	\$99,308	11.39%	\$1,170,355	\$198,965	20.48%	\$1,277,484	\$107,129	\$1,399,899	\$122,375	9.58%	\$1,528,592	\$128,733	9.20%
13	Support Services															
14	Publ.	\$138,088	\$201,585	\$63,497	45.98%	\$190,824	(\$10,961)	-5.44%	\$202,061	\$11,437	\$214,185	\$12,124	6.00%	\$227,036	\$12,851	6.00%
15	Instr. Staff	\$212,282	\$222,249	\$9,967	4.69%	\$236,808	\$14,557	6.63%	\$251,014	\$14,208	\$266,075	\$15,061	5.66%	\$282,040	\$15,965	6.00%
16	Gen. Adm.	\$222,964	\$241,835	\$18,871	8.46%	\$253,717	\$11,882	4.91%	\$268,940	\$15,223	\$285,076	\$16,136	5.66%	\$302,181	\$17,105	6.00%
17	Sch. Adm.	\$265,339	\$380,886	\$115,547	43.55%	\$387,126	(\$3,758)	-0.96%	\$410,356	\$23,228	\$434,977	\$24,621	5.89%	\$461,076	\$26,099	6.00%
18	Business	\$83,609	\$103,456	\$19,847	23.74%	\$102,463	(\$993)	-0.96%	\$108,611	\$6,148	\$115,127	\$6,517	6.00%	\$122,035	\$6,908	6.00%
19	Operation & Maintenance	\$669,070	\$658,585	(\$10,485)	-1.57%	\$701,284	\$41,699	5.94%	\$743,361	\$42,077	\$787,983	\$44,622	5.94%	\$835,240	\$47,257	6.00%
20	Transportation	\$194,002	\$193,357	(\$645)	-0.33%	\$180,915	(\$12,442)	-6.85%	\$181,770	\$855	\$190,955	\$8,185	4.50%	\$203,276	\$12,321	6.00%
21	Central	\$69,742	\$80,724	\$10,982	15.75%	\$75,844	(\$4,880)	-6.45%	\$80,395	\$4,551	\$86,218	\$5,823	7.24%	\$90,331	\$4,113	4.72%
22	Other	\$6,753	\$14,500	\$7,747	113.99%	\$9,500	(\$5,000)	-52.00%	\$10,070	\$570	\$10,674	\$604	5.66%	\$11,315	\$640	6.00%
23	Community Services	\$1,371	\$6,200	\$4,829	352.22%	\$5,200	(\$1,000)	-19.23%	\$5,512	\$312	\$5,843	\$331	6.00%	\$6,183	\$340	5.83%
24	Outgoing Transfers	\$68	\$0	(\$68)	-100.00%	\$0	\$0	0.00%	\$0	\$0	\$0	\$0	0.00%	\$0	\$0	0.00%
25	Facilities Acq.	\$0	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	\$0	\$0	0.00%	\$0	\$0	0.00%
26	Debt Service	\$0	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	\$0	\$0	0.00%	\$0	\$0	0.00%
27	Fund Modifications	\$32,089	\$5,226	(\$26,863)	-83.71%	\$181	(\$5,045)	-96.54%	\$0	(\$181)	(\$181)	\$0	0.00%	\$0	\$0	0.00%
28	TOTAL EXP. & OUTGOING TRANSFERS	\$2,769,459	\$3,091,003	\$321,544	11.61%	\$3,314,017	\$223,014	7.21%	\$3,549,574	\$235,557	\$3,808,274	\$258,700	7.29%	\$4,081,513	\$273,238	7.17%
29	ENDING FUND BALANCE	(\$621,392)	(\$554,433)	(\$66,959)	-10.78%	(\$532,996)	\$21,437	-3.87%	(\$316,102)	\$216,893	(\$99,569)	\$216,533	-68.50%	(\$81,987)	\$181,556	-182.34%

Notes:

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Detroit Public Safety Academy

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue				
Local sources	\$ 32,577	\$ 12,450	\$ 21,179	\$ 8,729
State sources	2,300,507	2,642,882	2,619,801	(23,081)
Federal sources	174,706	251,348	208,177	(43,171)
Interdistrict sources	-	8,673	11,483	2,810
Total revenue	<u>2,507,790</u>	<u>2,915,353</u>	<u>2,860,640</u>	<u>(54,713)</u>
Expenditures				
Current:				
Instruction:				
Basic program	587,229	641,435	603,569	(37,866)
Added needs	204,759	268,923	268,511	(412)
Total instruction	<u>791,988</u>	<u>910,358</u>	<u>872,080</u>	<u>(38,278)</u>
Support services:				
Pupil	220,820	148,010	138,088	(9,922)
Instructional staff	208,067	239,484	212,285	(27,199)
General administration	197,736	228,378	222,965	(5,413)
School administration	209,500	264,134	265,340	1,206
Business	63,865	87,983	83,609	(4,374)
Operations and maintenance	590,058	688,957	666,789	(22,168)
Pupil transportation services	120,174	195,683	194,001	(1,682)
Central	67,964	90,493	69,811	(20,682)
Total support services	<u>1,678,184</u>	<u>1,943,122</u>	<u>1,852,888</u>	<u>(90,234)</u>
Athletics	7,000	9,200	8,753	(447)
Community services	550	2,000	1,371	(629)
Total expenditures	<u>2,477,722</u>	<u>2,864,680</u>	<u>2,735,092</u>	<u>(129,588)</u>
Excess of Revenue Over Expenditures	30,068	50,673	125,548	74,875
Other Financing Uses - Transfers out	-	(8,790)	(32,088)	(23,298)
Net Change in Fund Balance	30,068	41,883	93,460	51,577
Fund Deficit - Beginning of year	<u>(714,853)</u>	<u>(714,853)</u>	<u>(714,853)</u>	<u>-</u>
Fund Deficit - End of year	<u>\$ (684,785)</u>	<u>\$ (672,970)</u>	<u>\$ (621,393)</u>	<u>\$ 51,577</u>

Detroit Public Safety Academy

Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2018

	General Fund	Non-Major Fund - Food Service Fund	Total Governmental Funds
Revenue			
Local sources	\$ 37,648	\$ -	\$ 37,648
State sources	2,748,659	5,576	2,754,235
Federal sources	311,690	113,503	425,193
Interdistrict sources	22,237	-	22,237
Total revenue	3,120,234	119,079	3,239,313
Expenditures			
Current:			
Instruction	920,733	-	920,733
Support services	2,099,602	-	2,099,602
Athletics	16,507	-	16,507
Food services	-	120,881	120,881
Community services	4,059	-	4,059
Total expenditures	3,040,901	120,881	3,161,782
Excess of Revenue Over (Under) Expenditures	79,333	(1,802)	77,531
Other Financing Sources (Uses)			
Transfers in (Note 6)	-	1,802	1,802
Transfers out (Note 6)	(1,802)	-	(1,802)
Total other financing sources (uses)	(1,802)	1,802	-
Net Change in Fund Balances	77,531	-	77,531
Fund Balances - Beginning of year	(621,393)	-	(621,393)
Fund Balances - End of year	\$ (543,862)	\$ -	\$ (543,862)

DETROIT PUBLIC SAFETY ACADEMY
Cash Forecast Statement
Combined General and Special Revenue Funds

Actual as of: August 31, 2018

2018-2019	July	August	September	October	November	December
Beginning Balance	90,413.62	88,660.62	63,156.42	151,855.17	112,277.56	72,699.94
Estimated Receipts:						
Collection of State Aid	252,638.64	252,989.94		268,580.64	268,580.64	268,580.64
Collection of Other Grants	22,163.51	8,122.44				108,139.80
Proceeds from Loans and Interest			375,000.00			
Other Revenue and Receipts	10,699.49	2,075.89		13,870.00	13,870.00	13,870.00
TOTAL AVAILABLE FUNDS:	375,915.26	351,848.89	438,156.42	434,305.81	394,728.19	463,290.38
Less Estimated Disbursements:						
Salaries and Benefits	111,790.13	117,360.29	157,942.00	157,942.00	157,942.00	157,942.00
Services, Supplies, and Materials	98,621.06	89,184.70	102,609.25	102,609.25	102,609.25	102,609.25
Fixed Costs - Rent	25,750.00	25,750.00	25,750.00	25,750.00	25,750.00	25,750.00
Repayment of Debt - TLG		5,304.03				
Repayment of Debt - Bridge Loan	51,093.45	51,093.45		35,727.00	35,727.00	35,727.00
TOTAL DISBURSEMENTS:	287,254.64	288,692.47	286,301.25	322,028.25	322,028.25	322,028.25
ESTIMATED ENDING BALANCE:	88,660.62	63,156.42	151,855.17	112,277.56	72,699.94	141,262.13

2018-2019	January	February	March	April	May	June
Beginning Balance	141,262.13	137,731.12	134,200.10	130,669.09	127,138.07	123,607.06
Estimated Receipts:						
Collection of State Aid	268,580.64	268,580.64	268,580.64	268,580.64	268,580.64	268,580.64
Collection of Other Grants	36,046.60	36,046.60	36,046.60	36,046.60	36,046.60	36,046.60
Proceeds from Loans and Interest						
Other Revenue and Receipts	13,870.00	13,870.00	13,870.00	13,870.00	13,870.00	13,870.00
TOTAL AVAILABLE FUNDS:	459,759.37	456,228.35	452,697.34	449,166.32	445,635.31	442,104.30
Less Estimated Disbursements:						
Salaries and Benefits	157,942.00	157,942.00	157,942.00	157,942.00	157,942.00	157,942.00
Services, Supplies, and Materials	102,609.25	102,609.25	102,609.25	102,609.25	102,609.25	102,609.25
Fixed Costs - Rent	25,750.00	25,750.00	25,750.00	25,750.00	25,750.00	25,750.00
Repayment of Debt - TLG						948,650.00
Repayment of Debt - Bridge Loan	35,727.00	35,727.00	35,727.00	35,727.00	35,727.00	35,727.00
TOTAL DISBURSEMENTS:	322,028.25	322,028.25	322,028.25	322,028.25	322,028.25	1,270,678.25
ESTIMATED ENDING BALANCE:	137,731.12	134,200.10	130,669.09	127,138.07	123,607.06	(828,573.95)

Grant Auditor Report

82704

7/1/2017 - 9/28/2018

ISD 82

Detroit Public Safety Academy
1250 ROSA PARKS BLVD
DETROIT, MI 482161950

Grant #	Project #	Project End Date	Allocation	Approved	Paid During Date Range	Cumulative Payments	Balance Approved-Cumulative	Final Expenditure Report?
10.553								
School Breakfast Program								
171970	1017		\$0.00	\$326.04	\$326.04	\$326.04	\$0.00	None
171970	1217		\$0.00	\$1,247.73	\$1,247.73	\$1,247.73	\$0.00	None
171970	917		\$0.00	\$1,040.40	\$1,040.40	\$1,040.40	\$0.00	None
181970	118		\$0.00	\$3,755.73	\$3,755.73	\$3,755.73	\$0.00	None
181970	218		\$0.00	\$3,943.83	\$3,943.83	\$3,943.83	\$0.00	None
181970	318		\$0.00	\$2,704.46	\$2,704.46	\$2,704.46	\$0.00	None
181970	418		\$0.00	\$4,150.74	\$4,150.74	\$4,150.74	\$0.00	None
181970	518		\$0.00	\$3,849.78	\$3,849.78	\$3,849.78	\$0.00	None
181970	618		\$0.00	\$4,606.36	\$4,606.36	\$4,606.36	\$0.00	None
181970	718		\$0.00	\$2,898.83	\$2,898.83	\$2,898.83	\$0.00	None
181970	818		\$0.00	\$4,501.86	\$4,501.86	\$4,501.86	\$0.00	None
181970	918		\$0.00	\$1,814.12	\$1,814.12	\$1,814.12	\$0.00	None
Total for 10.553			\$0.00	\$34,839.88	\$34,839.88	\$34,839.88	\$0.00	

Grant Auditor Report

Grant #	Project #	Project End Date	Allocation	Approved	Paid During Date Range	Cumulative Payments	Balance Approved-Cumulative	Final Expenditure Report?
10.555								
National School Lunch Program								
171960	1017		\$0.00	\$552.77	\$552.77	\$552.77	\$0.00	None
171960	1217		\$0.00	\$8,735.09	\$8,735.09	\$8,735.09	\$0.00	None
171960	917		\$0.00	\$3,418.20	\$3,418.20	\$3,418.20	\$0.00	None
181960	118		\$0.00	\$10,141.84	\$10,141.84	\$10,141.84	\$0.00	None
181960	218		\$0.00	\$8,543.11	\$8,543.11	\$8,543.11	\$0.00	None
181960	318		\$0.00	\$5,127.19	\$5,127.19	\$5,127.19	\$0.00	None
181960	418		\$0.00	\$6,917.90	\$6,917.90	\$6,917.90	\$0.00	None
181960	518		\$0.00	\$6,166.53	\$6,166.53	\$6,166.53	\$0.00	None
181960	618		\$0.00	\$8,377.61	\$8,377.61	\$8,377.61	\$0.00	None
181960	718		\$0.00	\$6,749.09	\$6,749.09	\$6,749.09	\$0.00	None
181960	818		\$0.00	\$7,662.65	\$7,662.65	\$7,662.65	\$0.00	None
181960	918		\$0.00	\$3,217.32	\$3,217.32	\$3,217.32	\$0.00	None
Total for 10.555			\$0.00	\$75,609.30	\$75,609.30	\$75,609.30	\$0.00	
84.010								
Title I Part A								
171530	1617	9/30/2017	\$175,200.00	\$175,709.00	\$22,659.14	\$149,478.72	\$26,230.28	Received
181530	1718	9/30/2018	\$174,798.00	\$201,028.00	\$173,548.15	\$173,548.15	\$27,479.85	None
Total for 84.010			\$349,998.00	\$376,737.00	\$196,207.29	\$323,026.87	\$53,710.13	

Grant Auditor Report

Grant #	Project #	Project End Date	Allocation	Approved	Paid During Date Range	Cumulative Payments	Balance Approved-Cumulative	Final Expenditure Report?
84.367								
TITLE II PART A								
170520	1617	9/30/2017	\$34,600.00	\$41,485.00	\$18,835.04	\$27,142.82	\$14,342.18	Received
180520	1718	9/30/2018	\$26,148.00	\$40,491.00	\$5,902.68	\$5,902.68	\$34,588.32	None
Total for 84.367			\$60,748.00	\$81,976.00	\$24,737.72	\$33,045.50	\$48,930.50	
84.424								
Title IV Part A Student Support & Academic Enrich.								
180750	1718	9/30/2018	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$0.00	None
Total for 84.424			\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$0.00	
Total for Detroit Public Safety Academy			\$420,746.00	\$579,162.18	\$341,394.19	\$476,521.55	\$102,640.63	

Detroit Public Safety Academy

Schedule of Findings and Questioned Costs

Financial Statement Audit Findings

Reference Number	Finding
2017-001	<p>Finding Type - Material noncompliance with laws and regulations (material weakness)</p> <p>Criteria - The State of Michigan Uniform Budgeting and Accounting Act prohibits school districts and public school academies from entering a deficit fund balance position. The Act also prohibits the Academy from adopting a General Fund budget with ending fund balance in a deficit position.</p> <p>Condition - The Academy is in a fund deficit position in the General Fund at June 30, 2017. The Academy's final adopted budget for fiscal year 2017 budgeted for a General Fund deficit.</p> <p>Context - The Academy is noncompliant with the State of Michigan Uniform Budget and Accounting Act since it is in an overall fund deficit position and it adopted a deficit budget.</p> <p>Cause - State aid and other revenue were not sufficient to cover the Academy's recurring deficit from previous years.</p> <p>Effect - The Academy has a General Fund deficit of \$621,393 at June 30, 2017.</p> <p>Recommendation - The Academy should maintain compliance with the State of Michigan Uniform Budgeting and Accounting Act.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Academy has filed a deficit elimination plan with the State of Michigan with the goal of eliminating the deficit as quickly as possible. The deficit elimination plan has been approved by the Michigan Department of Education.</p>

STATE OF MICHIGAN
DEPARTMENT OF TREASURYRICK SNYDER
GOVERNORNICK A. KHOURI
STATE TREASURER

DATE: September 28, 2018

TO: Isaiah Pettway, Principal
Kamal Cheeks, Board President

FROM: Shelbi Frayer, Director of the Office of School Review and Fiscal Accountability

SUBJECT: Interim Preliminary Review Report – Detroit Public Safety Academy

I. Background

On September 10, 2018, the Department of Treasury (the “Department”) initiated a Preliminary Review of the finances of Detroit Public Safety Academy (the “Academy”) to determine whether the Academy exhibits probable financial stress. Pursuant to MCL §141.1544(2)(b), the Academy is statutorily mandated to undergo a preliminary review of its finances to determine the existence of probable financial stress. In part, this section provides that the Department, as the State Financial Authority, shall conduct a preliminary review of any school district or academy subject to a Deficit Elimination Plan (DEP) that provides for the elimination of deficit over a period exceeding 5 years.

Under MCL §141.1544(3), the Department shall provide an interim report of its findings to the Academy within 20 days following the commencement of the preliminary review. The Academy may provide comments within 5 days after the interim report is provided to the Academy. Thereafter, the Department shall prepare and provide a final report detailing its preliminary review to the Emergency Loan Board within 30 days following commencement of the preliminary review.

II. Final Review Findings

The following are facts or circumstances determined by the Department that are indicative of probable financial stress pursuant to MCL §141.1544(1)(s):

- 1) The last approved DEP exceeds seven or more consecutive years (including the current year);

Finding:

The Academy’s previous DEP (attachment A) was submitted to Michigan Department of Education in June 2018 and extends through the 2021-2022 fiscal year. The Academy incurred a deficit in FY 2014 and is currently projecting 8 total years in deficit.

The Academy does meet this criteria.

- 2) The Academy's existing deficit is greater than 15% of general fund revenues;

Finding:

The Academy's 2016-2017 fiscal year audit (attachment B) reflects total general fund revenues of \$2,860,640. The Academy's total fund balance for 2016-2017 is \$(621,393) indicating their deficit is 21.7% of total general fund revenues.

The Academy's 2017-2018 final budget amendment reflects total general fund revenues of \$3,157,962. The unaudited total fund balance for 2017-2017 is \$(554,433) indicating their deficit is 17.6% of total general fund revenues.

The Academy does meet this criteria.

- 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) Immediate concerns with cash shortfalls in current fiscal year which may lead to additional financings or emergency loan
- c) Excessive variances on Final Expenditure Reports (FER) for grants with federal funds
- d) History of spending outside the appropriations established by the local school board in violation of Uniform Budgeting and Accounting Act (UBAA); and
- e) Significant audit findings and/or material weaknesses identified in the single audit;

Finding:

- a) No deficiency noted.
- b) The Academy is currently anticipating a cash flow shortfall for FY 19. Detroit Public Safety Academy's cash forecast statement shows a negative cash ending balance of \$(828,573.95) in June 2019 (attachment C).
- c) There are excessive variances on FER for grants with federal funds (attachment D).

Title II Part A Grant #180520 is scheduled to end on 9/30/2018 which includes the previous grant ending 9/30/2017. The allocation of the grant is \$26,148 with a current balance of \$34,588.32 indicating the Academy will lose \$8,440.32 if not used by 9/30/2018. As of this report, the Academy has not used a majority of their allocation.

On September 27, 2018, the business manager communicated that \$4,440.57 is being spent in summer school with a note that Title II Part A is transferred to Title I. The Academy is also paying out \$12,000 in merit and retention bonuses on 9/30/18.

- d) For FY 2014, the board passed a balanced budget projecting a fund balance of \$4,180 on budgeted revenue of \$2,023,738. On January 21, 2014, the board passed their first

budget amendment, which projected a fund balance of \$(667,456). They closed FY 2014 with an audited fund balance of \$(537,992) receiving only \$635,683 in revenue.

For FY 2015, the Academy closed the year with an audited fund balance of \$(763,191), increasing the deficit by \$225,199.

For FY 2016, the Academy closed the year with an audited fund balance of \$(714,853), reducing the deficit by \$48,338.

For FY 2017, the Academy budgeted to reduce the deficit by \$30,068 and closed the year with an audited fund balance of \$(621,393), reducing the deficit by \$93,460.

For FY 2018 the Academy's original budget projected savings of \$137,734 with an ending fund balance of \$(560,213). The final budget projects savings of \$66,959 with an ending fund balance of \$(554,433).

This information is summarized below:

Fiscal Year	Budgeted Rev-Exp	Actual Rev-Exp	Fund Balance
2014	\$4,180	\$(537,992)	\$(537,992)
2015	\$295,902	\$(225,199)	\$(763,191)
2016	\$24,318	\$48,338	\$(714,853)
2017	\$30,068	\$93,460	\$(621,393)
2018	\$137,734	TBD	TBD

The Academy does meet this criteria.

- e) The Academy received 1 audit findings for Fiscal Year 17: (attachment E):

2017-001 (Repeat Finding 2014-001, 2015-001, 2016-001): Material noncompliance with laws and regulations (material weakness)

The Academy operates under a deficit budget. The Academy does meet this criteria.

- 4) The Academy has shown unsatisfactory progress in eliminating a deficit. This is determined by identifying one or more of the following conditions:
 - a) A deficit increase is planned the future fiscal year
 - b) Lack of cooperation from the Academy in submitting deficit information (i.e., late submission of the DEP, delinquent return of phone calls or correspondence relating to the DEP, and 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;

Finding:

- a) No deficiency noted. The Academy's deficit is showing a decrease from (\$621,392) in the 2017-2018 fiscal year to a projected (\$554,433). The Academy has submitted a new Deficit Elimination Plan that will span to 2021-22 fiscal year. The deficit plan

shows that the deficit will continue to decrease to (\$532,996) by the end of FY 19. The Department and District will work on revised projections during the Enhanced Deficit Elimination Plan (EDEP) process.

- b) No deficiency noted.
- c) The Academy has passed budgets in recent years that are inconsistent when viewed from year end. The Academy originally expected to be out of deficit in FY 2016 with a positive fund balance of \$69,545. At the beginning of January 2015, the Academy submitted a revised DEP that expected to have them out in FY 2019 with a fund balance of \$193,414. In June 2018, a new DEP was submitted, expecting to have the Academy out of the deficit in FY 2022 with a fund balance of \$81,987. The Academy has consistently overestimated their annual progress in eliminating the general fund deficit. The posted budget for FY 2019 reduces their deficit to (\$557,263).

The Academy does meet this criteria.

Other Findings:

- a) The Academy pays a management fee of 10% of state aid revenue of the Academy to their management company, The Leona Group. In FY 2014, the Academy incurred management fees of \$60,446. In FY 2015, the fees increased by 60% to \$150,829. In FY 2016, the fees continued to increase to \$218,229. The Academy has incurred management fees totaling \$293,647 for FY 2017. The contact with The Leona Group was renewed this year and will end on 6/30/2022.
- b) The FY 2017 audit states “the Academy faced continued financial challenges due to inflationary cost pressures and limited increases in funding. The outlook for 2017-2018 and beyond suggests future funding increases for operations will not be significant.” According to the submitted DEP, the Academy budgeted lower operations and maintenance expenses for FY 2018. From FYs 2019-2022, operations and maintenance is projected to increase by an amount over \$40,000 every year.
- c) From FYs 2014-2017, the Academy experienced increasing enrollment, but at a slower pace than budgeted. When the Academy opened, the budgeted enrollment was 275 students; however, enrollment turned out to be much lower than anticipated. Their marketing efforts and attempt to add a community liaison did not reflect in enrollment increases. This resulted in lower state aid revenue than projected. In the Academy’s DEP, they state an increase of about 20 students in FY 2018. Based on Fall counts, the Academy’s enrollment increased by 1.30 FTE. Based on projections, the Academy expects enrollment to increase in the upcoming fiscal years.

The Academy was contacted for current enrollment information for FY 2019. The Department of Treasury was provided with a roster count of 283 students, as well as a head count of 228 students as of 9/27/18. The Academy is budgeting for 350 FTE. Geographically, the Academy has 27 schools within a 2-mile radius, which include 8 private schools, 10 public schools and 9 charter schools.

Fiscal Year	2014	2015	2016	2017	2018
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Student Count	59.80	144.65	244.91	332.69	333.99
Change		84.85	100.26	87.78	1.30

The Academy has five days to respond to these findings. Please send documents and questions to Michael Wrobel at WrobelM@michigan.gov or (517) 335-3247.

- cc. Danielle Lang, Board Vice President, Detroit Public Safety Academy
- Hazel White, Board Secretary, Detroit Public Safety Academy
- Rolanda Williams, Board Treasurer, Detroit Public Safety Academy
- Ken Dettloff, Board Trustee, Detroit Public Safety Academy
- Shawn Yates Board Trustee, Detroit Public Safety Academy
- Sheila Alles, Interim State Superintendent, MDE
- Kyle Guerrant, Deputy Superintendent, Administrative Services, MDE
- Coleman Young II, State Senator, Michigan Senate
- Stephanie Chang, State Representative, Michigan House of Representatives
- Phil Boone, Director, State Aid and School Finance, MDE

Attachment A

Deficit Elimination Plan

Detroit Public Safety Academy

Account		Preliminary Actual 2016-17	Budgeted 2017-18	Yearly Increase (Decrease)	% Increase (Decrease)	Estimated 2018-19	Yearly Increase (Decrease)	% Increase (Decrease)	Estimated 2019-20	Yearly Increase (Decrease)	% Increase (Decrease)	Estimated 2020-21	Yearly Increase (Decrease)	% Increase (Decrease)	Estimated 2021-22	Yearly Increase (Decrease)	% Increase (Decrease)
1	Beginning Fund Equity:	(\$714,854)	(\$621,392)			(\$554,433)			(\$532,996)			(\$316,102)			(\$89,569)		
2	Add: Revenues																
3	11x Local Sources	\$20,933	\$37,865	\$17,332	85.24%	\$24,700	(\$12,995)	-34.42%	\$25,000	\$300	1.21%	\$25,000	\$0	0.00%	\$25,000	\$0	0.00%
4	51x Local Rec'd Thru Another Public Sch.	\$11,483	\$26,285	\$14,802	128.90%	\$19,875	(\$8,310)	-24.01%	\$20,375	\$400	2.00%	\$20,782	\$407	2.00%	\$20,375	(\$407)	-1.96%
5	20x Other Political Sub.	\$946	\$0	(\$946)	-100.00%	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%
6	30x State Sources	\$2,610,800	\$2,765,313	\$145,513	5.55%	\$2,950,288	\$184,878	6.80%	\$3,356,985	\$406,707	13.79%	\$3,588,973	\$229,978	6.85%	\$3,797,688	\$210,713	5.87%
7	40x Federal Sources	\$208,178	\$323,949	\$117,371	56.43%	\$340,481	\$14,842	4.35%	\$364,098	\$23,607	6.33%	\$362,053	\$27,955	7.68%	\$420,009	\$27,955	7.13%
8	52x-60x Incoming Transfers & Other	\$2,262	\$3,050	\$768	33.68%	\$0	(\$3,050)	-100.00%	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%
9	TOTAL REVENUES, ETC.	\$2,852,922	\$3,157,962	\$295,040	10.31%	\$3,335,454	\$177,492	5.62%	\$3,766,467	\$431,013	12.92%	\$4,024,808	\$258,340	6.96%	\$4,263,068	\$238,261	5.92%
10	TOTAL RESOURCES AVAILABLE	\$2,148,067	\$2,536,570	\$388,503	18.09%	\$2,781,021	\$244,451	9.64%	\$3,233,472	\$452,450	16.27%	\$3,708,706	\$475,234	14.70%	\$4,163,600	\$454,794	12.26%
11	Less: Expenditures																
12	10x Classroom Inst.	\$972,082	\$971,390	(\$692)	-0.07%	\$1,170,355	\$188,965	20.48%	\$1,277,484	\$107,129	9.15%	\$1,399,859	\$122,375	9.58%	\$1,528,592	\$128,733	9.20%
13	Support Services:																
14	21x Pupil	\$138,088	\$201,585	\$63,497	45.98%	\$190,624	(\$10,881)	-5.44%	\$202,061	\$11,437	6.00%	\$214,485	\$12,424	6.00%	\$227,038	\$12,553	6.00%
15	22x Inst. Staff	\$212,282	\$222,249	\$9,967	4.69%	\$236,806	\$14,557	6.55%	\$251,014	\$14,208	6.00%	\$266,075	\$15,061	6.00%	\$282,040	\$15,965	6.00%
16	23x Gen. Adm.	\$222,954	\$241,835	\$18,871	8.46%	\$253,717	\$11,882	4.81%	\$288,940	\$15,223	6.00%	\$285,076	\$16,136	6.00%	\$302,181	\$17,105	6.00%
17	24x Sch. Adm.	\$265,339	\$390,885	\$125,547	47.32%	\$387,128	(\$3,758)	-0.95%	\$410,356	\$23,228	6.00%	\$434,977	\$24,621	6.00%	\$461,076	\$26,099	6.00%
18	25x Business	\$83,609	\$103,456	\$19,847	23.74%	\$102,483	(\$853)	-0.96%	\$108,611	\$6,128	6.00%	\$115,127	\$6,517	6.00%	\$122,035	\$6,908	6.00%
19	26x Operation & Maintenance	\$669,070	\$659,595	(\$9,475)	-1.42%	\$701,284	\$41,689	6.32%	\$743,361	\$42,077	6.00%	\$787,863	\$44,502	6.00%	\$835,240	\$47,377	6.00%
20	27x Transportation	\$184,002	\$193,357	\$9,355	5.08%	\$180,915	(\$12,442)	-6.43%	\$191,770	\$10,855	6.00%	\$203,276	\$11,506	6.00%	\$215,473	\$12,197	6.00%
21	28x Central	\$69,724	\$80,724	\$10,992	15.75%	\$75,844	(\$4,880)	-6.05%	\$80,385	\$4,541	6.00%	\$85,218	\$4,833	6.00%	\$90,331	\$5,113	6.00%
22	29x Other	\$4,753	\$14,600	\$9,847	55.65%	\$9,500	(\$5,000)	-34.48%	\$10,070	\$570	6.00%	\$10,674	\$604	6.00%	\$11,315	\$640	6.00%
23	30x Community Services	\$1,371	\$3,200	\$1,829	332.22%	\$5,200	(\$1,000)	-19.23%	\$5,512	\$312	6.00%	\$5,843	\$331	6.00%	\$6,193	\$351	6.00%
24	41, 42, 43 Outgoing Transfers	\$68	\$0	(\$68)	-100.00%	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%
25	45x Facilities Acc.	\$0	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%
26	51x Debt Service	\$0	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%	\$0	\$0	0.00%
27	60x Fund Modifications	\$32,088	\$5,226	(\$26,862)	-83.71%	\$181	(\$5,045)	-96.54%	\$0	(\$181)	-100.00%	\$0	\$0	0.00%	\$0	\$0	0.00%
28	TOTAL EXP. & OUTGOING TRANSFERS	\$2,768,459	\$3,091,003	\$322,544	11.61%	\$3,314,017	\$223,014	7.21%	\$3,549,574	\$235,557	7.11%	\$3,808,274	\$258,700	7.29%	\$4,081,213	\$272,939	7.17%
29	ENDING FUND BALANCE	(\$621,392)	(\$554,433)	(\$68,959)	-10.78%	(\$532,996)	\$21,437	-3.87%	(\$316,102)	\$218,893	-40.69%	(\$89,569)	\$216,533	-88.50%	\$81,887	\$181,556	-182.34%

Notes:

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Detroit Public Safety Academy

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue				
Local sources	\$ 32,577	\$ 12,450	\$ 21,179	\$ 8,729
State sources	2,300,507	2,642,882	2,619,801	(23,081)
Federal sources	174,706	251,348	208,177	(43,171)
Interdistrict sources	-	8,673	11,483	2,810
Total revenue	<u>2,507,790</u>	<u>2,915,353</u>	<u>2,860,640</u>	<u>(54,713)</u>
Expenditures				
Current:				
Instruction:				
Basic program	587,229	641,435	603,569	(37,866)
Added needs	204,759	268,923	268,511	(412)
Total instruction	<u>791,988</u>	<u>910,358</u>	<u>872,080</u>	<u>(38,278)</u>
Support services:				
Pupil	220,820	148,010	138,088	(9,922)
Instructional staff	208,067	239,484	212,285	(27,199)
General administration	197,736	228,378	222,965	(5,413)
School administration	209,500	264,134	265,340	1,206
Business	63,865	87,983	83,609	(4,374)
Operations and maintenance	590,058	688,957	666,789	(22,168)
Pupil transportation services	120,174	195,683	194,001	(1,682)
Central	67,964	90,493	69,811	(20,682)
Total support services	<u>1,678,184</u>	<u>1,943,122</u>	<u>1,852,888</u>	<u>(90,234)</u>
Athletics	7,000	9,200	8,753	(447)
Community services	550	2,000	1,371	(629)
Total expenditures	<u>2,477,722</u>	<u>2,864,680</u>	<u>2,735,092</u>	<u>(129,588)</u>
Excess of Revenue Over Expenditures	30,068	50,673	125,548	74,875
Other Financing Uses - Transfers out	-	(8,790)	(32,088)	(23,298)
Net Change in Fund Balance	30,068	41,883	93,460	51,577
Fund Deficit - Beginning of year	<u>(714,853)</u>	<u>(714,853)</u>	<u>(714,853)</u>	<u>-</u>
Fund Deficit - End of year	<u>\$ (684,785)</u>	<u>\$ (672,970)</u>	<u>\$ (621,393)</u>	<u>\$ 51,577</u>

DETROIT PUBLIC SAFETY ACADEMY
Cash Forecast Statement
Combined General and Special Revenue Funds

Actual as of: August 31, 2018

2018-2019	July	August	September	October	November	December
Beginning Balance	90,413.62	88,660.62	63,156.42	151,855.17	112,277.56	72,699.94
Estimated Receipts:						
Collection of State Aid	252,638.64	252,989.94		268,580.64	268,580.64	268,580.64
Collection of Other Grants	22,163.51	8,122.44				108,139.80
Proceeds from Loans and Interest			375,000.00			
Other Revenue and Receipts	10,699.49	2,075.89		13,870.00	13,870.00	13,870.00
TOTAL AVAILABLE FUNDS:	375,915.26	351,848.89	438,156.42	434,305.81	394,728.19	463,290.38
Less Estimated Disbursements:						
Salaries and Benefits	111,790.13	117,360.29	157,942.00	157,942.00	157,942.00	157,942.00
Services, Supplies, and Materials	98,621.06	89,184.70	102,609.25	102,609.25	102,609.25	102,609.25
Fixed Costs - Rent	25,750.00	25,750.00	25,750.00	25,750.00	25,750.00	25,750.00
Repayment of Debt - TLG		5,304.03				
Repayment of Debt - Bridge Loan	51,093.45	51,093.45		35,727.00	35,727.00	35,727.00
TOTAL DISBURSEMENTS:	287,254.64	288,692.47	286,301.25	322,028.25	322,028.25	322,028.25
ESTIMATED ENDING BALANCE:	88,660.62	63,156.42	151,855.17	112,277.56	72,699.94	141,262.13

2018-2019	January	February	March	April	May	June
Beginning Balance	141,262.13	137,731.12	134,200.10	130,669.09	127,138.07	123,607.06
Estimated Receipts:						
Collection of State Aid	268,580.64	268,580.64	268,580.64	268,580.64	268,580.64	268,580.64
Collection of Other Grants	36,046.60	36,046.60	36,046.60	36,046.60	36,046.60	36,046.60
Proceeds from Loans and Interest						
Other Revenue and Receipts	13,870.00	13,870.00	13,870.00	13,870.00	13,870.00	13,870.00
TOTAL AVAILABLE FUNDS:	459,759.37	456,228.35	452,697.34	449,166.32	445,635.31	442,104.30
Less Estimated Disbursements:						
Salaries and Benefits	157,942.00	157,942.00	157,942.00	157,942.00	157,942.00	157,942.00
Services, Supplies, and Materials	102,609.25	102,609.25	102,609.25	102,609.25	102,609.25	102,609.25
Fixed Costs - Rent	25,750.00	25,750.00	25,750.00	25,750.00	25,750.00	25,750.00
Repayment of Debt - TLG						948,650.00
Repayment of Debt - Bridge Loan	35,727.00	35,727.00	35,727.00	35,727.00	35,727.00	35,727.00
TOTAL DISBURSEMENTS:	322,028.25	322,028.25	322,028.25	322,028.25	322,028.25	1,270,678.25
ESTIMATED ENDING BALANCE:	137,731.12	134,200.10	130,669.09	127,138.07	123,607.06	(828,573.95)

Grant Auditor Report

82704

7/1/2017 - 9/28/2018

ISD 82

Detroit Public Safety Academy
1250 ROSA PARKS BLVD
DETROIT, MI 482161950

Grant #	Project #	Project End Date	Allocation	Approved	Paid During Date Range	Cumulative Payments	Balance Approved-Cumulative	Final Expenditure Report?
10.553								
School Breakfast Program								
171970	1017		\$0.00	\$326.04	\$326.04	\$326.04	\$0.00	None
171970	1217		\$0.00	\$1,247.73	\$1,247.73	\$1,247.73	\$0.00	None
171970	917		\$0.00	\$1,040.40	\$1,040.40	\$1,040.40	\$0.00	None
181970	118		\$0.00	\$3,755.73	\$3,755.73	\$3,755.73	\$0.00	None
181970	218		\$0.00	\$3,943.83	\$3,943.83	\$3,943.83	\$0.00	None
181970	318		\$0.00	\$2,704.46	\$2,704.46	\$2,704.46	\$0.00	None
181970	418		\$0.00	\$4,150.74	\$4,150.74	\$4,150.74	\$0.00	None
181970	518		\$0.00	\$3,849.78	\$3,849.78	\$3,849.78	\$0.00	None
181970	618		\$0.00	\$4,606.36	\$4,606.36	\$4,606.36	\$0.00	None
181970	718		\$0.00	\$2,898.83	\$2,898.83	\$2,898.83	\$0.00	None
181970	818		\$0.00	\$4,501.86	\$4,501.86	\$4,501.86	\$0.00	None
181970	918		\$0.00	\$1,814.12	\$1,814.12	\$1,814.12	\$0.00	None
Total for 10.553			\$0.00	\$34,839.88	\$34,839.88	\$34,839.88	\$0.00	

Grant Auditor Report

Grant #	Project #	Project End Date	Allocation	Approved	Paid During Date Range	Cumulative Payments	Balance Approved-Cumulative	Final Expenditure Report?
10.555								
National School Lunch Program								
171960	1017		\$0.00	\$552.77	\$552.77	\$552.77	\$0.00	None
171960	1217		\$0.00	\$8,735.09	\$8,735.09	\$8,735.09	\$0.00	None
171960	917		\$0.00	\$3,418.20	\$3,418.20	\$3,418.20	\$0.00	None
181960	118		\$0.00	\$10,141.84	\$10,141.84	\$10,141.84	\$0.00	None
181960	218		\$0.00	\$8,543.11	\$8,543.11	\$8,543.11	\$0.00	None
181960	318		\$0.00	\$5,127.19	\$5,127.19	\$5,127.19	\$0.00	None
181960	418		\$0.00	\$6,917.90	\$6,917.90	\$6,917.90	\$0.00	None
181960	518		\$0.00	\$6,166.53	\$6,166.53	\$6,166.53	\$0.00	None
181960	618		\$0.00	\$8,377.61	\$8,377.61	\$8,377.61	\$0.00	None
181960	718		\$0.00	\$6,749.09	\$6,749.09	\$6,749.09	\$0.00	None
181960	818		\$0.00	\$7,662.65	\$7,662.65	\$7,662.65	\$0.00	None
181960	918		\$0.00	\$3,217.32	\$3,217.32	\$3,217.32	\$0.00	None
Total for 10.555			\$0.00	\$75,609.30	\$75,609.30	\$75,609.30	\$0.00	
84.010								
Title I Part A								
171530	1617	9/30/2017	\$175,200.00	\$175,709.00	\$22,659.14	\$149,478.72	\$26,230.28	Received
181530	1718	9/30/2018	\$174,798.00	\$201,028.00	\$173,548.15	\$173,548.15	\$27,479.85	None
Total for 84.010			\$349,998.00	\$376,737.00	\$196,207.29	\$323,026.87	\$53,710.13	

Grant Auditor Report

Grant #	Project #	Project End Date	Allocation	Approved	Paid During Date Range	Cumulative Payments	Balance Approved-Cumulative	Final Expenditure Report?
84.367								
TITLE II PART A								
170520	1617	9/30/2017	\$34,600.00	\$41,485.00	\$18,835.04	\$27,142.82	\$14,342.18	Received
180520	1718	9/30/2018	\$26,148.00	\$40,491.00	\$5,902.68	\$5,902.68	\$34,588.32	None
Total for 84.367			\$60,748.00	\$81,976.00	\$24,737.72	\$33,045.50	\$48,930.50	
84.424								
Title IV Part A Student Support & Academic Enrich.								
180750	1718	9/30/2018	\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$0.00	None
Total for 84.424			\$10,000.00	\$10,000.00	\$10,000.00	\$10,000.00	\$0.00	
Total for Detroit Public Safety Academy			\$420,746.00	\$579,162.18	\$341,394.19	\$476,521.55	\$102,640.63	

Detroit Public Safety Academy

Schedule of Findings and Questioned Costs

Financial Statement Audit Findings

Reference Number	Finding
2017-001	<p>Finding Type - Material noncompliance with laws and regulations (material weakness)</p> <p>Criteria - The State of Michigan Uniform Budgeting and Accounting Act prohibits school districts and public school academies from entering a deficit fund balance position. The Act also prohibits the Academy from adopting a General Fund budget with ending fund balance in a deficit position.</p> <p>Condition - The Academy is in a fund deficit position in the General Fund at June 30, 2017. The Academy's final adopted budget for fiscal year 2017 budgeted for a General Fund deficit.</p> <p>Context - The Academy is noncompliant with the State of Michigan Uniform Budget and Accounting Act since it is in an overall fund deficit position and it adopted a deficit budget.</p> <p>Cause - State aid and other revenue were not sufficient to cover the Academy's recurring deficit from previous years.</p> <p>Effect - The Academy has a General Fund deficit of \$621,393 at June 30, 2017.</p> <p>Recommendation - The Academy should maintain compliance with the State of Michigan Uniform Budgeting and Accounting Act.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Academy has filed a deficit elimination plan with the State of Michigan with the goal of eliminating the deficit as quickly as possible. The deficit elimination plan has been approved by the Michigan Department of Education.</p>



1250 Rosa Parks Blvd. Detroit, MI 48216
Tel: 313.965.6916 | Fax: 313.965.6938
www.detroitpsa.com

Date: October 2, 2018

To: Shelbi Frayer, Director of the Office of School Review and Fiscal Accountability
Michael Wrobel, Assistant Director, Michigan Department of Treasury

From: Isaiah Pettway, Principal

Subject: Interim Preliminary Review Report- Response to Findings

Following are responses to various findings cited in the letter dated September 28, 2018. Your review of this information and incorporation of responses into the final report will be greatly appreciated.

Finding:

2) The Academy's existing deficit is greater than 15% of general funds revenues; The Academy's 2017-2018 final budget amendment reflects total general fund revenues of \$3,157,962. The unaudited total fund balance for 2017-2018 is \$(554,433) indicating their deficit is 17.6% of total general fund revenues.

Response:

Based on the 2018-2019 draft audit, the actual deficit is reduced to \$(543,862), which is equal to 17.4% for total general fund revenue.

Finding:

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:

b) Immediate concerns with cash shortfalls in current fiscal year which may lead to additional financings or emergency loan

Response:

The cash forecast statement provided to the Academy's board reflects the total amount due to the management company in unpaid expenses. The management company has taken the approach that as long as the academy maintains their contracted management services, these unpaid expenses will only be collected to the extent that cash resources are available. As long as the contractual relationship continues, it is forecasted that no emergency loan will be needed.

c) Excessive variances on FER for grants with federal funds

Response:

Measures have been put in place to ensure that all federal funds are planned to be expended during the eligible period.

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

Response:

As shown on the summarized table, the academy has continued to narrow the gap between budgeted and actual revenues and expenses, ensuring compliance with UBAA.

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

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

Response:

Projections are modified based on actual enrollment and current student needs. The budget revisions each year are based led on current year count day enrollment.

Other Findings:

c) Enrollment Projections

Response:

Based on the minimal growth to enrollment in FY18 and projected decline at the start of FY19, the academy will increase marketing efforts, specifically targeting students in middle school grades as well as reaching additional surrounding communities for new student potential.



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

NICK A. KHOURI
STATE TREASURER

LOCAL EMERGENCY FINANCIAL ASSISTANCE LOAN BOARD

ORDER 2018-11

DETERMINATION OF PROBABLE FINANCIAL STRESS

FOR THE DETROIT PUBLIC SAFETY ACADEMY STATE OF MICHIGAN

WHEREAS, Subsection 4(2)(b) of 2012 Public Act (PA) 436, the Local Financial Stability and Choice Act (“the Act”), mandates that the State Treasurer conduct a preliminary review to determine the existence of probable financial stress in a school district if the school district is subject to a deficit elimination plan under Section 1220 of 1976 PA 451, the Revised School Code, which exceeds five (5) years; And

WHEREAS, on September 10, 2018, the State Treasurer commenced a preliminary review of the Detroit Public Safety Academy (“the Academy”) based upon, among other things, a determination that the Academy’s deficit elimination plan exceeded a time period of five (5) years; And

WHEREAS, in accord with Subsection 4(3) of the Act, an interim report was provided to the Academy’s officials on September 28, 2018, and the Academy’s officials were afforded the five (5) days allowed under the Act to offer comment; And

WHEREAS, Subsection 4(3) of the Act requires a final preliminary review report to be submitted to the Local Emergency Financial Assistance Loan Board within 30 days of being commenced; And

WHEREAS, on October 11, 2018, the State Treasurer submitted to the Local Emergency Financial Assistance Loan Board the final report detailing the preliminary review of the Academy;
And

WHEREAS, Subsection 4(3) of the Act requires that, within twenty (20) days of receiving the final preliminary review report, the Local Emergency Financial Assistance Loan Board shall determine if probable financial stress exists in the Academy; And

WHEREAS, on October 29, 2018, at a duly noticed public meeting, the Local Emergency Financial Assistance Loan Board reviewed and considered the final report of the State Treasurer detailing the preliminary review of the Academy, which review, and consideration included an opportunity for representatives of the Academy to be heard concerning the matter; And

WHEREAS, Section 2 of 1980 PA 243, the Emergency Municipal Loan Act, established the Local Emergency Financial Assistance Loan Board and enumerates its powers, among which is the power “to act by an order issued in the name of the board and signed by the members of the board.”

NOW, THEREFORE, be it ordered by the Local Emergency Financial Assistance Loan Board as follows:

1. That, having reviewed and considered the final report of the State Treasurer detailing the preliminary review of the Academy and being fully advised in the premises, the Local Emergency Financial Assistance Loan Board determines, pursuant to Subsection 4(3) of the Act, that probable financial stress exists in the Academy.
2. That the Michigan Department of Treasury transmit respectfully and forthwith to the Office of the Governor a copy of this Order and a copy of the final report of the State Treasurer detailing the preliminary review of the Academy.

3. This Order shall have immediate effect.

IN WITNESS WHEREOF, the members of the Board, or their designees, have signed and executed this Order.

LOCAL EMERGENCY FINANCIAL ASSISTANCE
LOAN BOARD

By _____
Anne Wohlfert, Interim Deputy Treasurer for Finance
As Designee for Nick A. Khouri, State Treasurer

By _____
John J. Walsh, State Budget Director
As Designee for David L. DeVries, Director
Department of Technology, Management and Budget

By _____
Leanne Droste, Director of Finance
As Designee for Shelly Edgerton, Director
Department of Licensing and Regulatory Affairs

Date: October 29, 2018

Lansing, Michigan



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

NICK A. KHOURI
STATE TREASURER

LOCAL EMERGENCY FINANCIAL ASSISTANCE LOAN BOARD

ORDER 2018-11

DETERMINATION OF NO PROBABLE FINANCIAL STRESS

FOR THE DETROIT PUBLIC SAFETY ACADEMY STATE OF MICHIGAN

WHEREAS, Subsection 4(2)(b) of 2012 Public Act (PA) 436, the Local Financial Stability and Choice Act (“the Act”), mandates that the State Treasurer conduct a preliminary review to determine the existence of probable financial stress in a school district if the school district is subject to a deficit elimination plan under Section 1220 of 1976 PA 451, the Revised School Code, which exceeds five (5) years; And

WHEREAS, on September 10, 2018, the State Treasurer commenced a preliminary review of the Detroit Public Safety Academy (“the Academy”) based upon, among other things, a determination that the Academy’s deficit elimination plan exceeded a time period of five (5) years; And

WHEREAS, in accord with Subsection 4(3) of the Act, an interim report was provided to the Academy’s officials on September 28, 2018, and the Academy’s officials were afforded the five (5) days allowed under the Act to offer comment; And

WHEREAS, Subsection 4(3) of the Act requires a final preliminary review report to be submitted to the Local Emergency Financial Assistance Loan Board within 30 days of being commenced; And

WHEREAS, on October 11, 2018, the State Treasurer submitted to the Local Emergency Financial Assistance Loan Board the final report detailing the preliminary review of the Academy; And

WHEREAS, Subsection 4(3) of the Act requires that, within twenty (20) days of receiving the final preliminary review report, the Local Emergency Financial Assistance Loan Board shall determine if probable financial stress exists in the Academy; And

WHEREAS, on October 29, 2018, at a duly noticed public meeting, the Local Emergency Financial Assistance Loan Board reviewed and considered the final report of the State Treasurer detailing the preliminary review of the Academy, which review, and consideration included an opportunity for representatives of the Academy to be heard concerning the matter; And

WHEREAS, Section 2 of 1980 PA 243, the Emergency Municipal Loan Act, established the Local Emergency Financial Assistance Loan Board and enumerates its powers, among which is the power “to act by an order issued in the name of the board and signed by the members of the board.”


NOW, THEREFORE, be it ordered by the Local Emergency Financial Assistance Loan Board as follows:


1. That, having reviewed and considered the final report of the State Treasurer detailing the preliminary review of the Academy and being fully advised in the premises, the Local Emergency Financial Assistance Loan Board determines, pursuant to Subsection 4(3) of the Act, that probable financial stress does not exist in the Academy.
2. That the Michigan Department of Treasury transmit respectfully and forthwith to the Office of the Governor a copy of this Order and a copy of the final report of the State Treasurer detailing the preliminary review of the Academy.


3. This Order shall have immediate effect.

IN WITNESS WHEREOF, the members of the Board, or their designees, have signed and executed this Order.

LOCAL EMERGENCY FINANCIAL ASSISTANCE
LOAN BOARD

By 
Anne Wohlfert, Interim Deputy Treasurer for Finance
As Designee for Nick A. Khouri, State Treasurer

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Lansing, Michigan