



DETROIT PUBLIC SCHOOLS

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Emergency Manager



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July 10, 2015

SUBMITTED VIA E-MAIL and HARD COPY

Hon. Nick Khouri
Treasurer
State of Michigan
Richard H. Austin Bldg.
430 W. Allegan St.
Lansing, MI 48922

Brian Whiston
Superintendent of Public Instruction
Michigan Department of Education
608 W. Allegan St.
P.O. Box 30008
Lansing, MI 48909

Dear Mr. Khouri and Mr. Whiston:

Enclosed for your consideration is the Detroit Public Schools General Fund, Fourth Quarter Interim Financial Report as required by Section 9(5) of the Local Financial Stability and Choice Act (Michigan Public Act 436 of 2012 (PA 436)). The report covers the period ended June 30, 2015.

Please do not hesitate to contact me should you have any questions regarding this report.

Sincerely,


Darnell Earley, ICMA-CM, MPA
Emergency Manager

cc: Delores Brown
Tom Saxton
Jeanet Kulcsar

State Representatives

Hon. Brian Banks
Hon. Alberta Talabi
Hon. Wendell Byrd
Hon. Rose Mary Robinson
Hon. Fred Durhal, III
Hon. Stephanie Chang
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DETROIT PUBLIC SCHOOLS

**General Fund
Fourth Quarter Financial Report
For the Three Months Ended June 30, 2015
Section 9 (5) Report**

DETROIT PUBLIC SCHOOLS
Fourth Quarter Financial Report
General Fund
For the three months ended June 30, 2015
Section 9 (5) Report

UNAUDITED

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Detroit Public Schools
Status of the Financial Condition of DPS
April 1, 2015 – June 30, 2015

Emergency Manager's Comments on the Financial Condition of the Detroit Public Schools

Although the financial condition of Detroit Public Schools remains challenging, I believe that we can and will manage our way through the serious issues before us and emerge, not only as a more efficient and effective educational system, but also as one that is singularly focused on the educational achievement and competitiveness of our students.

We will, however, only get there through change. No longer can we operate like a school district from 50 or even 20 years ago. DPS must completely restructure the way it does business, focusing all of its resources on where they will have the most impact – in the system's school buildings and classrooms.

In the first six months of my tenure as Emergency Manager, I collaborated with staff to develop a 10-point management plan to guide the critical work of getting DPS on the right track – both financially and academically. Using this 10-point plan as a roadmap, we launched a comprehensive transformation of DPS' central office that will not only provide schools with more autonomy and more effectively serve their educational and operational needs, but also save the district millions of dollars.

I was assisted in the design of the restructuring by a newly formed DPS Transformation Team, a group of 90-plus internal representatives and stakeholders who are participating in ongoing leadership training, being provided at no cost by the University of Michigan-Ross School of Business. The group, made up of teachers, principals, curriculum staff and District administrators, has already met for more than 75 hours over the two months and provided invaluable insight that has helped shape the district's plan for the future.

Since first being engaged during a two-and-a half day training off-site at the Michigan Ross School in April, the commitment of the Transformation Team has solidified and gotten stronger. A survey recently conducted of the Transformation Team shows that they truly feel that their input is visibly influencing the District's restructuring and budget development. This builds employee morale and helps ensure that the changes being made will be sustainable.

In order to help ensure this long-term sustainability, we must focus the next six months on the continued implementation of this 10-point plan, specifically through the restructuring of the District. To assist in this implementation, and to further increase our ability to build capacity across the organization, we will focus on the following five areas:

1. Stronger school support/networks and engagement;
2. Financial management and budgeting;
3. HR processes, hiring and transitions;
4. Purchasing and procurement improvements;
5. Continued cash flow and payables management.

We have had a strong six months preparing for this transformation. Now, we must commit ourselves to ensuring that our work is not just implemented, but everyone across the District has a hand in ensuring its success.

There are several key factors that contribute to the challenging nature of the District's financial condition:

1. The DPS student population consists of some of the most economically and socially disadvantaged students in the State of Michigan.
2. The District's General Fund deficit was approximately \$169.5 million at fiscal year ending June 30, 2014. As of June 30, 2015 actual quarter to date expenditures exceed revenue by \$51 million. This operational deficit is attributed to a reduction in state aid and state restricted revenue sources due to further student enrollment decreases and other funding cuts related to MSPERS and Pupil Attendance Incentives. In addition, the \$53 million annual debt service obligation continues to represent a significant expenditure for the District. This coupled with the declining enrollment requires the District to devote an ever increasing percentage to meet its debt service obligations. Since debt principal and interest payments are material to cash flow, these expenditures directly impact the District's ability to meet other financing obligations in a timely manner.
3. The Detroit Federation of Teachers is the District's largest employee union. Its membership consists of over sixty-one (61%) of the total number of district employees and accounts for 72% of its personnel cost. Pension cost alone represents approximately twenty-eight percent (28%) of salaries and wages.
4. Due to cash flow requirements, DPS issued \$82.8 million in short- term revenue notes in May 2015. This borrowing will cost the District over \$4 million in issuance and debt service cost.

Districts Current Financial and Budget Condition.

There were two budget amendments in this quarter. Budget Amendment #4 increased the projected operating deficit by (\$57.2) million. Budget Amendment #5, the final amendment for fiscal year ending June 30, 2015, increased the operating deficit by an additional (\$14.6) million and resulted in a projected operating deficit of (\$68.7) million for the fiscal year. The following is a summary of the significant changes to the General Fund by function included in these amendments:

Revenue

- **Local Sources** – The District anticipates receiving \$9.1 million less for Property Taxes due to reduced assessments in the City of Detroit. The anticipated revenues from the Education Achievement Authority decreased \$2.0 million.
- **State Sources** – The Section 3 la budget increased \$8.9 million due to carryover funding. The District anticipates receiving \$2.4 million from the State of Michigan under Proposal A based on the June 2015 State Aid Financial Status Report. In addition, the District reduced its revenue projections for the MPSERS One Time Liability Payment by \$3.7 million.
- **Federal Sources** – The Title Ila budget increased \$14.0 million due to carryover funding.

Expenditures

- **Instruction** – Personnel costs (excluding Section 3 la) increased \$25.3 million primarily attributed additional teaching costs. The Section 3 la budget increased \$8.5 million primarily attributed to carryover funding.
- **Pupil Support** – Purchased services increased \$3.1 million primarily attributed to Center Based Special Education.
- **Instructional Staff** – The Title Ila budget increased \$10.3 million primarily attributed to workshops and purchased services. General Purpose Fund insurance costs increased \$1.1 million based on the most current payroll.
- **School Administration** – Personnel costs decreased \$4.8 million primarily attributed to vacant school administrator and clerical positions.
- **Operations and Maintenance** – Utility expenses increased by \$6.6 million due to a change in the projected credit from the City of Detroit. This was originally budgeted at an \$11.6 million electric bill credit in exchange for 77 properties transferred to the City of Detroit but was decreased due to property valuations. Purchased services increased \$3.8 million primarily attributed to DPS Police and Physical Plant Operations. In addition, the budget increased \$12.0 million as a contingency for an arbitration with a former contractor.
- **Transportation** – Purchased services decreased \$2.6 million primarily attributed to the reclassification of expenses from transportation to instruction. The budget increased \$2.7 million as a contingency to additional purchased services.

- **Central Support** – Personnel costs increased \$2.1 million primarily attributed to severance payments to employees.

Other Financing Sources

- **Proceeds from the Sale of Assets** – The District reclassified \$3.4 million in revenues from the Proceeds from the Sale of Assets to Local Sources. Furthermore, the District anticipates receiving \$1.8 million less from the sale of assets.

Other Financing Uses

- **Prior Year Adjustments** – Based on the June 2015 State Aid Financial Status Report, the District expects to receive \$5.0 million less in Prior Year Adjustments than anticipated.

Following is the District's Interim Financial Report for the three months ended June 30, 2015. These financial reports assist the District in making informed decisions about its financial and operational activities. These statements reflect a year-to-date increase in the fund deficit of approximately \$68.7 million. While the District has not been able to reduce its deficit by amounts previously projected, financial operation results do indicate a reduction in overall operational expenditures. Efforts continue to identify additional cost savings to offset the continuing decline in Revenue. The District's cash position remains critical due to current liabilities and outstanding debt. See the FY 2015 cash flow schedule included in this report.

DETROIT PUBLIC SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balances
for the three months ended June 30, 2015
Section 9 (5) Report

	(Note A)		(Note B)			
	Original Budget	Final Budget	Quarter Ended Budget 6/30/2015	Quarter Ended Actual 6/30/2015	Variance Positive (Negative) to Budget	% Variance Positive (Negative)
SUMMARY						
Revenues						
Local sources	\$ 105,874,608	\$ 84,462,703	\$ 27,695,436	\$ 26,260,940	(1,434,496)	(5.18%)
State sources	359,205,791	387,453,337	103,863,244	102,687,221	(1,176,022)	(1.13%)
Federal sources	156,156,530	187,969,665	75,259,682	40,647,673	(34,617,195)	(46.00%)
Interdistrict sources	45,477,054	45,554,982	23,988,421	21,832,030	(2,156,391)	(8.99%)
Total revenues	666,713,983	705,440,687	230,806,783	191,427,863	(39,384,106)	(17.06%)
Expenditures						
Instruction	319,100,683	371,584,479	139,068,859	119,595,356	19,473,503	14.00%
Support services	306,035,049	349,017,419	130,067,702	107,827,899	22,239,803	17.10%
Community service	3,709,231	5,294,392	2,779,483	621,738	2,157,745	77.63%
Debt service	53,005,586	53,005,586	13,251,546	13,251,347	199	0.00%
Total expenditures	681,850,549	778,901,876	285,167,590	241,296,339	43,871,251	15.38%
Revenues over (under) expenditures	(15,136,566)	(73,461,189)	(54,360,807)	(49,868,476)	4,487,145	9.00%
Other Financing Sources (Uses)						
Other sources	14,100,000	7,604,321	1,558,933	753,821	(805,112)	(51.65%)
Other uses	(2,343,156)	2,921,833	2,907,112	1,803,946	1,103,167	-
Total other financing sources (uses)	16,443,156	4,682,488	(1,348,179)	(1,050,125)	298,054	(22.11%)
Net change in fund balances	1,306,590	(68,778,701)	(55,708,986)	(50,918,601)	4,790,385	(9.41%)
Fund balances (deficit), beginning of year	(127,054,182)	(169,460,307) *				
Fund balances (deficit), end of year	\$ (125,747,592)	\$ (238,239,008)				

Note A: The final budget represents the Original Budget plus Budget Amendment 1 (August 13, 2014), Budget Amendment 2 (December 15, 2014), Budget Amendment 3 (March 16, 2015), Budget Amendment 4 (June 19, 2015) and Budget Amendment 5 (June 30, 2015)

Note B: The difference between the Fourth Quarter Actual and Fourth Quarter Budget are explained on the detail Statement of Revenue and Expenditures Reports.

* The beginning fund balance represents the actual ending fund balance(deficit) per the District's FY 2014 Audited Financial Statements.

DETROIT PUBLIC SCHOOLS
Statement of Revenue
General Fund
For the three months ended June 30, 2015
Section 9 (5) Report

	Original Budget	Final Budget	Quarter Ended Budget 6/30/2015	Quarter Ended Actual 6/30/2015	Variance Positive (Negative) to YTD Budget	% Variance Positive (Negative)	Notes
REVENUE DETAIL							
LOCAL SOURCES							
Property tax revenue	\$ 77,459,247	\$ 62,707,656	\$ 16,808,511	\$ 15,986,339	\$ (822,172)	(4.89%)	
Tuition non resident	108,480	178,287	108,116	-	(108,116)	(100.00%)	
Earnings on investment	31,892	27,200	14,042	936	(13,106)	(93.33%)	
Income from real property	64,080	102,431	30,153	30,155	2	0.01%	
Community services activities	11,593,043	4,897,081	1,172,096	1,146,005	(26,092)	(2.23%)	
Rent from school property	3,619,508	5,387,905	574,343	383,551	(190,792)	(33.22%)	
Community use	255,000	292,370	148,739	65,381	(83,358)	(56.04%)	
Miscellaneous revenue	12,389,458	10,239,807	8,676,548	8,593,230	(83,318)	(0.96%)	
Garnishment revenue	-	-	-	13,222	13,222	100.00%	
Private donations	353,900	629,966	162,888	42,121	(120,767)	(74.14%)	
Total Local sources	105,874,608	84,462,703	27,695,436	26,260,940	(1,434,496)	(5.18%)	
STATE SOURCES							
State school aid	251,490,368	251,364,745	57,457,303	65,746,470	8,289,167	14.43%	A
State restricted	70,732,470	84,293,448	20,735,683	22,113,166	1,377,483	6.64%	A
Section 31A - program	19,833,953	29,592,582	14,817,805	9,838,169	(4,979,636)	(33.61%)	A
Comprehensive school health	80,000	80,004	42,742	-	(42,742)	(100.00%)	
Great start readiness program	16,994,000	20,813,497	9,655,050	4,884,466	(4,770,584)	(49.41%)	A
Small Schools 21st Century	-	-	(29,480)	-	29,480	(100.00%)	
State Restricted Math Science	-	9,996	(21,087)	30,332	51,419	(243.84%)	
Detroit math & science centers	75,000	64,688	39,681	-	(39,681)	(100.00%)	
First Robotics	-	48,900	48,900	66,044	17,144	0.00%	
Sexual Health Initiative	-	5,000	5,000	-	(5,000)	100.00%	
HRTTP HIV 2013 YR 2	-	50,001	36,251	16,304	(19,947)	(55.02%)	
Adolescent n School Health	-	-	(47,731)	-	47,731	(100.00%)	
Section 41 Bilingual instruct	-	-	(7,349)	-	7,349	(100.00%)	
Section 22.i Technology Readin	-	472,356	472,356	-	(472,356)	(100.00%)	
State School Aid Act Section 9	-	7,200	7,200	-	(7,200)	(100.00%)	
Principal/AP Training For Eval	-	47,256	47,256	(7,731)	(54,987)	(116.36%)	
Wayne County Early On Program	-	114,700	114,700	-	(114,700)	(100.00%)	
Technology Readiness Infrastructure	-	488,964	488,964	-	(488,964)	(100.00%)	
Total State sources	359,205,791	387,453,337	103,863,244	102,687,221	(1,176,022)	(1.13%)	

DETROIT PUBLIC SCHOOLS

UNAUDITED

Statement of Revenue

General Fund

For the three months ended June 30, 2015

Section 9 (S) Report

	Original Budget	Final Budget	Quarter Ended Budget 6/30/2015	Quarter Ended Actual 6/30/2015	Variance Postive (Negative) to YTD Budget	% Variance Positive (Negative)	Notes
REVENUE DETAIL							
FEDERAL SOURCES							
Title I Part A	120,066,638	125,654,612	40,657,384	28,843,812	(11,813,572)	(29.06%)	B
Title I Part C	23,345	23,347	21,966	2,550	(19,416)	(88.39%)	
CTE Perkins Title II	3,000,819	3,000,818	1,783,694	569,778	(1,213,916)	(68.06%)	B
Adult Ed & Family Literacy	60,000	60,000	60,000	60,000	-	0.00%	
Title III Limited English Proficiency	766,321	1,285,851	547,987	206,808	(341,179)	(62.26%)	
Title III Immigrant Students	47,809	47,806	22,700	-	(22,700)	(100.00%)	
SIG II Federal thru State	-	7,739,358	5,752,999	2,254,869	(3,498,130)	(60.81%)	B
Title I Part D - Intervention	144,886	315,130	152,996	53,635	(99,361)	(64.94%)	
Title I School Wide Planning	-	-	(5,186)	-	-	0.00%	
21st Century Cohort	2,700,000	2,699,999	447,093	777,308	330,215	73.86%	
English Literacy and Civics Ed	5,000	5,000	5,000	4,450	(550)	(100.00%)	
Title II Part A - Regular Teacher	16,451,385	30,742,543	18,729,910	4,521,027	(14,208,883)	(75.86%)	B
IDEA Flowthrough Attic	475,000	525,001	187,678	130,169	(57,509)	(30.64%)	
IDEA Flowthrough - Regular	9,439,709	10,717,332	4,450,236	2,173,980	(2,276,256)	(51.15%)	B
IDEA Preschool	413,035	542,513	220,540	138,121	(82,419)	(37.37%)	
Head Start	-	-	(84,157)	-	84,157	100.00%	
WIA ABE AND GED Prep Services	-	449,997	272,965	155,964	(117,001)	(42.86%)	
School Climate Transformation	-	705,799	705,799	-	(705,799)	(100.00%)	
Wayne County Early On Program	-	-	(28,604)	-	28,604	(100.00%)	
Improving the Health Education	-	-	-	8,839	8,839	100.00%	
COPS Hiring Program	-	355,404	355,404	-	(355,404)	(100.00%)	
IDEA Center Program (CPE)/Act	2,562,583	3,099,155	1,003,278	746,364	(256,914)	(25.61%)	
Total Federal sources	156,156,530	187,969,665	75,259,682	40,647,673	(34,617,195)	(46.00%)	
INTERDISTRICT SOURCES							
Charter Schools -Serv Provided	3,303,574	3,381,506	2,765,033	2,011,311	(753,722)	(27.26%)	
WCRESA-Follow That Child	1,441,716	1,441,716	1,192,543	450,884	(741,659)	(62.19%)	
WCRESA ACT 18	40,731,764	40,731,760	20,232,527	19,332,527	(900,000)	(4.45%)	
Transportation Revenue - Other Schools	-	-	(201,682)	37,309	238,991	100.00%	
Total Interdistrict sources	45,477,054	45,554,982	23,988,421	21,832,030	(2,156,391)	(8.99%)	

DETROIT PUBLIC SCHOOLS
Statement of Revenue
General Fund
For the three months ended June 30, 2015
Section 9 (5) Report

REVENUE DETAIL	Original Budget	Final Budget	Quarter Ended Budget 6/30/2015	Quarter Ended Actual 6/30/2015	Variance Postive (Negative) to YTD Budget	% Variance Positive (Negative)	Notes
OTHER SOURCES							
Sale of real estate	11,600,000	5,204,321	753,821	753,821	(0)	(0.00%)	
Sale of equipment	100,000	-	-	-	-	0.00%	
Transfer In	2,400,000	2,400,000	805,112	-	(805,112)	100.00%	
Total Other sources	14,100,000	7,604,321	1,558,933	753,821	(805,112)	(51.65%)	
Total Revenues and Other Sources	\$ 680,813,983	\$ 713,045,008	\$ 232,365,716	\$ 192,181,685	\$ (40,189,216)	(17.30%)	

DETROIT PUBLIC SCHOOLS
Statement of Expenditures by Function
General Fund
For the three months ended June 30, 2015
Section 9 (S) Report

	Original Budget	Final Budget	Quarter Ended Budget 6/30/2015	Quarter Ended Actual 6/30/2015	Variance Postive (Negative) to YTD Budget	% Variance Postive (Negative)	Notes
FUNCTION LEVEL EXPENDITURES							
INSTRUCTION							
Elementary Programs (111,114, 118)	\$ 127,238,722	\$ 142,369,626	\$ 45,306,694	\$ 45,690,490	\$ (383,796)	(0.85%)	
Middle School Programs (112)	14,089,716	13,676,118	4,408,021	4,467,156	(59,135)	(1.34%)	
High School & Summer Programs (113,119)	50,663,316	55,828,791	21,522,103	13,996,319	7,525,784	34.97%	
Special Education (122)	75,006,884	83,088,008	28,342,620	22,933,818	5,408,802	19.08%	
Compensatory Education (125)	46,686,705	70,635,966	37,511,961	30,854,112	6,657,849	17.75%	
Career and Technical Education (127)	3,405,138	3,506,266	1,055,045	1,081,161	(26,116)	(2.48%)	
Adult/Continuing Education - Basic (120, 13x)	2,010,202	2,479,704	922,415	572,300	350,115	37.96%	
Total Instruction	319,100,683	371,584,479	139,068,859	119,595,356	19,473,503	14.00%	C
SUPPORTING SERVICES							
Pupil (21x)	60,122,328	67,463,417	30,345,473	16,447,192	13,898,281	45.80%	D
Instructional Support (22x)	58,557,176	78,792,828	35,334,975	27,728,196	7,606,779	21.53%	D
General Administration (23x)	6,830,748	6,462,078	1,675,952	1,335,760	340,192	20.30%	
School Administration (24x)	35,279,744	33,091,118	7,351,596	9,878,126	(2,526,530)	(34.37%)	D
Business (25x)	12,828,933	13,819,861	4,593,319	4,658,313	(64,994)	(1.41%)	
Maintenance & Operations (261)	78,049,928	88,903,080	29,882,280	27,256,225	2,626,055	8.79%	D
Transportation (27x)	26,910,502	29,169,430	7,483,912	6,980,976	502,936	6.72%	
Central Support Services (28x)	26,474,558	30,195,678	13,263,685	13,240,304	23,381	0.18%	
School Activities (29x)	981,132	1,119,929	136,510	302,806	(166,296)	(121.82%)	
Total Supporting Services	306,035,049	349,017,419	130,067,702	107,827,899	22,239,803	17.10%	
COMMUNITY SERVICES (3xx)	3,709,231	5,294,392	2,779,483	621,738	2,157,745	77.63%	E
DEBT SERVICE (5xx)	53,005,586	53,005,586	13,251,546	13,251,347	199	0.00%	
TOTAL GENERAL OPERATING EXPENDITURES	681,850,549	778,901,876	285,167,590	241,296,339	43,871,251	15.38%	
OTHER FINANCING USES							
Major Projects/Facility Improv (4xx)	-	455,346	440,625	3,946	436,680	99.10%	
Prior Year ADJ Material (49100)	(2,343,156)	-	-	-	-	0.00%	
Outgoing transfers (6xx)	-	2,466,487	2,466,487	1,800,000	666,487	100.00%	
Total Other Financing Uses	(2,343,156)	2,921,833	2,907,112	1,803,946	1,103,167	37.95%	
TOTAL EXPENDITURES	\$ 679,507,393	\$ 781,823,709	\$ 288,074,702	\$ 243,100,285	\$ 44,974,418	15.61%	

DETROIT PUBLIC SCHOOLS
Statement of Expenditures by Object Level
General Fund
for the three months ended June 30, 2015
Section 9 (5) Report

UNAUDITED

OBJECT LEVEL EXPENDITURES	Original Budget	Final Budget	Quarter Ended Budget 6/30/2015	Quarter Ended Actual 6/30/2015	Variance Postive (Negative) to YTD Budget	% Variance Postive (Negative)	Notes
Personnel (5xxxxx & 6xxxxx)	\$ 463,048,713	\$ 517,351,048	\$ 179,278,942	\$ 155,388,814	\$ 23,890,128	13.33%	F
Purchased Services	117,662,355	162,670,927	84,137,550	60,763,999	23,373,551	27.78%	G
Supplies & Textbooks	18,547,708	24,679,289	12,194,067	6,074,120	6,119,947	50.19%	H
Equipment & Capital	971,425	2,588,817	1,338,692	388,531	950,161	70.98%	
Utilities	24,326,230	15,345,789	(296,972)	71,260	(368,232)	124.00%	
Other	54,950,962	59,187,839	11,422,423	20,413,561	(8,991,138)	(78.71%)	I
TOTAL EXPENDITURES	\$ 679,507,393	\$ 781,823,709	\$ 288,074,702	\$ 243,100,285	\$ 44,974,417	15.61%	

DETROIT PUBLIC SCHOOLS

Cash Flows Summary

General Fund

For the three months ended June 30, 2015

Section 9 (5) Report

UNAUDITED

<i>\$ in thousands</i>	Q1	Q2	Q3	Q4	FY 15 Total
Cash Receipts					
State Aid	\$ 59,660	\$ 95,702	\$ 86,703	\$ 91,345	\$ 333,409
Property Tax (Net)	8,303	15,368	11,288	2,060	37,019
Grants	40,825	48,660	44,194	52,371	186,050
State Aid Note Proceeds	65,327	41,862	-	-	107,189
Other	27,764	20,491	24,640	33,565	106,460
Total Cash Receipts	201,878	222,083	166,825	179,342	770,127
Cash Disbursements					
Payroll, Pension and Benefits	(123,759)	(110,881)	(100,796)	(90,978)	(426,414)
Accounts Payable	(35,639)	(58,305)	(31,664)	(33,277)	(158,884)
Debt Service Bonds and SAN	(41,667)	(19,877)	(39,380)	(23,001)	(123,925)
Other	(6,455)	(9,885)	(8,158)	(14,487)	(38,984)
Total Cash Disbursements	(207,519)	(198,947)	(179,998)	(161,743)	(589,323)
Beginning Cash Balance	25,495	19,854	42,990	29,816	25,495
Net Cash Flow	(5,641)	23,136	(13,173)	17,599	21,921
Ending Cash Balance	\$ 19,854	\$ 42,990	\$ 29,816	\$ 47,415	\$ 47,415

Note: Q4 cash ending balance is through the week ending June 26, 2015.

Ending cash balance on June 30, 2015 was \$48.0m.

Notes to Fourth Quarter Interim Financial Report (Continued)
For the three months ended June 30, 2015**Note (1) Summary of Significant Accounting Policies**

The accounting policies of the Detroit Public Schools (the School District) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District.

Reporting Entity

The School District of the City of Detroit (commonly known as "Detroit Public Schools"), incorporated in 1842, is a statutory public body created by the State of Michigan, and functions under the provisions of the State of Michigan's Public Act 451. The District encompasses an area of approximately 140 square miles, and is located within the City of Detroit, Wayne County, Michigan. Although the corporate boundaries of the District are coterminous with the corporate boundaries of the City of Detroit, the District is a totally separate governmental unit.

Detroit Public Schools is the largest public school system in Michigan. The District is one of the largest employers in Detroit, employing 6,535, employees (full time equivalents) as of June 30, 2014.

On May 16, 2011, Governor Rick Snyder determined that a financial emergency continued to exist for the District and appointed Roy S. Roberts to replace Robert Bobb as EM for the District, pursuant to Public Act 4. Mr. Roberts served as Emergency Manager of the District pursuant to Public Act 4 until August 2012 when Public Act 4 was suspended by voter petition for a referendum and temporarily replaced by Public Act 72. In August 2012, Governor Snyder reappointed Mr. Roberts to serve as an Emergency Financial Manager for the District under Public Act 72 (during the suspension period and after Public Act 4 was rescinded by voter referendum effective November 6, 2012); and in March 28, 2013, reappointed Mr. Roberts as the Emergency Manager for the District when a subsequently enacted Public Act 436 of 2012 ("Public Act 436") took effect. On July 15, 2013, Governor Snyder appointed Jack Martin to a one-year term to serve as Emergency Manager for the District to replace Roy Roberts who retired as EM on that same date. Under Public Act 436, the EM is prescribed all power and authority over all financial, operational and academic matters of the District as is necessary to address the financial emergency of the District, subject to certain limitations enumerated in Public Act 436. Notwithstanding any agreed upon expiration date, the EM serves at the pleasure of the Governor and the Governor has the authority to remove the EM with or without cause at any time he may determine. The EM may also be removed by impeachment and conviction by the State Legislature. On January 13, 2015, Governor Snyder appointed Darnell Earley as Emergency Manager to succeed Jack Martin who's term ended January 15, 2015.

**Notes to Fourth Quarter Interim Financial Report (Continued)
For the three months ended June 30, 2015**

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments (such as self insurance, contingencies), are recorded only when payment is due.

Property taxes, unrestricted State Aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

General Fund

The General Fund is the School District’s primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund. The School District maintains separate sub funds within the General Fund for federal activities, adult education and special education. The General Fund includes the following sub funds:

Fund Code	Description
11	General Fund – General Purpose
13	Adult Education
14	Grants
16	Center-Based Special Education
18	ARRA Stimulus Fund
19	Consolidated Fund
22	Act 18

Notes to Fourth Quarter Interim Financial Report (Continued)
For the three months ended June 30, 2015**Note (2) District's Strategic Direction**

The goal of the 10-Point Management Plan is to provide a strategy for determining and evaluating relevant and specific criteria for assessing and implementing operational and academic change within the DPS organization. Below is an outline of this 10-Point Management Plan, which as a management team and a District, we will focus on over the next 18 months:

Operations

1. Cash Flow Stability
2. Governance (Schools in the City of Detroit)
3. Staff Development
4. Organizational Development
5. Comprehensive Funding Strategy

Academics

6. Academic Competitiveness (Excellence)
7. Higher Education/Collaboration with Colleges and Universities
8. Special Education
9. Transportation
10. Customer Service

Note (3) Interim Financial Reporting and District's Operations Management

In July 2014, The District implemented its new upgrade to PeopleSoft Financials 9.2 which brings significant enhancements to the District's financial management and reporting system. The District is now in its post implementation phase which includes business process improvement.

Note (4) Monthly Financial Statements

The financial statements presented reflect data from the District's General Ledger for three months ended June 30, 2015.

**Notes to Fourth Quarter Interim Financial Report (Continued)
For the three months ended June 30, 2015**

Note (5) Variance Explanations – Function Level

Variance explanations for the Function Level are provided for financial items which have a variance of over \$1 million (Refer to page 3):

Description	Explanation	Reference Key
State Sources	<p>This variance is primarily attributed to the following revenue:</p> <ul style="list-style-type: none"> I. <u>State School Aid/State Restricted</u> – The actuals for State School Aid reflects \$8 million of prior period adjustments received and recognized as revenue whereas the budget reflects the prior period adjustments as an offset to expenditures. II. <u>Section 31A</u> - Revenue for Section 31A (Grants) is based on actual expenditures incurred. Actual expenditures incurred exceeded the budget allocated for the three months ended. This is a timing difference. III. <u>Great Start Readiness Program</u> - Revenue for the Great Start Readiness Program (Grants) is based on actual expenditures incurred. Actual expenditures incurred were less than the budget allocated for the three months ended. This is a timing difference. 	A
Federal Sources	Actual revenues were less than budgeted. Actual revenues recognized include reimbursement revenue for the 2015 Grant award expenditures through June 30, 2015. Conversely, the Budget includes the entire 2015 grant award available for expenditure through September 2015.	B
Instruction	Actual expenditures were less than budgeted. Actuals include expenditures incurred for the 2015 Grant award through June 30, 2015. Conversely, the Budget includes projected expenditures for the entire 2015 grant award through September 2015.	C
Support Services	<p>This variance is primarily attributed to the following functional categories:</p> <ul style="list-style-type: none"> I. <u>Pupil and Instructional Support</u> - Actual expenditures were less than budgeted. Actuals include expenditures incurred for the 2015 Grant award through June 30, 2015. Conversely, the Budget includes projected expenditures for the entire 2015 grant award through September 2015. II. <u>School Administration</u> – Actuals expenditures incurred more than budget allocated for the three months ended. This is a timing difference. 	D

**Notes to Fourth Quarter Interim Financial Report (Continued)
For the three months ended June 30, 2015**

Description	Explanation	Reference Key
	III. Maintenance & Operations - Actual expenditures incurred less than budget allocated for the three months ended. This is a timing difference.	
Community Services	Actual expenditures incurred were less than budget allocated for the three months ended. This is a timing difference.	E

See pages 4 through 7 for more detail reports of the Statement of Revenues and Expenditures.

Note (6) Variance Explanations – Object Level

Variance explanations for the Object Level are provided for financial items which have a variance of over \$1 million (Refer to page 8):

Description	Explanation	Reference Key
Personnel (Salary and Benefits)	Actual expenditures were less than budgeted. Actuals include expenditures incurred for the 2015 Grant award through June 30, 2015. Conversely, the Budget includes projected expenditures for the entire 2015 grant award through September 2015.	F
Purchased Services	Actual expenditures were less than budgeted. Actuals include expenditures incurred for the 2015 Grant award through June 30, 2015. Conversely, the Budget includes projected expenditures for the entire 2015 grant award through September 2015.	G
Supplies/Textbooks	Actual expenditures were less than budgeted. Actuals include expenditures incurred for the 2015 Grant award through June 30, 2015. Conversely, the Budget includes projected expenditures for the entire 2015 grant award through September 2015.	H
Other	This variance is primarily attributed to actuals for State School Aid which reflects \$8 million of prior period adjustments received and recognized as revenue whereas the budget reflects the prior period adjustments as an offset to expenditures.	I