

# **The Dearborn Academy**

---

**Report to the Board of Directors  
Year Ended June 30, 2016**

To the Board of Directors  
The Dearborn Academy

We have recently completed our audit of the basic financial statements of The Dearborn Academy (the "Academy") as of and for the year ended June 30, 2016. In addition to our audit report, we are providing the following results of the audit, other recommendations, and informational items which impact the Academy:

	<u>Page</u>
<b>Results of the Audit</b>	2-5
<b>Other Recommendations</b>	6-7
<b>Informational Items</b>	8-13

We are grateful for the opportunity to be of service to The Dearborn Academy. Should you have any questions regarding the comments in this report, please do not hesitate to call.

## **Results of the Audit**

---

October XX, 2016

To the Board of Directors  
The Dearborn Academy:

We have audited the financial statements of The Dearborn Academy (the "Academy") as of and for the year ended June 30, 2016 and have issued our report thereon dated October XX, 2016. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated May 5, 2016, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the Academy's financial statements has also been conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. Under Government Auditing Standards, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the Academy, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated October XX, 2016 regarding our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 19, 2016.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Academy are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during June 30, 2016.

We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate affecting the financial statements was the Academy's share of the MPSERS pension plan net pension liability recorded on the government-wide statements for the implementation of GASB Statement No. 68. The Academy's estimate as of June 30, 2016 is \$176,217, and based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the accounting estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

#### ***Significant Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

To the Board of Directors  
The Dearborn Academy

October XX, 2016

As required by 2 CFR Part 200, we have also completed an audit of the federal programs administered by the Academy. The results of that audit are provided to the Board of Directors in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with 2 CFR Part 200 dated October XX, 2016.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October XX, 2016.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Academy’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Very truly yours,

**Plante & Moran, PLLC**

Teresa L. Pollock, CPA

## **Other Recommendations**

---

# **The Dearborn Academy**

---

## **Other Recommendations**

We have completed the audit of the financial statements of The Dearborn Academy as of and for the year ended June 30, 2016. As a result of our audit, and in the spirit of continuous improvement, we offer the following comments and best practice recommendations for the board of directors' review and consideration.

### **Capitalization Policy**

We noted that while the Academy follows standard practices or procedures, we recommend the Academy implement a formal capital asset policy approved by the board of directors. This policy should speak to such items as standard depreciable lives, capitalization policy of capital expenditures, whether periodic inventories should be performed, identification of impairment, and identification of assets for disposition. This will ensure the Academy is consistent in terms of accounting for capital assets.

### **Investments**

The Academy continues to hold a significant amount of cash in a savings account. We recommend exploring other investment alternatives to maximize the potential return to create additional revenue for the Academy. State law restricts which investments may be held, but several options do exist that can provide improved rates of return.

## **Informational Items**

---

# The Dearborn Academy

## Informational Items (continued)

### State Aid Funding

#### **State Aid and the Foundation Allowance**

The fiscal year ended June 30, 2016 saw continued focus on several recurring themes in school funding by the State of Michigan: limited increases in the foundation allowance; additional funding boosts for Academies at the minimum foundation; and additional resources dedicated to assisting with funding the Academy's retirement/post-retirement health care obligation (MPSERS). One significant change was the elimination of resources provided for best practice and student performance. While Academies experienced an increase in the foundation, the increases still have not replaced the \$470 per pupil cut experienced in 2011-2012 for many Academies.

2015-2016 Foundation: For the 2015-2016 fiscal year the Academy's foundation allowance was increased to \$7,391, which is the State base foundation allowance.

2016-2017 Foundation: For the 2016/17 fiscal year, the Public School Academy Maximum foundation allowance increases \$120, from \$7,391 to \$7,511. Based on these changes, your Academy will receive a \$120 increase in its foundation allowance, representing an increase of 1.6%.

MPSERS Cost Support: The contribution rate the Academy is required to pay continues to rise, though the growth rate has slowed from 2015-2016. The Academy has no ability to influence the rate and no choice regarding its participation in the program. Recognizing the costs are increasing under the current system, the 2015-16 State Aid Act continued to include funding to help pay for some of the increased cost. The categorical aid is formula driven using the Academy's MPSERS payroll participation data. This funding is provided in 2 separate sections of the State Aid Act 147a and 147c. The Academy received a total of \$850 in 147a and \$6,866 of 147c categorical aid to help offset the impact of the increase in the retirement costs. The 2016-2017 State Aid Act continues this MPSERS cost support categoricals. The Academy Section 147c was designed to fund approximately 10% of covered payroll and does not increase Academy resources. Instead, the funding is recognized as revenue and then returned directly to the retirement system. In general terms, this means that the total cost of the retirement system contributions in 2015-2016, representing approximately 36% of covered payroll, is recognized as an expenditure in the Academy's financial statements along with related revenue that was previously considered state support to the system. The net effect is that the Academy is responsible for approximate 26% contribution to the retirement system. The Academy budgeted for additional State revenue and additional retirement expenditures in order to accommodate this funding mechanism, but may encounter some budget variances due to the fact the state revenue provided is based on prior year Academy payroll information.

This retirement funding approach will continue into 2016-2017, The net effect of all these changes for 2016-2017 is that the Academy's net out of pocket contribution will be determined by the Office of Retirement Services to be 24.94%, and the total cost of the retirement system will have grown to 36.64%.

#### **Other State Aid Act Changes Impacting 2016-2017**

The Amendments to the State Aid Act made several other changes impacting Academies. Several changes we identified that could impact the Academy include:

Days and Hours –For 2016-2017, the minimum days increases to 180. The hours requirements is maintained at 1,098.

# The Dearborn Academy

## Informational Items (continued)

Transparency Reporting Requirements – These content posting requirements continue and include, but are not limited to, Deficit Elimination Plans, Enhanced Deficit Elimination Plans, Academy credit card information, budget information, procurement and reimbursement policies, and out of state travel information. Transparency reports must be updated on the Academy’s website within 15 days of the change.

Enrollment in Virtual Courses- Numerous changes were made to program requirements by prescribing policies and procedures for Academies enrolling students in virtual courses, including allowing Academies to deny enrollment in an online course if a pupil is in kindergarten through fifth grade.

MiSTEM Programs- Language was included allocating funds for the purpose of funding Michigan science, technology, engineering, and math (MiSTEM) based on recommendations of the MiSTEM advisory council, with some funds earmarked for specific purposes. If the council is unable to make specific funding recommendations by June 1, 2016, the Department is directed to distribute the funds on a competitive grant basis.

At Risk Funding (31a) – Finding levels did not increase in 2016-2017, the changes made previously are retained and the program has not been expanded to all Academies. Currently, Hold Harmless Districts are excluded from participation in the At Risk Program.

### Early Warning Legislation

“Early Warning Legislation”, a 10 bill package of bills, was signed in 2015. This legislation is aimed at identifying Academies that may be showing signs of fiscal distress, creates a system of reporting this situation sooner than in the past, and requires those Academies deemed to be in distress to remit more frequent financial data to Treasury. The entire Early Warning System is under the supervision of Treasury and resources have been allocated at the state level for more resources to monitor and assist local Districts and charter schools.

The first item to take effect was the identification of those Districts and charter schools whose total Federal Fund balance was less than 5% of General Fund revenue in each of the last two years (fiscal 2014 and 2015). The definition of revenue for purposes of this test focuses on General Fund unrestricted revenues. Academies that met this criteria were required to remit the budgetary assumption and expenditure per-pupil information to CEPI as the first step in the process. For 2016, this information was due by July 7, 2016, requiring affected Academies to compute certain information only one week after their fiscal year ends.

Once remitted, the State Treasurer, through the Office of School Review and Fiscal Accountability (OSRFA), may conclude that the potential for fiscal stress may exist. At that time, the Academy may conclude to contract with the ISD (or the authorizing body for charter schools) to review the Academy’s financial records and offer recommendations to avoid a deficit. The review would need to be concluded within 90 days of entering into the contract, and requires quarterly reporting to Treasury on the status of implementation of the recommendations. As of July 2016 there are 18 Districts identified as being in potential fiscal stress.

# The Dearborn Academy

## Informational Items (continued)

In their oversight role, OSRFA has applied a fiscal projection model to historical Financial Information Database (FID) data. In February 2016 this model identified 75 Districts as having a projected deficit within the current fiscal year or the following two school fiscal years. The projection model incorporates four key financial indicators, which are enrollment, revenue, expenditure, and fund balance. These Districts were sent a communication to determine if a corrective action plan had been implemented, or if there was an explanation for a decrease in general fund balance. OSRFA reviewed each Academy's response and financial data to determine whether potential fiscal stress existed in the Academy. It is expected this tool, and other means, will be used annually as part of their oversight role.

For the years ended June 30, 2016 and 2015, the general fund balance was 36.5% and 42.5% of unrestricted general fund revenue, respectively. The Academy should be aware of this requirement if significant uses of fund balance are planned for in the future.

### New Rules Governing Management of Federal Programs

In December 2013, the Office of Management and Budget (OMB) issued long-awaited reforms to the compliance requirements that must be followed by non-federal entities receiving federal funding. The changes created from these reforms are currently effective and all Academies receiving federal dollars will need to continue to build understanding of the changes and continue to update internal procedures, processes, and controls as necessary to comply with the applicable requirements.

These reforms impact three key areas of federal grants management:

1. Audit Requirements – Beginning with the fiscal year ending June 30, 2016 for Michigan schools, the threshold for a federal awards audit requirement increases from \$500,000 in annual federal spending to \$750,000. There have also been changes to the criteria for qualifying as a low-risk auditee and modifications in the methodology required to determine which programs need to be tested as major. This year's single audit has incorporated these changes, impacting programs selected for testing, audit tests, and the single audit report.

The Academy has historically been above the new \$750,000 threshold. However, from time to time, depending upon the level of federal spending, the Academy may drop below the audit requirement threshold..

2. Cost Principles - The grant reforms related to cost principles went into effect for new or significantly modified grant awards issued on or after December 26, 2014. Under the new guidance, there have been significant updates in the areas of allowable cost and time and effort reporting that have impacted Michigan Academies.
3. Administrative Requirements - Also effective for new awards or funding increases on or after December 26, 2014, non-federal entities receiving federal funding must adhere to new rules related to administering federal awards. Most notably, these requirements impact the Academy's procurement systems, cash management, monitoring of subrecipients, and maintenance of written policies and procedures. The MDE has indicated that failure to adhere to these rules could result in the disqualification for participation in federal programs through the MDE. The MDE has issued their initial requirements and some may be more stringent than those required under federal regulation, which focuses on key controls versus the overall process. The Academy must monitor MDE guidance, when issued, to ensure that Academy grants management is in conformance with related requirements.

# The Dearborn Academy

## Informational Items (continued)

These revisions are the most significant changes to occur to federal grants management in recent history. The implications of the Uniform Guidance are extensive and impact several areas of organizations receiving federal funding. The Academy's business office, grants managers, and funding agencies should already be familiar with these changes as many of the requirements impacted the 2016 fiscal year. To ensure that the Academy remains in compliance, we recommend the utilization of various resources to stay up-to-date with changes impacting both current and future fiscal periods.

Plante Moran has provided several training sessions for Academy's on the new requirements and our Academy grant experts have been working closely with the Michigan Department of Education regarding these changes. We are always available to assist your Academy's staff in understanding the impact of these changes. To assist Academies in increasing their understanding of the changes, we have provided two webinars on the grants management changes which are archived and available at no charge on our website. In addition, the Michigan Department of Education has recently issued several documents providing guidance on the current and continued implementation of the Uniform Guidance standards.

### **Written Procedures for Grants - Required for Academy Federal Grant Participation**

As part of your Single Audit annually, the auditors are required to assess the written procedures that exist related to the specific compliance requirements for the federal programs that are selected for testing. Effective December 26, 2014, the Federal Uniform Guidance outlines new requirements. It is important for the Academy to be aware of the comprehensive list of required written (board) policies and (administrative) procedures required for federal grant participation. These requirements are described in 2 CFR Part 200 and include the following:

- Written Cash Management Procedures [§200.302(b)(6)]: To implement the requirements of §200.305 Payment
- Written Allowability Procedures [§200.302(b)(7)]: To determine the allowability of costs in accordance with Subpart E- Cost Principles
- Written Travel Policy [§200.474(b)]: To ensure costs incurred by employees for travel are reasonable and allowable
- Written Conflict of Interest Policy [§200.318(c)\*]: To maintain standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts
- Written Procurement Procedures [§200.319(c)\*]: To ensure that all solicitations include the following requirements:
  - i. Incorporate clear and accurate descripts of technical requirements for the material product or service to be procured
  - ii. Identify all requirements which must be fulfilled
  - iii. Ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition

# The Dearborn Academy

## Informational Items (continued)

- Written Procedures for Conducting Technical Evaluations of Proposals and Selecting Participants [§200.320(d)(3)]\*: To maintain a method for evaluation proposals received

\*In the Federal Register published on September 10, 2015 (Vol. 80, No. 175), the procurement procedures noted above were formally delayed. There is a two year grace period for the implementation of the procurement procedures in 2 CFR 200.317 through 200.326. Therefore, the Academy is not required to implement these requirements until July 1, 2017. However, if the delay is elected, the Academy *must* document this in writing.

The Academy should be aware that the aforementioned requirements for written procedures are more extensive in nature than those required for a financial statement audit, which focus on key controls related to grants management. The Michigan Department of Education has indicated that Academies that do not have the requisite written policies and procedures in place MAY be excluded from future participation in the grants program. In addition, absence of policies and procedures required under Uniform Guidance could result in single audit findings.

We encourage the Academy to review its policies and procedures to ensure that the items listed above have been addressed and are easily accessible for use and in the event of a Fiscal Monitoring. Many, if not all, of the items may already be addressed in various different forms throughout the Academy's policies and procedures; however it is important the Academy be aware of where the written documentation resides. If any items are not currently addressed, we recommend the Academy establish the required procedures and document them accordingly.

### **GASB Statement No. 75 – Postemployment Benefits Other Than Pensions (OPEB)**

While reporting units are still focused on the second year of GASB Statement No. 68, we still need to prepare for GASB Statements No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, will be effective for the Academy's June 30, 2018 financial statements. This statement addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Academy to recognize on the face of the government-wide financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The Statement is expected to have a similar impact on the statement of net position as did GASB 68 when it was adopted in 2015. Just like GASB 68 it is not expected to have an impact on the modified accrual funds (General Fund), and should not impact the Academy's budget process. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI).