

The Dearborn Academy

Report to the Board of Directors

June 30, 2017

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, 2017. In addition to our audit report, we are providing the following results of the audit and informational items which impact the Academy:

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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.

Plante & Moran, PLLC

October 25, 2017

Results of the Audit

October 25, 2017

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, 2017 and have issued our report thereon dated October 25, 2017. 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 22, 2017, 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 25, 2017 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 30, 2017.

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 the year ended June 30, 2017.

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, 2017 is \$185,360, 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.

The attached schedule summarizes uncorrected misstatements of the financial statements which were requested to be recorded. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Academy, and business plans and strategies that may affect the risks of material misstatement with management each year prior to our 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.

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 25, 2017.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 25, 2017.

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.

This information is intended solely for the use of the board of directors and management of the Dearborn Academy and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Michael D. Foster". The signature is written in a cursive, slightly stylized font.

Michael D. Foster, CPA, CGMA
Partner

Client: The Dearborn Academy
 Opinion Unit: Governmental Activities
 Y/E: 6/30/2017

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Net Position	Revenue	Expenses	Change in Net Position Impact
FACTUAL MISSTATEMENTS:											
AI	To adjust for improperly included Title III grant revenue and expenditures that relate to FY 17-18	\$ (16,400)			\$ (16,400)				\$ (16,400)	\$ (16,400)	
JUDGMENTAL ADJUSTMENTS:											
BI	None										
PROJECTED ADJUSTMENTS:											
CI	None										
	Total	\$ (16,400)	\$ -	\$ -	\$ (16,400)	\$ -	\$ -	\$ -	\$ (16,400)	\$ (16,400)	\$ -

PASSED DISCLOSURES:

DI None

Client: The Dearborn Academy
 Opinion Unit: General Fund
 Y/E: 6/30/2017

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Fund Balance	Revenue	Expenses	Change in Fund Balance Impact
FACTUAL MISSTATEMENTS:											
AI	To adjust for improperly included Title III grant revenue and expenditures that relate to FY 17-18	\$ (16,400)			\$ (16,400)				\$ (16,400)	\$ (16,400)	
JUDGMENTAL ADJUSTMENTS:											
BI	None										
PROJECTED ADJUSTMENTS:											
CI	None										
	Total	\$ (16,400)	\$ -	\$ -	\$ (16,400)	\$ -	\$ -	\$ -	\$ (16,400)	\$ (16,400)	\$ -

PASSED DISCLOSURES:

DI None

Informational Items

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.

State Aid Funding

State Aid and the Foundation Allowance

State of Michigan funding for public schools continued to focus on several recurring themes for the fiscal year ended June 30, 2017: limited increases in the foundation allowance; additional funding boosts for academies at the minimum foundation; continued student count blending formula; and additional resources dedicated to assisting with funding the academy's retirement/postretirement healthcare obligation (MPSERS). One change worth noting was the increase in the number of required school days to 180, up from 175 days, but without a change in the number of required hours of instruction. Many academies were already providing 180 days of instruction, and for those academies, the change did not have an impact.

2016-2017 Foundation: For the 2016-2017 fiscal year, the Academy's foundation allowance was increased to \$7,511, which is the state base foundation allowance.

2017-2018 Foundation: For the 2017/2018 fiscal year, the public school academy maximum foundation allowance increases \$120, from \$7,511 to \$7,631. Based on these changes, the Academy will receive a \$120 increase in its foundation allowance, representing an increase of 1.6 percent.

MPSERS Cost Support: The contribution rate the Academy is required to pay continues to rise, though the growth rate has slowed. The Academy has no ability to influence the rate and no choice regarding its participation in the program. To aid an academy in meeting its obligation, the 2016-2017 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 two separate sections of the State Aid Act; Section 147a and Section 147c. The Academy received a total of \$888 of Section 147a and \$7,867 of Section 147c categorical aid to help offset the impact of its retirement costs. Section 147c was designed to fund approximately 10 percent 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 2016-2017, representing approximately 36 percent 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 approximately a 26 percent 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 2017-2018.

The Dearborn Academy

Informational Items Continued

Other State Aid Act Changes Impacting 2017-2018

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

Partnership Model - Section 21h provides new funding to assist academies assigned by the MDE to participate in a partnership to improve student achievement, including funds for professional development, increased instructional time, mentors, and other costs impacting student achievement.

MEAP/M-STEP - The MDE is required to make the Kindergarten Entry Assessment (KEA) available to academies in 2017-2018.

Repayments to State - If an academy is overpaid by the State of Michigan, it is required to repay the State. If the repayment creates a hardship, a request for extending payments can be made. In 2017-2018, the amount of time the MDE may grant for an academy to repay any overpayments has increased from four to nine years.

Enrollment After Fall Count Day - After the 2016-2017 School Aid amendments were passed, which eliminated the ability to prorate a pupil enrolled after the count day, a supplemental appropriation (HB 5291) was passed reinstating the opportunity to prorate a student added after the count day. For 2017-2018, the ability to prorate student count for pupils added after the count day continues.

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.

Cybersecurity

Academies are not exempt from cyberattacks in which systems and critical data are compromised. School systems store personal information of staff, underage students, and students' parents in addition to other confidential data. It is important that academies protect themselves from both external and internal threats whether they are intentional or accidental threats. For example, ransomware attacks are on the rise and gain media attention with their ability to cripple an organization, including schools and universities. It may be the hacks of large, multi-million companies that we see exposed on the evening news, but academies can be an enticing target with the amount of data and limited budget to protect themselves.

Here are some questions to think about regarding cybersecurity issues:

- Do you receive a lot of junk email?
- Are you allowed to access risky or unsafe websites?
- Have you attended any security awareness trainings?
- In the event of an incident, are you familiar with who should be contacted?
- Is there a plan in place in the event of a breach and student records are lost?

Because of the many access points within an academy's IT environment, continued assessment of cybersecurity issues is an essential part of the academy's overall data security assessment.

Federal Programs

Written Procedures for Grants - Required for Academy Federal Grant Participation

As part your annual single audit, we are required to assess the written procedures that exist related to the specific compliance requirements for the federal programs that are selected for testing. The federal Uniform Guidance, which was effective during the 2014-2015 school year, outlines various requirements related to written procedures and policies. 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 descriptions 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.
- 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 via an initial two-year grace period. On May 17, 2017, the OMB extended the delay of implementation for an additional year. Therefore, the Academy is not required to implement these requirements until July 1, 2018. However, if the extended 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 focuses 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 the Uniform Guidance could result in single audit findings.

The Dearborn Academy

Informational Items Continued

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 forms throughout the Academy's policies and procedures; however, it is important that 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)

Effective for the Academy's June 30, 2018 financial statements is GASB Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This upcoming GASB 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).