

The Dearborn Academy

Report to the Board of Directors

June 30, 2014

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, 2014. 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>
Results of the Audit	2-4
Other Recommendations	5-6
Informational Items	7-11

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

Plante & Moran, PLLC

September 29, 2014

Results of the Audit

September 29, 2014

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, 2014 and have issued our report thereon dated September 29, 2014. 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 April 8, 2014, 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 September 29, 2014 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 communication about planning matters dated August 7, 2014.

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 2014.

We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance. There are 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. There were no significant balances, amounts, or disclosures in the financial statements based on sensitive management estimates.

The disclosures in the financial statements are neutral, consistent, and clear. There were no particularly sensitive financial statement disclosures.

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.

To the Board of Directors
The Dearborn Academy

September 29, 2014

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 following material misstatement detected as a result of audit procedures was corrected by management. The Academy accrued one month of the management fee related to state aid twice as of year end. This resulted in the accounts payable and various expenditures to be overstated by approximately \$274,000.

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 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 29, 2014.

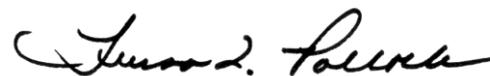
Management Consultations with Other Independent Accountants

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 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



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, 2014. 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 director's review and consideration.

Held Checks

During our testing of the Academy's expenditures, we noted that several checks had been printed but not issued until one month later due to the cancellation of board meetings. When board meetings are canceled, management holds onto the check until the next scheduled meeting, which results in delaying the issuance of checks. Since checks require two signatures from designated board members at board meetings, the Academy should consider printing checks after board meetings to ensure timely issuance of checks.

Informational Items

State Aid Funding

State Aid and the Foundation Allowance - The fiscal year ended June 30, 2014 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 school districts and academies at the minimum foundation; additional resources dedicated to assisting with funding the district's and academy's retirement/postretirement healthcare obligation (MPSERS); and resources for best practice and student performance. While districts and academies experienced an increase in the foundation, the increases still have not replaced the \$470 per pupil cut experienced in 2011-2012.

- **2013-2014 Foundation** - For the 2013-2014 fiscal year the Academy's foundation allowance was increased to \$7,168. For comparison purposes, the Academy's foundation prior to the \$470 cut was \$7,580, meaning the current foundation is \$412 per pupil below the 2011 foundation allowance. In the 2013-2014 State School Aid Act, a new funding provision was added (section 20f). This section recognizes that the funding shift toward paying the growing MPSERS expense could significantly harm some districts. Therefore, this categorical was added to guarantee at least a \$5 per pupil increase after giving account to the funding changes. Your Academy's net increase exceeded the \$5 minimum and no additional funding was provided under this section.
- **2014-2015 Foundation** - For the 2014-2015 fiscal year, the public school academy maximum foundation allowance increases \$50, from \$7,168 to \$7,218. Additionally, the minimum foundation allowance rolls in the 2014 equity payment and increases by \$50 per pupil to \$7,126. Any academy receiving less than \$7,251 qualifies for up to a \$125 equity payment to move the funding level to \$7,251. No equity payments are provided if the 2014-2015 foundation allowance exceeds \$7,251. The equity payment is considered a onetime revenue source and is not required to be rolled into the 2015-2016 foundation allowance formula. Based on these changes your Academy will receive a \$50 increase in its foundation allowance from \$7,168 to \$7,218, representing an increase of .7 percent. Additionally, your Academy will receive a \$33 equity payment to bring the total per pupil funding to \$7,251. This represents a total increase from the 2013-2014 fiscal year of \$83.
- **Best Practice** - Instead of mandating certain activities, the governor identified many educational initiatives shortly after taking office and has used best practice funding to provide resources when an academy performs the identified activities. Each year the list of criteria is modified and if an academy chooses to, they must meet the criteria in order to receive the funding. The amount provided in 2013-2014 was maintained at the same level as in 2012-2013 - \$52 per pupil. In 2013-2014, to qualify for this incentive, the Academy was required to meet seven of eight identified best practice initiatives. Your academy qualified for the \$52/pupil in 2013-2014. For 2014-2015, the per pupil allocation was reduced to \$50/pupil and requires the Academy to meet seven of nine best practice criteria.

The Dearborn Academy

Informational Items (Continued)

- **Performance Grants** - In 2013-2014, districts and academies could once again qualify for an additional categorical based on the Academy's ability to meet certain student performance measures. The maximum a district or academy could qualify for is \$100/pupil. The Academy received \$60 per pupil. For 2014-2015, performance funding continues. Depending on the Academy's student performance results, the Academy could receive one, two, or all three of the allocations of \$30/\$30/\$40 per pupil for performance measures. The measurement areas are grades 3-8 in reading, 3-8 in math, and 9-12 for all subjects tested, respectively.

Other State School Aid Act Changes Impacting 2013-2014

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

Change in District/Academy Required Filing Dates - Currently the Academy must submit its audit report and its FID report to the Michigan Department of Education (MDE) by November 15. Beginning with the 2015 fiscal year, the reports will be due to the MDE on October 15. This significant acceleration will require the districts and academies along with auditors to carefully plan the closing of the books, the completion of the audit and meetings with the Board of Directors to ensure the 2015 filing deadlines are met. There has continued to be legislative discussion as to whether October 15 is a realistic date for filing, but for now it is law, though a date of November 1 has been proposed within recent legislature. We will continue to keep you apprised of any changes in this area. Also included in this accelerated filing date is certain information related to student counts, which will impact your pupil accounting personnel.

Pupil Count Weighting - The academy membership blend will continue to be based on a 90/10 split. The funding is based on 90 percent of the October 2014 pupil count and 10 percent of the following February pupil count (February 2015). This means when the initial fiscal year budget is prepared, the Academy must estimate its foundation revenue using estimated student counts. In addition, if a student moves to another school after the October count date, the receiving district or academy can claim a pro-rata share of the count with the "sending" district or academy having a like reduction. The tracking of students has become exponentially more complex and now involves reporting and coordination through the Intermediate School District and the State of Michigan. As a result, the actual student count, along with the actual foundation revenue, will not be finalized until near the end of the Academy's fiscal year.

At-risk Funding (31a) - For 2014-2015, there are several changes to the allowable uses of at-risk funds. The change affecting the Academy focuses on third grade reading proficiency. Districts and academies will have to review at-risk programming to ensure use of funds align with these changes.

The Dearborn Academy

Informational Items (Continued)

Great Start Readiness Program - Funding for 2014-2015 increased from \$65 million to \$130 million to provide up to 16,000 additional half-day slots for four-year-olds. The funds are provided to the Academy through the Intermediate School District. If the Academy is not participating in this program, this may be an opportunity to attract students to the Academy who could then remain in the school for later grade levels.

Federal Grants

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. All school districts and academies receiving federal dollars will need to understand the changes made as a result of these reforms and may be required to make some changes to their internal procedures, processes, and controls.

These reforms impact three key areas of federal grants management:

1. **Audit Requirements** - For fiscal years beginning on or after January 1, 2015 (fiscal year ending June 30, 2016 for Michigan schools), the threshold for obtaining a federal awards audit will increase from the current threshold of \$500,000 of annual federal spending to \$750,000. There will also be significant changes to the criteria for qualifying as a low-risk auditee and a reduction in the number of major programs required to be tested for some districts and academies. The Academy has historically been above the new \$750,000 threshold.
2. **Cost Principles** - Effective December 26, 2014, the grant reforms related to cost principles go into effect. Not only were certain changes made to allowable costs under this new guidance, but there were significant changes in the area of time and effort reporting and indirect costs. The State of Michigan will have a significant impact on how these changes will be applied to Michigan schools, as they often have different requirements than the federal government in this area.

The focus is on stringent internal controls rather than specific requirements for time and effort. Charges to federal awards for salaries and wages must be based on records that accurately reflect work performed. Under this provision, the Academy would no longer be required to use personal activity reports (PAR) and alternative methods could be used, although PARs would still be allowed. As this change is very significant, the Academy will need to monitor and respond to State guidance issued in response to this change. The State of Michigan may very well require the continued use of PARs to document time and effort associated with grants.

The Dearborn Academy

Informational Items (Continued)

- 3. Administrative Requirements** - Also effective December 26, 2014, non-federal entities receiving federal funding must adhere to new rules related to administering federal awards. Most notably, these requirements may impact the Academy's procurement systems, including maintaining written conflict of interest policies and disclosures as well as updated grants management policies and procedures. MDE has indicated that failure to adhere to these rules could result in the disqualification for participation in federal programs through MDE. Please note these requirements are more stringent than those required under your federal program audit, which focuses on key controls versus overall process.

These revisions are clearly the most significant change to occur to federal grants management in recent history. School districts and academies receiving federal funding will need to carefully digest these changes as the application of these changes will need to be assessed on a school-by-school basis. Plante & Moran, PLLC has many grants experts in these rules who will be working closely with the Michigan Department of Education regarding these changes and can assist you in understanding the changes and how they impact the Academy. During the spring of 2014, we provided two webinars on the grants management changes. Those webinars are archived and available at no charge on our website to assist districts and academies in increasing their understanding of the changes. As we continue to delve into these new rules, we will keep you informed and updated.