

September 25, 2013

To the Board of Directors
Detroit Innovation Academy

We have audited the financial statements of Detroit Innovation Academy (the "Academy") as of and for the year ended June 30, 2013 and have issued our report thereon dated September 25, 2013. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under AU 260

Section II - Legislative and Informational Items

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the board of directors of Detroit Innovation Academy.

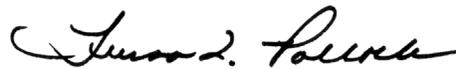
Section II contains updated legislative and informational items that we believe will be of interest to you.

We would like to take this opportunity to thank the Academy's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the board of directors and management of Detroit Innovation 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
Partner

Section I - Communications Required Under AU 260

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 1, 2013, our responsibility, as described by professional standards, is to express an opinion about whether the basic 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 basic 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 basic 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 basic 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 25, 2013 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 28, 2013.

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.

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

There are no significant transactions that have been recognized in the basic 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 basic 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 basic financial statements based on sensitive management estimates.

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 basic 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. We did not detect any misstatements as a result of audit procedures.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 25, 2013.

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.

Section II - Legislative and Informational Items

State Aid Funding

Redefining State Aid and the Foundation Allowance - The fiscal year ended June 30, 2013 was the second year under a redefined funding approach for Michigan Schools. The State's funding strategy significantly impacted the Academy's 2012-2013 funding level and, with some modifications, those changes carry forward into 2013-2014. The changes include a permanent adjustment to the Academy's foundation allowance and use of an incentive payment concept (best practice and student performance).

Foundation: For the 2013-2014 fiscal year, the public school academy maximum foundation allowance increases by \$58, from \$7,110 to \$7,168. Additionally, the minimum foundation allowance increased by \$60 per pupil to \$7,026, under a 2x formula. Any district or academy receiving less than \$7,076 will qualify for equity payments. An equity payment of at least \$50 will be made to academies with a foundation allowance less than \$7,076. The payment is the lesser of \$50 per pupil or the difference between academies' fiscal year 2013-2014 foundation and \$7,076. No equity payments are provided if the foundation allowance exceeds \$7,076. The equity payment is considered a one-time revenue source and has not been rolled into the foundation allowance formula. Based on these changes, your Academy will receive an increase of \$58 in its foundation allowance.

Best Practice: The governor identified many educational initiatives shortly after taking office. One key initiative was the concept of encouraging best practices. This concept was built into the State Aid Act for the first time in 2011-2012. This concept continued into 2012-2013 and 2013-2014. For 2012-2013, the concept of funding best practices included new initiative criteria listed in the State Aid Act. The amount provided \$52 per pupil in 2012-2013 and 2013-2014. To qualify for this incentive, the Academy is required to meet seven of eight identified best practice initiatives. These incentives are not guaranteed past the 2013-2014 year. A new best practice item has been added to include the addition of new items to an academy's dashboard requesting revenue and expenditure projections for 2014-2015, a list of all debt service obligations by project, anticipated payments for fiscal year 2013-2014, and total outstanding debt. Your Academy qualified for the \$52 per pupil in 2012-2013.

Performance Grants: In 2012-2013, districts and academies could 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 per pupil. Your academy did not qualify for this funding. For 2013-2014, 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 met on MEAP or Michigan merit examination scores.

Other State Aid Act Changes Impacting 2013-2014

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

2013-2014 Intent Language for Funding Levels - One legislature cannot bind another legislature. However, the State Aid Act includes intent language regarding funding levels for 2014-2015.

Pupil Count Weighting - For your second year of operation, your funding will be based on a 50/50 average of your fall 2013 and winter 2014 student counts. The membership blend for most schools will be based on a 90/10 split. The funding will be based on 90 percent of the October 2013 pupil count and 10 percent of the February 2014 pupil count. You will be funded under this mechanism for 2014-2015. This means when the initial fiscal year budget is prepared, 100 percent of student counts and, therefore, foundation revenue is not known, since the counts will not yet have occurred. In addition, for the first time, if a student moves to another school district or academy after the count date, the receiving district/academy can claim a pro-rata share of the count with the "sending" district 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.

Technology Infrastructure Grants - A total of \$50 million will continue to be appropriated for fiscal year 2013-2014 to support technology improvements. The bill provides for \$5 million of these funds to be used for "whole-school" technology projects. Grants to aid academies in preparing for upcoming computer adaptive testing did not pass the conference agreement.

Great Start Readiness Program - Funding has increased substantially to allow for program expansion. The funding per half-day slot increased from \$3,400 to \$3,625. A minimum of 90 percent of the participation must come from families with an income under 250 percent of the poverty level. The funds are provided to the Academy through the Intermediate School District.

State Aid Planning Considerations for 2013-2014 and Beyond

Michigan's economy continues to show signs of improvement. As we have seen by the revenue-estimating conference predictions, the School Aid Fund revenues are expected to grow, but at a slow pace. The governor's executive recommendation provided little increase for general operations. Increases were concentrated in early childhood and in funding for the increasing retirement obligation. The final State Aid Act amendments provided for some additional funds for operations in 2013-2014 because the May revenue estimates showed some improvement. However, this only provided for a small foundation increase ranging from \$30 to \$60 per pupil. Because the future projections did not suggest additional increases could be sustainable, the remaining revenues over the January estimates were provided as one-time revenues. Key categoricals impacted by this were an up to \$50 per pupil equity payment for districts and academies with foundations below \$7,076, and maintaining the best practice per pupil allocation at \$52 per pupil. The availability of School Aid Fund resources to fund K-12 operations is further limited by the use of the fund's resources to fund higher education.

Clearly, the key issue facing the future of school funding is the need to cover the cost of the retirement system. Because the costs continue to increase by amounts in excess of current contributions, the funding theme in the future will continue to be how to use School Aid Fund resources to cover the obligation. Funding this obligation will continue to impact the Academy's ability to receive additional resources to fund general education initiatives.

As the Academy looks to the future, careful planning will continue to be key. The use of budget modeling will increase in importance, especially as it looks to assess the impact of one-time funding resources on future funding projections. Given that many revenues are one-time resources, we recommend the Academy fully analyze the finances before entering into multi-year expenditure agreements.

Federal Grants

Written Procedures for Grants

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. It is important for the Academy to be aware of the comprehensive list of required written procedures required for federal grant participation. The Michigan Department of Education (MDE) continues to emphasize the importance of maintaining adequate written procedures for grants, as discussed in the 2012-2013 *Accounting and Audit Alert*. The MDE has added example procedures to the Office of Audits website for reference. These requirements are described in 34 CFR Part 80, 2 CFR Part 215, and OMB Circular A-133 Compliance Supplement Part 6 and include the following:

- Financial management systems
- Payments
- Allowable costs
- Period of availability
- Matching or cost sharing (if applicable)
- Program income (if applicable)
- Procurement
- Equipment and real property (if applicable)
- Supplies
- Copyrights (if applicable)
- Subawards to debarred and suspended parties
- Monitoring and reporting program performance (if applicable)
- Financial reporting
- Retention and access requirements for records
- In addition, districts and academies should also have written procedures for:
 - Cash management
 - Conflict of interest
 - Payroll
 - Federal timekeeping

The Academy should be aware the written procedures are more extensive in nature than the written documentation required for a financial statement audit, which focuses on key controls related to grants management.

We encourage the Academy to review its procedures and the documentation of such procedures to ensure that the items listed above have been addressed. The procedure itself is not required to be specific to federal grants as long as it has applicability to the grants as well. Many, if not all, of the items may already be addressed in various different forms throughout the Academy's policies and procedures. It is important the Academy be aware of where the documentation resides to cover the items listed above. The MDE has been performing federal program fiscal monitoring and will request these procedures when on site. If any items are not currently addressed, we recommend the Academy evaluate procedures in place and document them accordingly. The MDE has placed sample policies on its website which can be used as either a guide or implemented as provided. Please note, the MDE views these as "safe harbor" and will accept their approved documents as demonstrated compliance with the rules. The documents can be located at www.michigan.gov/mde and then navigate to the Office of Audits webpage.