

# **Detroit Innovation Academy**

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**Report to the Board of Directors  
Year Ended June 30, 2015**

October 6, 2015

To the Board of Directors  
Detroit Innovation Academy

We have recently completed our audit of the basic financial statements of Detroit Innovation Academy (the "Academy") as of and for the year ended June 30, 2015. In addition to our audit report, we are providing the following results of the audit, other recommendations, and informational items which impact the Academy:

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We are grateful for the opportunity to be of service to Detroit Innovation Academy. We would also like to extend our thanks to Michelle Kotas, Lisa Mullin, Ryan Cassette, Susan Jackowski, and the entire business office for their assistance and preparedness during the audit. We recognize that preparing for the audit is carried out in addition to your staff's normal daily activities and appreciate the time and attention provided to us. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Plante & Moran, PLLC*

## **Results of the Audit**

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October 6, 2015

To the Board of Directors  
Detroit Innovation Academy

We have audited the financial statements of Detroit Innovation Academy (the “Academy”) for the year ended June 30, 2015 and have issued our report thereon dated October 6, 2015. 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 June 3, 2015, 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 6, 2015 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, 2015.

### **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, 2015.

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. 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.

#### ***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 Misstatement***

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.

***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.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October 6, 2015.

***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 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, CPA

## **Informational Items**

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### State Aid Funding

**State Aid and the Foundation Allowance** - The fiscal year ended June 30, 2015 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 resources 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 2011-12.

**2014/15 Foundation:** For the 2014-2015 fiscal year the Academy's Foundation Allowance was increased to \$7,218. In addition, the Academy received an equity payment of \$10,018 for a total of \$7,251 per pupil.

**2015/16 Foundation:** For the 2015/16 fiscal year, the Public School Academy Maximum foundation allowance increases \$140. Additionally, using the "2x formula", the minimum foundation allowance rolls in the 2015 equity payment and increases by \$140 per pupil to \$7,391. No equity payments are provided in 2015/16.

**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 2014-2015 was reduced by \$2 from the 2013-2014 level and was funded at \$50 per pupil. To qualify for this incentive, the Academy was required to meet seven of nine identified best practice initiatives. Because of the complexities of the requirements your Academy chose not to apply for the additional best practice funding. For 2015/16, Best Practice funding was eliminated as part of the legislative effort to repackage state funding for schools.

### Other State Aid Act Changes Impacting 2015/2016

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

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## **Informational Items (continued)**

**Pupil Count Weighting** - Academy membership blend will continue to be based on a 90/10 split. The funding is based on 90 percent of the October 2015 pupil count and 10 percent of the preceding February pupil count (February 2015). This is a return to the method used a few years ago for determining the pupil count. 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 Academy after the October count date, the receiving Academy can claim a pro-rata share of the count with the "sending" Academy/District having a like reduction. The tracking of students has become exponentially more complex and now involves reporting and coordination through the intermediate District and the State of Michigan. As a result, the actual student count, along with the actual foundation revenue, could fluctuate until near the end of the Academy's fiscal year.

**Days and Hours** - The minimum days for 2015-2016 are set at 175. For 2016-2017, the minimum days will increase to 180. The hour requirements is maintained at 1,098 but, beginning in 2014-2015, eliminated the counting of 38 hours of professional development as part of the 1,098.

**At Risk Funding (31a)** - In 2014-2015 there were several changes to the allowable uses of At Risk funds. The changes focus on third grade reading proficiency and ensuring high school students are career/college ready. For 2015-2016, the program was increased by \$70 million or 23 percent and additional changes were made focusing on implementation of a K-3 multi-tiered support system for instruction and intervention. Academies will have to review At Risk programming to ensure use of funds align with these changes.

**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. The program continues for 2015-2016. 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 Academy for their educational career.

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## **Informational Items (continued)**

### **Transparency Reporting**

In March 2015, the Governor signed Public Act 5 of 2015 (formerly House Bill 4110), requiring the following additional transparency reporting on the Academy website, effective immediately:

- Budgets and budget amendments must be posted within 15 days of their adoption (formerly 30 days)
- The Academy's written policy governing procurement of supplies, materials, and equipment
- The Academy's written policy establishing specific categories of reimbursable expenses
- The Academy's accounts payable check register for the most recent fiscal year OR a statement of the total amount of expenses incurred by board members of Academy employees that were reimbursed by the Academy for the most recent fiscal year
- Any deficit elimination or enhances deficit elimination plan the Academy was required to submit
- Identification of all credit cards maintained by the Academy as Academy credit cards, the identity of all individuals authorized to use each card, the credit limit on each credit card, and the dollar limit, if any, for each individual's authorized use of the credit card.

Maintaining this information will require the Academy to develop additional processes and commit or redirect staff resources.

### **Early Warning Legislation**

In July 2015, the Governor signed into law a ten-bill package which many refer to as "Early Warning Legislation". This legislation is aimed at identifying academies that may be showing signs of fiscal distress, creating a system of reporting this situation sooner than in the past, and requiring 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 schools and charter schools.

The first item to take effect was the identification of those schools and charter schools whose total general fund balance was less than 5 percent of general fund revenue in each of the last two years (fiscal 2014 and 2015). 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. This information was due by August 7, 2015.

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## Informational Items (continued)

It should be noted that the computation of fund balance as a percentage of general fund revenue and the associated budgetary assumption reporting will continue. However, in future years, the information will be due on July 7th (rather than August 7th) and will require academies to compute certain information only one week after their fiscal year ends.

Once remitted, the State Treasurer 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.

For the years ended June 30, 2014 and 2015, the general fund balance was 0.89 percent and 2.6 percent of general fund revenue, respectively. The Academy should continue to monitor this figure closely so any required reporting can be done in accordance with the required timelines.

### **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. These changes are effective for grants received by the Academy beginning in 2015 and all 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 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 academies.
2. **Cost Principles** - Effective December 26, 2014, the grant reforms related to cost principles went 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.

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## Informational Items (continued)

- 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 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 the overall process.

These revisions are clearly the most significant change to occur to federal grants management in recent history. Academies receiving federal funding will need to carefully digest these changes as the application of these changes will need to be assessed on an academy by academy basis. Plante & Moran, PLLC has provided several training sessions for schools and academies 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 staff in understanding the changes and how they impact the Academy. We provided two webinars on the grants management changes and are planning a third for the fall of 2015. Those webinars are archived and available at no charge on our web site to assist academies in increasing their understanding of the changes.