Detroit Innovation Academy

Report to the Board of Directors

Year Ended June 30, 2016

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August 31, 2016

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, 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:

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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, 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.

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Results of the Audit

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August 31, 2016

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, 2016 and have issued our report thereon dated August 31, 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 4, 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 August 31, 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 discussion about planning matters on August 5, 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 1 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, 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. 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. The most sensitive disclosure relates to the expiration of the Academy's charter agreement on June 30, 2017 and the related renewal process.

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. 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 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 August 31, 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.

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

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 retirement/post-retirement health care obligation (MPSERS) for participating schools. One significant change was the elimination of resources provided for best practice and student performance.

2015-2016 Foundation: For the 2015-2016 fiscal year the base foundation increased by $70, from $8,099 to $8,169. The state continued its use of the “2X” formula providing Academies at the minimum foundation with an increase of $140 per pupil. The foundation includes a “roll in” of the 2014-2015 equity payment for eligible Academies, which created a minimum foundation of $7,391 per pupil. For many Academies the increase in the per pupil foundation was significantly offset by the elimination of Best Practice and Performance funding. This provision continues for 2016-2017.

2016-2017 Foundation: For the 2016/17 fiscal year, the Public School Academy Maximum foundation allowance increases $120, from $7,391to $7,511. Additionally, using the “2x formula”, the minimum foundation allowance increases by $120 per pupil to $7,511. No equity payments are provided in 2016-2017. Based on these changes, your Academy will receive a $120 increase in its foundation allowance, representing an increase of 16 percent.

Pupil Membership Blend for 2016-2017: There was much debate on what counts should be used and how they should be weighted. Ultimately the decision was to not change the method for 2016-2017. 20016-2017 funding will be based on 90 percent of the fall 2016 count and 10 percent of the February 2016 count. The counts will be fixed and student transfers after the count day will not impact funding.

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.

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.

At Risk Funding (31a) – Funding levels did not increase in 2016-2017.

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 general fund balance was less than 5 percent 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.

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, your Academy's general fund balance was 7.96 percent and 3.42 percent of unrestricted 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.

Michigan Education Finance Study

The State of Michigan, through the Department of Treasury, contracted the firm APA consultants, to perform a comprehensive analysis of financial and performance data of Michigan's public school districts. Under legislation passed in 2015 amending the School Code (380.1281a), the information gleaned from the study, including the ultimate recommendations provided by the consultants, provides state policy and law-makers with information necessary to assist in improving overall performance results through assessment of funding adequacy and by assessing the equity of the public education funding system.

The two primary areas of the finance study included -

1) An examination of revenue and expenditure data from Michigan Districts that have testing level performance above average on statewide proficiency assessments. There were 186 (of 541) Districts identified as meeting an "above average" standard set in the study, and 58 districts meeting one additional performance standard (high absolute performance, growth or special populations) that were deemed "successful districts" as defined in the study. The data surrounding the "successful districts" was specifically analyzed.

2) An evaluation of resources available to Districts for non-instructional spending (such as food service, transportation, operations, community service and adult education) by region.

In addition, the study covered analysis of capital and debt service expenditures and examined revenues and expenditures of districts deemed "exemplary" as defined in the study. The report also included the results of an equity study, ultimately stating that Michigan's current school finance system was found to be "moderately inequitable."
Recommendations from the study include:

- Recognition of a base cost (cost of serving a student with no special needs) of $8,667 per student of funding in order for Districts to meet state performance standards as well as additional funding recommendations for at-risk and English Language Learner (ELL) students
- Creating a system to improve tracking of actual special education expenditures
- Not setting benchmarks by region for non-instructional and capital or debt service expenditures at this time but a recommendation to implement a system to collect this data if desire to set benchmarks in the future.
- Creating a more equitable funding system

The complete study, totaling 224 pages, can be found online at
https://www.michigan.gov/documents/budget/Michigan_Education_Finance_Study_527806_7.pdf

The data in the study is extensive and can assist schools when benchmarking their financial and educational results. The Governor's office has stated this information will be utilized by the new 21st Century Education Commission. However, at this time, it is unclear if or how the information in the study will impact the future of school funding in Michigan.

Fund Balance

Given the current focus of state funding does not provide significant new resources for operations, we feel that it is important for the Academy to maintain an appropriate level of fund equity. We believe that the benefit of the Academy maintaining an appropriate amount of fund equity allows the Academy the ability to maintain its current level of programs, while being able to meet unforeseen circumstances, like the implementation of State Aid proration or a significant change in enrollment. This becomes especially important due to the funding caps imposed by school finance reform, increasing healthcare costs, other cost pressures the Academy is facing, and cash flow needs due to the fact about 18 percent of the Academy's State Aid is received after the school year has ended; as well as concerns over the allocation of resources within the School Aid Fund in the future and the fact that the State is increasing its monitoring of each Academy's financial health, including implications from the Early Warning requirements.

During the 2015-2016 school year, the Academy's General Fund revenues exceeded expenditures by approximately $120,700. This resulted in increasing the General Fund equity to approximately $195,000 at June 30, 2016. Fund balance goals are often stated in terms of a percentage of total expenditures. As a point of reference, the statewide average for Districts at June 30, 2015 (excluding Detroit) is approximately 10.06 percent of expenditures. Fund equity of 5.5 percent of expenditures would approximately equal the Academy's average accounts payable and payroll for a 3-week period, while 11 percent would approximately equal 6 weeks. The Academy's fund equity percentage is 6.6 percent and equals approximately 4 weeks of operations. Clearly, the Academy will continue to face difficult budget challenges in 2016-2017 to fund recurring operating costs. Given the current focus of how State funding is appropriated, budget planning and fund balance management will continue to be essential elements for the Academy's success.

Written Procedures for Grants - Required for Academy Federal Grant Participation

Effective December 26, 2014, the Federal Uniform Guidance outlines new requirements related to maintenance of written policies and procedures. 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
- 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 Procures noted above were formally delayed. There is a two year grace period for the implementation of the procurement procures 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.

Wire Transfer Controls and ACH Transactions

Electronic payments are a popular way of paying vendors. This is due to the quick and efficient nature of the transactions as well as the reduced cost of printing, mailing, and processing traditional paper checks. However, as with most things that make our lives easier, this comes with some risk. Wire transfers allow almost instantaneous transfer of funds. In most cases, this transfer is not reversible and could be for any amount up to the balance on deposit or up to the limit of a linked line of credit. It is important to ensure there are strong controls over the use of wire transfers, including both internal detective controls (such as proper documentation, approval, and reconciliation) and external preventative controls.

The following external preventative controls should be considered to mitigate the risks of unauthorized or unaccounted transactions;

- Most financial institutions will allow a depositor to set limits on how much can be wired and to whom. This may apply to both online banking and transfers made from a physical branch location.

- Many financial institutions will also allow depositors to specify that an individual separate from the initiator of the wire must provide approval to the financial institution before they will process and complete the transfer. It is important that the approval process take place PRIOR to the release of wire transfers, as those amounts cannot be reversed. Most financial institutions can implement this feature into the online banking website to require approval by multiple users. The Academy currently has this feature implemented into their online banking website.

- Additionally, many financial institutions offer various fraud prevention tools such as ACH debit blocker service. This service is a tool that will deny any submitted ACH debit that is not on an approved vendor list. This tool can often been managed online to monitor activity on a regular basis. The Academy currently utilizes this tool for ACH transfers.

Ensuring there are strong preventative controls around the electronic movement of cash will help minimize the risk of misappropriation of assets. We encourage the Academy to explore their options for preventive controls with their financial institution.

Information Technology Security

Public Schools are not exempt from cyberattacks in which systems and critical data are compromised. School systems store personal information of staff, underage students, and student's parents in addition to other confidential data. It is important that schools 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 its 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 public schools 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.

White Collar Overtime Regulations

Under the Fair Labor Standards Act ("FLSA"), an employee is generally entitled to minimum wage and overtime payment unless the employee satisfies a white collar worker exemption. Salaried employees that perform certain duties, such as executive, administrative, and professional employees, are referred to as white collar employees.

The Department of Labor recently released updated white collar overtime regulations that will take effect by December 1, 2016. Under the updated regulations, a white collar employee must earn a salary of at least $913 per week ($47,476 per year) and satisfy the duties test in order to be exempt from the overtime pay rules. This means that any white collar employee making less than $47,476 will generally be entitled to be paid overtime, regardless of job duties. The salary level threshold will be increased every three years to remain consistent with the 40th percentile of full-time salaried workers in the lowest-wage Census region.

The regulations have a special exemption for those that are bona fide teachers, or who have a primary duty of teaching. Teachers (as well as practicing doctors and lawyers) are considered to be an exempt professional even though they may not meet the required salary level threshold. In addition, the regulations provide another exemption for academic administrative employees. Depending on the facts and circumstances, an academic administrative employee may include a vice-principal of a school or even an academic counselor. Academic administrative employees must be paid a salary that is equal to or greater than the salary for entry-level teachers in the same educational institution in order to be considered an exempt employee. However, there are likely many employees with duties not unique to an educational setting that may now become eligible for overtime due to the salary level increase, such as managers in food service or transportation areas. We urge you to evaluate your staff compensation levels to determine which employees may now be subject to the new overtime regulations. The time to implement these rules and/or any changes in your compensation practices is quite short, so prompt review of your employee information is essential.