

Education Achievement Authority

**Report to the Board of Directors
Year Ended June 30, 2014**

November 14, 2014

To the Board of Directors
Education Achievement Authority

We have recently completed our audit of the basic financial statements of the Education Achievement Authority (the "Authority") 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 and recommendations and informational items which impact the Authority:

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We are grateful for the opportunity to be of service to the Authority. We would also like to extend our thanks to the entire central office for their assistance 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

November 14, 2014

To the Board of Directors
Education Achievement Authority

We have audited the financial statements of the Education Achievement Authority (the "Authority") as of and for the year ended June 30, 2014 and have issued our report thereon dated November 14, 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 March 12, 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 Authority. 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.

We have noted the following instances of noncompliance with laws and regulations during the course of our audit. At June 30, 2014, the Authority reported a deficit fund balance in its General Fund which is a violation of State law. The Authority is required to notify the Department of Education immediately of the deficit and develop a deficit elimination plan for their approval. We also noted the Authority may have incurred certain expenditures during the year, including amounts charged to grant programs, that may have been improper or not at fair market value due to lapses in the internal control structure surrounding procurement.

Our audit of the Authority'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 Authority, 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 November 14, 2014 regarding our consideration of the Authority'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 October 23, 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 Authority 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, 2014.

We noted no transactions entered into by the Authority 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.

Significant balances, amounts, or disclosures in the financial statements based on sensitive management estimates include the accrual for potential questioned costs that may be recaptured under federal grant programs. The amounts ultimately recaptured may differ materially from the amounts accrued for.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered certain difficulties in performing and completing our audit including delays and lack of complete and fully reconciled financial information to complete the audit in an efficient and timely manner. All necessary audit information was ultimately and satisfactorily provided.

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 following material misstatements detected as a result of audit procedures were corrected by management: Accounting for federal, state and private grants; and accrued salaries and lease payments.

Audit procedures indicated that the compensated absence liability reported in the statement of net position was under-accrued by a projected amount of \$13,362. Management has determined that its effect is 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 Authority, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Following is a summary of significant issues that were discussed or were the subject of correspondence with management prior to or during our audit:

- Audit risks resulting from procurement matters at the Authority
- The opportunity for the parties to the inter-local agreement creating the Authority to exit the relationship in 2015 which could create the risk that the entity could not continue as a going concern.

November 14, 2014

- The General Fund reported a deficit fund balance at June 30, 2014. The Authority is required to file a deficit elimination plan with the Michigan Department of Education immediately upon identification that a deficit has been incurred.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 14, 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 Authority’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.

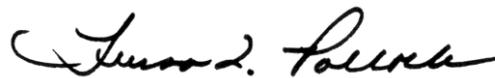
Other Information in Documents Containing Audited Financial Statements

As required by OMB Circular A-133, we have also completed an audit of the federal programs administered by the Authority. 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 OMB Circular A-133 dated November 14, 2014.

This information is intended solely for the use of the Board of Education and management of Educational Achievement Authority 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
Partner

Recommendations and Informational Items

Education Achievement Authority

Recommendations and Informational Items

Segregation of Duties: The controller (prior to leaving the Authority in September 2014) and the CFO (starting in September 2014) have full administrative access to the financial system including the ability to post journal entries, write grants, post cash receipts, add vendors, enter invoices, and enter cash disbursements. As such, internal controls are reliant upon secondary review of transactions by others. We recommend that policies and procedures be implemented to increase the segregation of duties in the finance functions.

Administration and Staffing: The A-133 single audit report for the Authority addresses several material weaknesses in internal control and other compliance matters that occurred during the year. We understand that several recent leadership and operational changes have been made at the Authority to address these matters. We wish to emphasize the need for sufficient competent staff to be added to administrative functions including accounting and finance, purchasing, and compliance oversight to ensure the Authority is able to operate effectively.

Charter Agreement: The Authority assesses a 2.5 percent service fee to the Academy for processing charges related mainly to transportation and custodial services. There was a formal agreement in place that expired in August 2013. The fee has remained at 2.5 percent based on mutual understanding between the Authority and the Academy. In order to avoid disputes on the agreement, it should be formally documented in writing.

Change in District Required Filing Dates – Currently, the Authority 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 districts and auditors to carefully plan the closing of the Authority's books, the completion of the audit, and meetings with the Board of Education 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. 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 - District 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 Authority must estimate its foundation revenue using estimated student counts. In addition, if a student moves to another school district after the October count date, the receiving district 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. As a result, the actual student count, along with the actual foundation revenue, will not be finalized until near the end of the Authority's fiscal year.

Education Achievement Authority

Recommendations and Informational Items (Continued)

Transparency Reporting Requirements - These content posting requirements continue to expand with the addition of deficit elimination plans, enhanced deficit elimination plans, district credit card information, and out-of-state travel information. Transparency reports must be updated on the district website within 15 days of the change, as compared to the previous 30-day requirement.

At-risk Funding (31a) - For 2014-2015, there are 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. Districts will have to review at-risk programming to ensure use of funds align with these changes.

Online Learning - New in 2013-2014, the Authority was required to offer online learning to students in grades 5-12. A student can enroll in up to two courses per term, semester, trimester, etc. The cost of each course is capped at 1/12 of the foundation amount per term. Student participation must be approved by the Authority; courses are selected from a State approved catalog, require district monitoring of student performance; and cause fees are paid by the district 80 percent up front and 20 percent at the satisfactory conclusion of the course. These requirements continue for 2014-2015.

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 Authority through the Intermediate School District. If the Authority is not participating in this program, this may be an opportunity to attract students to the Authority who could then remain in the district for their educational careers.

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 nonfederal entities receiving federal funding. All school districts 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 your internal procedures, processes, and controls.

These reforms impact three key areas of federal grants management:

- I. **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.

The Authority has historically been above the new \$750,000 threshold.

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Recommendations and Informational Items (Continued)

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.
3. **Administrative Requirements** - Also effective December 26, 2014, nonfederal entities receiving federal funding must adhere to new rules related to administering federal awards. Most notably, these requirements may impact the Authority's procurement systems, including maintaining written conflict of interest policies and disclosures as well as updated grants management policies and procedures. The MDE has indicated that failure to adhere to these rules could result in the disqualification for participation in federal programs through the 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 receiving federal funding will need to carefully digest these changes as the application of these changes will need to be assessed on a district-by-district basis. Plante & Moran, PLLC has many school district 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 Authority. 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 in increasing their understanding of the changes. As we continue to delve into these new rules, we will keep you informed and updated.

Affordable Care

In 2010, the Patient Protection and Affordable Care Act (PPACA) was passed in an effort to reduce the cost of health care, extend care to virtually all Americans, and improve the delivery and quality of health care. Since becoming effective, many parts of the law have been enacted. More recently, the DOL, the IRS, and/or the Treasury have issued various notices that modify or delay the implementation of certain parts of the law. Perhaps the most significant has been the delay of the shared responsibility mandate for large employers in 2014. While some notices delay or modify certain aspects of the law, it is recommended that all districts take care and consider a comprehensive strategy to ensure compliance with PPACA. Doing so will guard against the application of unintended penalties due to noncompliance.

Education Achievement Authority

Recommendations and Informational Items (Continued)

The Patient Protection and Affordable Care Act (PPACA) sets forth a number of requirements that large employers need to consider in order to avoid the potential application of penalties due to noncompliance. Here are a few questions Authority leadership should consider:

- If the Authority is a large employer, have you determined which employees are full-time, taking into account that PPACA considers the common law standard when determining if an employment relationship exists? This would impact treatment of staff contracted from staffing firms for services such as substitute teaching.
- Have you examined affiliated business relationships to determine if the shared responsibility rules apply to your organization (possible with some contractual relationships)?
- Are you certain that your plan's eligibility rules are consistent with the requirements of PPACA (staff working 30 or more hours/week)?
- Do you offer at least one medical plan that provides "minimum value" and is "affordable" to "substantially all" of your "full-time" employees as defined by the law?
- Are you familiar with (and accruing for) PPACA related taxes and fees incurred in 2014 and payable in 2015 and beyond?
- Has the Authority considered the long-term strategy for benefits inclusive of the impact of the Cadillac tax that begins in 2018?
- Will the Authority increase the number of employees who are offered health coverage, or will it choose to pay the penalty instead?
- Does your Authority need to establish standard measurement, administrative, and stability periods for variable hour employees?
- If the Authority will use the look-back measurement method for full-time determination, have you considered the special methods for considering employment break periods related to or arising out of non-working weeks or months under the academic calendar?
- Does the Authority have a method to comply with the reporting standards of the law?

If assistance is needed with answering these questions, contact your plan advisor or connect with a Plante & Moran, PLLC benefits professional.

Education Achievement Authority

Informational Items (Continued)

Attachment I:

Client: **Education Achievement Authority**
 Opinion Unit: **Governmental Activities**
 Year End: **6/30/2014**

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	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net income statement impact
FACTUAL MISSTATEMENTS:									
A1	None								
A2									
JUDGMENTAL ADJUSTMENTS:									
B1	None								
B2									
PROJECTED ADJUSTMENTS:									
C1	To increase accrued compensated absence liability based on results of testing.			\$ 13,362				\$ 13,362	\$ (13,362)
C2									
		\$ -	\$ -	-	\$ -	\$ -	\$ -	-	-
	Total	\$ -	\$ -	\$ 13,362	\$ -	\$ -	\$ -	\$ 13,362	\$ (13,362)

PASSED DISCLOSURES:

D1 None
 D2