West Village Academy

Report to the Board of Directors

Year Ended June 30, 2017

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August 10, 2017

To the Board of Directors
West Village Academy

We have recently completed our audit of the basic financial statements of West Village Academy (the "Academy") as of and for the year ended June 30, 2017. In addition to our audit report, we are providing the following results of the audit, other recommendations, and informational items which impact the Academy:

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

Plante & Moran, PLLC

August 10, 2017

Results of the Audit

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To the Board of Directors
West Village Academy

We have audited the financial statements of West Village Academy (the "Academy") as of and for the year ended June 30, 2017 and have issued our report thereon dated August 10, 2017. 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 10, 2017, 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 West Village 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 West Village 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 10, 2017 regarding our consideration of West Village 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 July 31, 2017.

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 West Village 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, 2017.

We noted no transactions entered into by West Village 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.

The most sensitive estimate affecting the financial statements was the Academy's share of the MPSERS pension plan net pension liability recorded on the government-wide statements for the implementation of GASB 68. The Academy's estimate as of June 30, 2017 is $290,835, based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the accounting estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

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.

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. Management has corrected all such misstatements.

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 our 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 10, 2017.

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 West Village 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

Michael Foster, CPA
Partner

Other Recommendations

Tracking Future Fixed Assets

The Academy experienced minimal capital projects in recent years. When the Academy expends funds on capital outlay, particularly those sourced from federal awards, maintaining a fixed asset listing indicating the source of funding is crucial for federal award compliance. Proceeds from the sale of capital assets originally purchased with federal funding are subject to rigorous compliance requirements per grant agreements. We recommend the Academy apply sound recordkeeping practices as capital additions materialize in the future with added attention to transactions involving federal funds.

Charging Indirect Costs to Grants

The Academy receives an allocated indirect cost rate from the State. This indirect cost rate can be applied to various funding sources including federal awards. We encourage the Academy to investigate potential application of the indirect cost rate to maximize government revenue and reimbursements.

Informational Items

Informational Items

State Aid Funding

State Aid and the Foundation Allowance - State of Michigan funding for public schools continued to focus on several recurring themes for the fiscal year ended June 30, 2017: limited increases in the foundation allowance, additional funding boosts for academies at the minimum foundation, continued student count blending formula, and additional resources dedicated to assisting with funding the academies' retirement/postretirement healthcare obligation (MPSERS). One change worth noting was the increase in the number of required school days to 180, up from 175 days, but without a change in the number of required hours of instruction. Many academies were already providing 180 days of instruction, and for those academies, the change did not have an impact.

2016-2017 Foundation - For the 2016-2017 fiscal year, the base foundation increased by $60, from $8,169 to $8,229. The State continued its use of the "2X" formula, providing academies at the minimum foundation with an increase of $120 per pupil to $7,511. The Academy's foundation allowance was increased to $7,511. For comparison purposes, the Academy's foundation prior to the $470 cut was $7,580, meaning the current foundation is $79/per pupil below the 2011 foundation allowance. In the 2016-2017 State Aid Act, a minimum funding provision continued (Section 20f). This section recognizes that the funding shift toward paying the growing MPSERS expense could significantly harm some academies and districts. Just as in 2015-2016, this categorical guarantees at least a $25 per pupil increase after giving account to the funding changes. For many academies, the increase in the per pupil foundation was significantly offset by the previous elimination of Best Practice and Performance funding. The Academy's net increase exceeded the $25 minimum and no additional funding was provided under this section. This provision continues for 2017-2018.

2017-2018 Foundation - For the 2017-2018 fiscal year, the public school academy maximum foundation allowance increases $120, from $7,511to $7,631. Additionally, using the "2X formula," the minimum foundation allowance increases by $120 per pupil to $7,631. Based on these changes, the Academy will receive a $120 increase in its foundation allowance, representing an increase of 1.6 percent. New for 2017/2018, an additional per pupil allocation, Section 22n, was created for students counted in high school. For those students, a new categorical providing additional funding of $25 per pupil was created. This funding is not rolled into the foundation calculation.

Pupil Membership Blend for 2016-2017 and 2017-2018 - The method for counting students was the same for 2016-2017 and for 2017-2018. The funding formula uses calendar year counts with a weighting of 90 percent of the fall count and 10 percent of the February count. 2016 calendar year counts were used to for the 2016-2017 fiscal year funding and 2017 calendar year counts are used for the 2017-2018 fiscal year funding. One significant change for 2017-2018 was an enrollment count cap of .75 FTE for students enrolled in a shared time program. As a result, the Academy cannot generate more than a .75 FTE for a student participating in a shared time program.

Informational Items (Continued)

At-Risk Funding - For 2017-2018 several changes were made to the funding and use of At-Risk Funds. A few key items include: an increase of about $120 million allocated to At-Risk (approximately a 30 percent increase), use of funds to support 3rd grade reading proficiency and 8th grade math proficiency, definition of eligible pupils expanded to include all pupils considered economically disadvantaged, and inclusion of Hold Harmless and Out of Formula Districts/Academies in the At-Risk funding formula for the first time, but at 30 percent of the funding that what would otherwise be available.

Other State Aid Act Changes Impacting 2017-2018

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

Partnership Model - Section 21h provides new funding to assist districts and academies assigned by the MDE to participate in a partnership to improve student achievement, including funds for professional development, increased instructional time, mentors, and other costs impacting student achievement.

MEAP/M-STEP - The MDE is required to make the Kindergarten Entry Assessment (KEA) available to districts and academies in 2017-2018.

Enrollment After Fall Count Day - After the 2016-2017 School Aid amendments were passed, which eliminated the ability to prorate a pupil enrolled after the count day, a supplemental appropriation (HB 5291) was passed reinstating the opportunity to prorate a student added after the count day. For 2017-2018, the ability to prorate student count for pupils added after the count day continues.

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.

State Aid Planning Considerations for 2018-2019 and Beyond

Michigan's economy is steady, but, based on Revenue Estimating Conference predictions, there are financial challenges ahead for the State. As we have seen by the School Aid Fund, revenue continues to grow, but at a slow pace, but the General Fund projections are at a slower pace. The governor's executive recommendations and legislative actions have provided some increases for general operations, but, for many districts and academies, actual increases to support general school operations have been at or below inflation rates. In the last few years, increases have been concentrated in early childhood, at risk, and in funding for the increasing retirement obligation. While the final State Aid Act amendments provided additional funds for operations in 2017-2018, because of the elimination of performance funding and best practices, for many the net increase in funding was $25/pupil from the levels in place when best practice and performance were provided. In addition, since the 2017-2018 amendments to the State Aid Act were not signed until July 2017, it is possible the revenue estimates used in the initial 2017-2018 academy budget may need to be revised. As the Legislature and governor continue to modify tax policy, plan for state General Fund resource needs, modify the retirement system benefits, and revisit School Aid Fund resource allocations, the growth and availability of School Aid Fund resources to fund K-12 operations is likely to continue to be less than the rate of inflation.

Clearly, the key issue facing the future of school funding is the need to cover the cost of the retirement system. For 2017-2018, modifications to the retirement system have projected to create significant increased costs. While it appears the legislature has provided resources through the School Aid Fund to cover the cost, it means those resources are not available to fund other K-12 operations. The funding theme in the future will likely continue to be how to use School Aid Fund resources to cover the retirement obligation. Funding this obligation will continue to impact the Academy's ability to receive additional resources to fund general education initiatives and monitoring legislative action in this area will be important in predicting future resource available for the Academy.

Careful planning will continue to be key for the Academy to create a cost structure that is sustainable. The use of budget modeling will be essential, especially as the Academy looks to determine actual state funding available to fund operations. In addition, it is important to segregate resources required to fund specific activities, such as federal funding, special education, or At-Risk, when assessing the resources available to fund continuing operations. We recommend the Academy fully analyze the projected revenue available to fund operations when entering into multi-year expenditure agreements.

Early Warning Legislation

"Early Warning Legislation," a 10-bill package of bills, was enacted in 2015. This legislation is designed to identify 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 to monitor and assist local academies and charter schools.

One key item was the identification of those academies and charter schools whose total General Fund balance was less than 5 percent of General Fund revenue in each of the last two years. The definition of revenue for purposes of this test focuses on General Fund unrestricted revenue. Academies that meet this criteria are required to remit the budgetary assumption and expenditure per pupil information to CEPI as the first step in the process. For 2017, this information was due by July 7, 2017, 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.

In their oversight role, OSRFA uses a fiscal projection model to historical Financial Information Database (FID) data. The projection model incorporates four key financial indicators, which are enrollment, revenue, expenditures, and fund balance. Academies are 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 reviews each academy's response and financial data to determine whether potential fiscal stress existed in the academy. If fiscal stress is not declared, then they follow up on the academy's corrective actions. If fiscal stress is declared, the academy and others are notified, and that the academy may contract with the ISD for an administrative review. As of January 2017, there were 15 academies labeled with potential fiscal stress.

For the years ended June 30, 2017 and 2016, the General Fund balance was 12.59 percent and 7.96 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.

Written Procedures for Grants - Required for Academy Federal Grant Participation

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. Effective December 26, 2014, the Federal Uniform Guidance outlines new requirements. 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 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, 2018. 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 districts/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.

Procurement Requirements

The following is a list of significant changes of administrative requirements which should have been noted and/or addressed during implementation:

- Procurement reform (use of one of five methods: micropurchases, small purchase procedures, sealed bids, competitive proposals, or noncompetitive proposals) requires revisions to district/academy purchasing policies and practices when using federal funds. In addition, the revised guidance requires districts/academies to maintain standards of conduct covering conflicts of interest and to maintain specific written procedures for procurement transactions and bid evaluation.

The federal government has provided for a grace period for nonfederal entities to comply with the procurement standards in the Uniform Guidance. The grace period allows an extension for implementation of the new procurement rules for two additional full fiscal years after the effective date of the Uniform Guidance (until July 1, 2018 for school districts and academies). The Academy was required to document if it has elected to delay adoption of the new standard. The election could be completed at an administrative level.

Informational Items (Continued)

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 retirement and healthcare costs, other cost pressures the Academy is facing, and cash flow needs due to the fact that 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 school Academy's financial health, including implications from the Early Warning requirements.

During the 2016-2017 school year, the Academy's General Fund revenue exceeded expenditures by approximately $188,200. This resulted in increasing the General Fund equity to approximately $831,500 at June 30, 2017. Fund balance goals are often stated in terms of a percentage of total expenditures (excluding transfers out). As a point of reference, the statewide average for academies at June 30, 2016 (excluding Detroit) is approximately 11.37 percent of expenditures (excluding transfers out). Fund equity of 5.5 percent of expenditures would approximately equal the Academy's average accounts payable and payroll for a three-week period, while 11 percent would approximately equal six weeks. The Academy's fund equity percentage is 18.35 percent and equals approximately 10 weeks of operation. Clearly, the Academy will continue to face difficult budget challenges in 2017-2018 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.

GASB Statement No. 75 - Postemployment Benefits Other Than Pensions (OPEB)

Effective for the Academy's June 30, 2018 financial statements is GASB Statements No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This upcoming GASB Statement addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Academy to recognize on the face of the government-wide financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The statement is expected to have a similar impact on the statement of net position as did GASB 68 when it was adopted in 2015. Just like GASB 68, it is not expected to have an impact on the modified accrual funds (General Fund), and should not impact the Academy's budget process. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

Informational Items (Continued)

Effective School Boards

The mission of a school board is clear - student achievement. School board responsibilities under the authority of state and federal law include: establishing policies by which their schools are governed; employing the superintendent; and approving curriculum, budgets, and collective bargaining agreements. However, not all schools boards achieve the same results. Research (cited by various education entities such as the Center for Public Education and the National School Board Association) shows that school boards in high-achieving districts/academies share common characteristics. How does your school board measure up?

Characteristics of effective school boards include the following:

1. Commit to a vision of high expectations for student achievement and hold the superintendent and themselves accountable for results
2. Have a collaborative relationship with each other, the superintendent, administrators, teachers, and the community - based on open communication and the ability to listen to views of others
3. Are knowledgeable of their academy, well prepared, and data-savvy - they come to meetings prepared, ask questions to seek clarification, and use data to drive continuous improvement
4. Lead as a united team with the superintendent with strong collaboration and mutual trust while respecting the boundaries of each other's roles
5. Keep learning to be informed and effective leaders. Take part in team development activities to build and share knowledge, values, and commitment