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October 22, 2015

To the Board of Education
School District of the City of
Dearborn, Michigan

We have audited the financial statements of the School District of the City of Dearborn, Michigan, which includes Henry Ford College (the "College") (collectively, Dearborn Public Schools or the "School District") as of and for the year ended June 30, 2015 and have issued our report thereon dated October 22, 2015 . Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I – Required Communications with Those Charged with Governance

Section II - Other Recommendations and Related Information

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the Board of Education of Dearborn Public Schools.

Section II presents recommendations related to internal control, procedures, and other matters noted during our current year audit. These comments are offered in the interest of helping the School District in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

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

This report is intended solely for the use of the Board of Education, the audit committee, and management of Dearborn Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

Teresa L. Pollock

To the Board of Education
School District of the City of
Dearborn, Michigan

October 22, 2015

Section I - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 19, 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 Dearborn Public Schools. 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 Dearborn Public School'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 Dearborn Public Schools, 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 22, 2015 regarding our consideration of Dearborn Public School'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 21, 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 Dearborn Public Schools are described in Note 1 to the financial statements. As discussed in Note 1 to the basic financial statements, effective July 1, 2014, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 68 and 71. Accordingly, the accounting change has been retrospectively applied to July 1, 2014 as required by the Standard.

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

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There are 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 School District's share of the MPSERS pension plan net pension liability recorded on the government-wide statements for the implementation of GASB 68. The School District's estimate as of June 30, 2015 is $300,722,387, and based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the accounting estimates for each in determining that reported amounts are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements relate to potential contingent liabilities.

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 organization, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the School District'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 22, 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 School District'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

Our responsibility for other information in documents containing the entity's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such other information is properly stated. However, we read the management's discussion and analysis and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

As required by OMB Circular A-133, we have also completed an audit of the federal programs administered by the School District. The results of that audit are provided to the Board of Education 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 October 22, 2015.

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School District of the City of
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Section II - Other Recommendations and Related Information

During our audit, we noted areas where we believe there are opportunities for the School District to further strengthen internal control or to increase operating efficiencies. Our observations on those areas are presented for your consideration below:

Bank Signers

The former business director with authority to sign checks resigned from the School District in late July 2015. He maintained authority with the bank to sign checks through our audit fieldwork in September 2015. Although we noted no instances of the former business director signing checks subsequent to the resignation, we recommend the School District remove the check signer authority from the former business director to mitigate risk of checks being improperly approved and ensure procedures are established for timely updating of bank authorities for any future staffing changes that may occur.

Office of Retirement Services Transmittals

The Office of Retirement Services (ORS) requires timely submission of employee and employer retirement contributions. The district incurred fines levied by ORS of approximately $20,000 due to untimely submission of detail for the amounts remitted to ORS. We recommend the district institute controls to ensure necessary support is submitted timely to avoid future fines.

Staffing Limitations, Administrative Functions, and Recordkeeping

During fieldwork, we noted delays in obtaining resources to begin preliminary audit work. Such delays involved final 2014-2015 year-end figures for the audit which could not be finalized due to inadequate data for purchase card related expenditures and substitute teacher (PESG) invoice classifications. An inability to characterize district expenditures related to the federal programs precluded the district from claiming grant reimbursements for undesignated, eligible amounts.

We noted minimal activity had been posted to the general ledger for the 15/16 fiscal year through the fieldwork date indicating a backlog of activity. Further, during review of the bank reconciliations, we noted no indication of dates of review to assess timeliness of the implemented detective control. We recommend the district record activity in a timely manner and institute measures to maintain accountability for personnel. Such measures include uniform purchase card policies, purchase order cut-off dates, and dated sign-offs on the monthly cash reconciliations which will enhance staff accountability and aid in overall district effectiveness. We understand the Business Office experienced significant turnover in key staff positions which contributed to these gaps. We recommend the district incorporate processes with adequate personnel in place to capture all activity and maintain current records.

Change Order Policy

We reviewed three significant change orders for separate vendors approved for capital projects during the year. The vendors were selected as there were multiple change orders during the year for the particular vendor. We observed the approval of the change orders by the Director of Operations along with the detailed support for the added costs. We recommend the district implement a standard policy for board approval of change orders above a certain dollar threshold as current board policy provides limited guidance.

Informational Items

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 school districts at the Minimum Foundation; additional resources dedicated to assisting with funding the school districts' retirement/post-retirement health care obligation (MPSERS); and resources for best practice and student performance. While school districts experienced an increase in the foundation, the increases still have not replaced the $470 per pupil cut experienced in 2011-12.

2014-2015 Foundation: For the 2014-2015 fiscal year, the School District's Foundation Allowance was increased to $8,412. For comparison purposes, the School District's foundation prior to the $470 cut was $8,802, meaning the current foundation, is $390/per pupil below the 2011 foundation allowance. In the 2014-2015 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 school districts. Just as in 2013-2014, this categorical guarantees at least a $5 per pupil increase after giving account to the funding changes. Our School District did receive funding under this section, meaning that the net resources under the formula only increased by $5/pupil. This provision continues for 2015-2016 with the minimum increased to $25 per pupil.

2015-2016 Foundation: For the 2015-2016 fiscal year, the base foundation increases by $70, from $8,412 to $8,482. 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 2015-2016. Based on these changes your School District will receive a $70 increase in its foundation allowance representing an increase of 1 percent.

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 a school district performs the identified activities. Each year the list of criteria is modified and if a school district 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 School District was required to meet seven of nine identified best practice initiatives. Your School District qualified for the $50/pupil in 2014-2015. Similar to the performance funding for 2015-2016, the best practice categorical was eliminated as part of the repackaging of school aid.

Performance Grants: In 2014-2015, school districts could qualify for an additional categorical based on the school district's ability to meet certain student performance measures. The maximum a school district could qualify for is $100/pupil. Your School District received $30 per pupil. Depending on the School District's student performance results, the School District could receive one, two, or all three of the allocations of $30/$30/$40 per pupil for performance measures. The measurement areas are grades 3-8 in reading, 3-8 in math and 9-12 for all subjects tested, respectively. Similar to the best practice categorical, for 2015-2016, performance funding was eliminated as part of the repackaging of school aid.

MPSERS Cost Support: The contribution rate the School District is required to pay continues to rise. The School District has no ability to influence the rate and no choice regarding its participation it the program. Recognizing the costs are increasing under the current system, the 2014-15 State Aid Act continued to include funding to help pay for some of the increased cost. The categorical aid is formula driven using the School District's MPSERS payroll participation data. This funding is provided in two separate sections of the State Aid Act 147a and 147c. The School District received a total of $1,606,317 in 147a and $9,864,243 of 147c categorical aid to help offset the impact of the increase in the retirement costs. The 2015-2016 State Aid Act continues this MPSERS cost support categorical. The School District Section 147c was designed to fund approximately 8 percent of covered payroll and does not increase School District resources. Instead, the funding is recognized as revenue and then returned directly to the retirement system. In general terms, this means that the total cost of the retirement system contributions in 2014-2015, representing approximately 34 percent of covered payroll, is recognized as an expenditure in the School District's financial statements along with related revenue that was previously considered state support to the system. The net effect is that the School District is responsible for an approximate 26 percent contribution to the retirement system. The School District budgeted for additional State revenue and additional retirement expenditures in order to accommodate this funding mechanism, but may encounter some budget variances due to the fact the state revenue provided is based on prior year School District payroll information.

This retirement funding approach will continue into 2015-2016, The net effect of all these changes for 2015-2016 is that the School District's net out of pocket contribution will continue at an estimated 25.78 percent, consistent with the previous year, but the total cost of the retirement system will have grown to an estimated 36.31 percent.

Other State Aid Act Changes Impacting 2015-2016

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

Pupil Count Weighting - School district 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 School District 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 school district can claim a pro rata share of the count with the "sending" school 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, could fluctuate until near the end of the School District's fiscal year.

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. School districts will have to review at-risk programming to ensure use of funds aligns with these changes.

Online learning - The School District is required to offer online learning to students in grades 6-12. For 2015-2016 course offering providers were expanded to include community colleges and the maximum on-line course fee was established at 6.67 percent of the minimum foundation allowance (about $488).

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 School District through the Intermediate School District. The program continues for 2015-2016. This is an opportunity to attract students to the School District who could then remain in the School District for their educational career.

State Aid Planning Considerations for 2015-2016 and Beyond

Michigan's economy continues to improve. As we have seen by the Revenue Estimating Conference predictions the School Aid Fund revenues continue to grow, but at a slow pace. The governor's executive recommendations and legislative actions have provided some increases for general operations but have not fully replaced the $470/pupil cut experienced several years ago. Increases are 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 2015-2016 because of the elimination of performance funding and best practices, for many the net increase in funding was just a net $25/pupil. In addition, for school districts above the minimum foundation this lower increase may create the need to revisit revenue estimates used in the initial 2015-2016 budget. As the legislature and governor continue to modify tax policy and School Aid Fund resource allocations, the growth and availability of school aid fund resources to fund K-12 operations may be further limited.

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

As the School District looks to the future, careful planning will continue to be key. The use of budget modeling will increase in importance, especially as it looks to determine actual state funding available to fund operations. We recommend the School District fully analyze the projected revenues available to fund operations before entering into multi-year expenditure agreements.

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 School District's website, effective immediately:

- Budgets and budget amendments must be posted within 15 days of their adoption (formerly 30 days)
- The School District's written policy governing procurement of supplies, materials and equipment
- The School District's written policy establishing specific categories of reimbursable expenses
- The School District'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 School District employees that were reimbursed by the School District for the most recent fiscal year
- Any deficit elimination or enhanced deficit elimination plan the School District was required to submit.

- Identification of all credit cards maintained by the School District as School District 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 School District 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 school districts that may be showing signs of fiscal distress, creating a system of reporting this situation sooner than in the past, and requiring those school districts 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 School districts and charter schools.

The first item to take effect was the identification of those school 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). School districts 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.

It should be noted 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 7 (rather than August 7) and will require school districts 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 school district may conclude to contract with the ISD (or the authorizing body for charter schools) to review the school district'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 5.61 percent and 6.76 percent of general fund revenue, respectively. The School District should continue to monitor this figure closely so any required reporting can be done in accordance with the required timelines.

Financial Stability - Trends

Financial performance for school districts has been actively monitored for several years, with an emphasis on the state-wide decline of fund balances and an increase in school districts reporting deficits. The State Superintendent reports quarterly on the school districts going into and coming out of deficit positions. From June 30, 2012 to June 30, 2014, of the school districts that started the year with deficits, 29 percent, 45 percent and 49 percent at June 30, 2012, 2013 and 2014, respectively, either eliminated or reduced their deficit by year end. With each year, more school districts were having positive results, however, the number of school districts in deficit increased each year, and schools that fell off the listing, were being added back on. The reports indicate a more positive outlook for 2014-2015 than the prior three years. The percentage of school districts eliminating their deficits or reducing their deficits has increased steadily and is projected to increase even more for June 30, 2015.

For the years ended June 30, 2013 and 2014, 12 school districts had eliminated their deficits at each year end. It is projected that 18 school districts will eliminate their deficits by June 30, 2015 and the number of school districts in deficit is expected to decline from June 30, 2014. In reviewing the quarterly reports, while more school districts are eliminating their deficits, it can be seen that there are new school districts added to the list each year, and some are removed and then fall back into deficit.

State-wide fund balance as a percentage of expenditures, excluding Detroit Public Schools, has decreased from 11 percent at June 30, 2012, to 9.60 percent at June 30, 2013 and 9.45 percent at June 30, 2014. Additionally, fund balance state-wide has been decreasing approximately $100 million each year since June 30, 2012. Approximately 10 percent of Michigan school districts are projected to be in deficit at June 30, 2015.

As explained above, school districts are becoming less liquid, their fund balances are declining, and while the number of school districts in a deficit position is projected to decline, there has been a great deal of change over in the school districts in that position. As fund balances continue to decline, risks associated with the funding system grow.

MPSERS Reform and Future Contribution Rates

Over the past few years, the Michigan legislature enacted several reforms designed to curb the rising contribution rates and perpetual under-funded situation of the Michigan Public School Employee Retirement System (MPSERS). These reforms included early retirement incentives, employee funding of a portion of retiree health costs, a tiered rate and benefit structure for employees hired after July 1, 2010, and certain other provisions. These provisions were designed to avert a long-term financial crisis with the Plan. The impact of investment declines during 2008 and 2009, coupled with a shrinking base of contributing active lives funding an ever increasing number of retirees, continue to result in rising costs of sustaining the MPSERS program.

The State Aid Bills continue to contain provisions designed to defray a portion of these costs. Since 2011, money continues to be set aside from the School Aid Fund (SAF) for one time allocations that school districts use to offset their annual retirement contributions (147a). During 2014-2015, this amount remained at $100 million. Since 2012-2013, school districts continue to receive Section 147c MPSERs UAAL Rate Stabilization Payment Categorical. In 2014-2015, an additional MPSERS Early Retirement Incentive Extra Payment (147d) was appropriated in the State Aid Bill for $108 million. However, this amount was reduced to $19.6 million and school districts only received this amount once in the November school aid payment.

The 2015-2016 State Aid Bill appropriates $100 million to be set aside from the School Aid Fund for continued funding through section 147a, and provides no additional funding for MPSERS Early Retirement Incentive Extra Payment (section 147d). School districts will continue to receive Section 147c MPSERS UAAL Rate Stabilization Payment. The impact of this funding is to provide school districts with directed resources to help pay for a continually increasing retirement contribution. The gross contribution, before any support from the State, is approximately 36 percent of payroll for 2015-2016. After the various funding offsets, the School District's out of pocket contribution is just under 26 percent of covered payroll.

Public Act 300, signed by the governor in September 2012, created certain caps on the employer contribution rate, created retirement plan alternatives which could modify the rate, increased employee contributions, provided for future employees to receive defined contribution instead of the current defined benefit for health care, and began prefunding health care benefits from a pay-as-you-go method to a combination of employee contributions, employer contributions, and state funding. The capped elements of the overall rate will mean that the SAF will be responsible to fund any unmet required contributions determined by the actuaries. A concern is that the state funding needed to keep the School District's out of pocket rate down may limit the ability for the SAF to provide any increases in the foundation allowance and other categorical. This has been, and will continue to be, a key factor to watch over the upcoming years. The overall rate has increased from 24.79 percent for the 2013-2014 fiscal year to 25.78 percent of covered payroll for 2014-2015 and 2015-2016. This .99 percentage point increase represents an actual increase of 4.0 percent.

Legal challenges related to the 3 percent contribution from employees have been ongoing. One case was resolved in 2015 determining that the 3 percent contributions since 2012 were allowable. No decision has been made by the courts related to the 3 percent employee contributions from 2010 to 2012. The recent decision should help in stabilizing future contribution rates required by the School District.

For your School District, the new "out of pocket" contribution rate of 25.78 percent for 2015-16 will represent approximately $49.85 million in total pension costs and retirement health care costs or $2,531 per pupil. We will continue to keep you informed as the changes to the retirement system unfold.

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 School District beginning in 2015 and 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 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.

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.

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 School District'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 that those required under your federal program audit, which focuses on key controls versus the overall process.

These revisions are clearly the most significant changes 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 school district by school district basis. Plante & Moran, PLLC has provided several training sessions for school districts on the new requirements and our school district grant experts have been working closely with the Michigan Department of Education regarding these changes. We are always available to assist your School District's staff in understanding the changes and how they impact the School District. 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 website to assist school districts in increasing their understanding of the changes.

Cadillac Tax

For taxable years beginning in 2018, PPACA imposes a 40 percent non-deductible excise tax on high-cost group health coverage. This tax, also known as the "Cadillac Tax" is intended to encourage employers to choose lower-cost health plans for their employees. Found in Internal Revenue Code section 4980I, the Cadillac Tax provision taxes the amount, if any, by which the monthly cost of an employee's applicable employer-sponsored health coverage exceeds the annual limitation (called the employee's excess benefit). The tax amount for each employee will be calculated by the employer and paid by the coverage provider who provides the coverage.

The annual limitation applicable to a particular employee's coverage is based on a statutory dollar amount. For most employees, the initial dollar amount for purposes of calculating an employee's excess benefit is $10,200 for individual coverage and $27,500 for other than individual coverage. The tax considers all employer and employee contributions towards both medical and flexible spending accounts, employer and most employee contributions for Health Savings Accounts (HSA), and Health Reimbursement Accounts (HRA). Stand-alone dental and vision coverage is generally excluded.

School districts should project out the gross cost of its plans today to determine when the Cadillac Tax is likely to apply, and the likely amount of tax that will be due. Waiting to make such a determination until 2017 or 2018 may be too late, leaving the School District with few strategic considerations other than paying the penalty or reducing the level of benefits it offers its employees. Making the determination today will allow the School District more strategic considerations such as the design and implementation of consumerism and wellness strategies, both of which have demonstrated track records of lowering costs.

Bond Audits

The School District's bond issue is subject to the Michigan Department of Treasury's Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan. This Bulletin was updated in May 2014 and outlines specific auditing and reporting requirements related to your bond issue(s). We understand the School District is currently soliciting proposals from independent auditors to conduct these procedures on your 2013 Bond projects. The risks associated with bond issues can be higher than other school district transactions; however, with careful monitoring of the activity and appropriate control procedures, the School District will decrease its risk. Items to review and monitor closely include:

- Compliance with bidding requirements and establishment of appropriate procurement procedures
- Regular comparison of expenditures with ballot language and original bond application to ensure expenditure is allowable under Section 1351(a) of the School Code
- Assessment of architect and construction manager fees for consistency with agreements
- Review of budgeted vs. actual expenditures including percentage of completion by project, so potential cost overruns may be addressed timely
- Investment earnings and the spending of the bond issue, in order to minimize or eliminate arbitrage payments

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 School District to maintain an appropriate level of fund equity. We believe that the benefit of the School District maintaining an appropriate amount of fund equity allows the School District 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 School District is facing, and cash flow needs due to the fact about 18 percent of the School District's State Aid is received after the school year has ended, as well as concerns over the financial health of the School Aid Fund in the future and the fact that the State is increasing its monitoring of each school district's financial health.

During the 2014-2015 school year, the School District's General Fund revenues exceeded expenditures by approximately $2,747,000. This resulted in increasing the General Fund equity to approximately $12.7 million at June 30, 2015. Fund balance goals are often stated in terms of a percentage of total expenditures. As a point of reference, the statewide average for school districts at June 30, 2014 (excluding Detroit) is approximately 9.45 percent of expenditures. Fund equity of 5.5 percent of expenditures would approximately equal the school district's average accounts payable and payroll for a 3-week period, while 11 percent would approximately equal 6 weeks. The School District's fund equity percentage is 6.9 percent and equals approximately 4 weeks of operation. Clearly, the School District will continue to face difficult budget challenges in 2015-2016 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 School District's success.

Accounting Items

GASB Statement No. 68 - Pension Standards

GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions*, is effective for school district's as of June 30, 2015. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize its unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Due to the School District's participation in the Michigan Public School Employees' Retirement System (MPSERS), the School District is required to report the School District's share of the MPSERS pension plan net pension liability in the basic financial statements (at the government wide level and in proprietary funds - but not in governmental funds). While the School District has a very small share of the statewide net pension liability (~1 percent), the obligation the School District recorded is significant.

The data required to record this liability has come from the Retirement System using the Plan's September 30, 2014 fiscal year end financial information. Changes in the net pension liability are reported as pension expense at the government-wide level and in proprietary funds. The School District has recorded and will continue to track the amortization of the deferred inflows and outflows within the plan as of the measurement date (September 30, 2014) and computed and reported the contributions expensed in the funds after the measurement date through the School District's fiscal year end. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

Other items impacted in accordance with the GASB Statement No. 68 implementation:

- For virtually all school districts, the obligation is included in the financial statements, and it is likely the government-wide financial statements are reporting a negative net position. The State and bond rating agencies understand this fact and determined it should not adversely affect

- the assessment of the School District's financial position, as both agencies have been considering this obligation for quite some time in their assessments of school districts and other agencies.

- As stated above, the adoption of the standard has not impacted the MPSERS expenditures reported in the General Fund and has not impact General Fund Balance.

- Disclosures regarding the plan and data related to the plan are be significantly expanded in the School District's financial statements.

- The adoption of the statement required adjustments to the beginning of year net position as we are adopting a new accounting standard.

Currently, the unfunded liability associated with retiree health care is not included in the computation, but will be added in the future when GASB 75 is adopted.

GASB Statement No. 75 - OPEB

GASB Statements No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions***,** will be effective for the School District's June 30, 2018 financial statements. This statements requires governments providing non-pension postemployment benefits (namely, retiree health care) to recognize these unfunded obligations as a liability for the first time, and to more comprehensively and comparably measure the annual costs of these postemployment benefits. Due to the School District's mandatory participation in the Michigan Public School Employees' Retirement System (MPSERS), the School District will be required to report the School District's share of postemployment liabilities in the basic financial statements (at the government wide level and in proprietary funds - but not the General Fund). While the School District has a very small share of the statewide postemployment liability (less than 1 percent), the School District's portion of this obligation will be significant to your financial statements. The School District and Plante & Moran, PLLC will work closely with ORS to obtain the information necessary to implement the new requirements. Changes in the postemployment liability will generally be reported as postemployment benefits expense at the government-wide level and in proprietary funds. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

Some factors to focus on as the School District prepares for adoption of this standard include:

- The Office of Retirement Services is working on a implementation plan to assist school districts in obtaining needed information

- As a result of GASB Statements No. 68 and No. 75, it is likely the government-wide financial statements will report a negative net position. The State and bond rating agencies understand this fact and it should not adversely affect the assessment of the School District's financial position, as both agencies have been considering this obligation for quite some time in their assessments of school districts and other agencies.

- As stated above, the adoption of the standard will not impact the MPSERS expenditures reported in the General Fund and will not impact General Fund fund balance.

- Disclosures regarding the plan and data related to the plan will be significantly expanded in the School District's financial statements, which is consistent with the implementation of GASB Statement No. 68.

Once the Plan's fiscal year is ended and the audit of the MPSERS plan is completed by the State of Michigan, we will have a clearer picture of the total postemployment liability and the School District's proportionate share.

GASB Statement No. 72

GASB Statement No. 72 - *Fair Value Measurement and Application*, will be effective for the School District's June 30, 2016 financial statement. The statement provides a more detailed definition of fair value, establishes acceptable valuation techniques and enhances disclosure requirements in order to increase consistency across governments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments that are within the scope of the standard, which are generally securities that the government holds to make a profit, will be measured at fair value. In addition to reflecting the asset at fair value in the Balance Sheet, the change in fair value will be reflected as an increase (or decrease) to fund balance on the statement of revenue, expenditures, and changes in fund balance. Additional fair value disclosures will also be required in the footnotes to the financial statements, outlining the hierarchy of inputs and valuation technique used to arrive at fair value. Notable exceptions to this pronouncement include money market investments, 2a7 investment pools, investments in life insurance contracts, equity method common stock, unallocated insurance contracts, and synthetic guaranteed investment contracts. If the transition to fair value is determined to be material as of June 30, 2015, then a restatement of prior year fund balance will be required in your financial statements next year.

Some factors to focus on as the School District prepares for adoption of this standard include:

- Identify which investments held by the School District will be subject to this standard and which may be exempt

- Ensure appropriate valuation inputs are available on a unit of account basis to ensure proper valuation as of the measurement date