

# **Novi Community School District**

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**Report to the Board of Education**

**June 30, 2015**



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To the Board of Education  
 Novi Community School District

We recently completed our audit of the basic financial statements of Novi Community School District (the “School District” or the “District”) as of and for the year ended June 30, 2015. In addition to our audit report, we are providing the following required audit communication, information items, and other comments and recommendations which impact the District.

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We are grateful for the opportunity to be of service to Novi Community School District. We also express our appreciation to the entire business office staff for the courtesy and cooperation extended to us during the course of the engagement, especially Ms. Carmen Jaroslowski. If there are any questions about your financial reports or the above comments and recommendations, we would be happy to discuss them at your convenience.

## **Results of the Audit**

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October 19, 2015

To the Board of Education  
Novi Community School District

We have audited the financial statements of Novi Community School District (the "School District" or the "District") as of and for the year ended June 30, 2015, and have issued our report thereon dated October 19, 2015. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated May 26, 2015, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the School District'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 School District, 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 19, 2015 regarding our consideration of the School District'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 letter about planning matters, dated May 26, 2015.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District are described in Note I to the financial statements.

As discussed in Note I to the basic financial statements, effective July 1, 2014, the School District adopted the provisions of Governmental Accounting Standards Board Statements No. 68 and No. 71. Accordingly, the accounting changes have been retrospectively applied to July 1, 2014 as required by the standards.

We noted no transactions entered into by the School District 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 School District's share of the MPSERS pension plan net pension liability recorded on the government-wide statements for the implementation of GASB No. 68. The School District's estimate as of June 30, 2015 is approximately \$102,000,000, and 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.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures.

***Significant Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School District, and business plans and strategies that may affect the risks of material misstatement with management each year prior to our 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 19, 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.

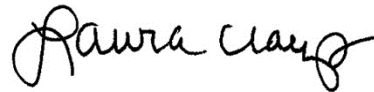
To the Board of Education  
Novi Community School District

October 19, 2015

This information is intended solely for the use of the Board of Education and management of Novi Community School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink that reads "Laura Claeys". The signature is written in a cursive, flowing style.

Laura K. Claeys, CPA  
Partner

A handwritten signature in black ink that reads "Christopher Geck". The signature is written in a cursive, flowing style.

Christopher Geck

## **Informational Items**

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# **Novi Community School District**

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## **Informational Items**

These items have been discussed with the administration and are presented here for your information as the policy-making body of the School District.

### **Bank Deposits**

Some of the district buildings handle cash for various student activity accounts. Often times, the cash in those locations is not deposited daily, but rather weekly or biweekly. Although every school has a secure safe, we recommend, for the safety of the building employees and for good internal controls, the funds be deposited daily. We also recommend that the District continue to remind those responsible for cash collections, of the Districts policies and procedures associated with this responsibility. Cash receipts should be remitted to the building office in a prompt fashion so that the money is maintained in the safe, while awaiting its deposit at the bank. This will help to ensure that cash on hand will have a reduced risk for theft. Daily deposits are particularly important in those buildings with large volumes of activity at peak periods. The District also uses a bank courier to pick up funds to further protect district employees from risks which can arise when transporting cash.

### **Fund Balance Results**

School districts throughout the state have been faced with an enormous amount of pressure. The cost to educate a child has outpaced the level of funding increases that districts are receiving each and every year - leaving districts with many tough decisions to make and opportunities to be creative in how they operate. We commend the Novi Community School District for making important and timely decisions in order to continue to provide the best possible education to its students while maintaining fiscal responsibility. In an era where more districts are in danger of being placed under the close watch of the Department of Treasury due to declining levels of fund balance, Novi Community School District has been proactive in ensuring that its General Fund Balance is maintained at a level that will continue to allow the District to fulfill its financial obligations and provide stability to the students in the event of sudden losses in funding. We commend the board, the administration, the staff, and the community on another successful year.

### **Complying with GASB No. 68**

As referenced in the pre-audit letter to the Board of Education, the School District was required to comply with GASB No. 68 for the first time in the June 30, 2015 financial statements. This new accounting standard required that the School District record its share of the total state-wide Michigan Public School Employees Retirement Plan Net Pension Liability on its government-wide financial statements. This accounting change has created one of the most significant changes to the financial statements in recent memory.

# Novi Community School District

## Informational Items (Continued)

The process to determine the obligations, deferred inflows and outflows, and pension expense amounts as well as the disclosures was complex. We worked closely with project managers at the Office of Retirement Services and the audit team at the Office of the Auditor General to ensure that the information provided to the School District was accurate and available as timely as possible. We also worked with the District's finance staff to determine necessary inputs from the District records and to determine the required amounts for reporting and disclosure. To compute the required amounts, we developed a comprehensive workbook tailored to your School District and provided a ½ day workshop exclusively for our clients to complete the workbook and finalize the GASB No. 68 information.

Given the accelerated timeline for financial statement filing with the Michigan Department of Education, the proactive team effort between Plante & Moran, PLLC (Plante Moran) and the School District was essential for a successful completion of the audit and timely filing. We appreciated the efforts of the business office for both getting the books closed and working through this challenging adoption of a very complex accounting standard.

### 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 districts at the minimum foundation; additional resources dedicated to assisting with funding the Districts retirement/postretirement health care obligation (MPSERS); and resources for best practice and student performance. While districts experienced an increase in the foundation, the increases still have not replaced the \$470 per pupil cut experienced in 2011-2012.

- **2014-2015 Foundation:** For the 2014-2015 fiscal year the School District's foundation allowance was increased to \$8,409. For comparison purposes, the School District's foundation prior to the \$470 cut in the 2011-2012 fiscal year was \$8,799, meaning the current foundation is still \$390 per pupil below the 2011 foundation allowance.
- **2015-2016 Foundation:** For the 2015-2016 fiscal year, the base foundation increases by \$70, from \$8,099 to \$8,169. 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 0.8 percent. Using the 2014-2015 enrollment, this increase equates to approximately \$451,000 in additional revenue for 2015-2016.
- **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 district performs the identified activities. Each year the list of criteria is modified and if a district chooses to, they must meet the criteria in order to receive the funding. Your district qualified for the \$50 per pupil in 2014-2015, which represented approximately \$323,000 in revenue. For 2015-2016, best practice funding was eliminated as part of the legislative effort to repackage state funding for schools.

# Novi Community School District

## Informational Items (Continued)

- **Performance Grants:** In 2014-2015, districts could qualify for an additional categorical based on the School District's ability to meet certain student performance measures. The maximum a district could qualify for is \$100 per pupil. Your district received \$70 per pupil, representing approximately \$451,000 in revenue. 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 District has no ability to influence the rate and no choice regarding its participation in the program. Recognizing the costs are increasing under the current system, the 2014-2015 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 \$545,657 in 147a and \$3,350,829 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 categoricals. 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, which is an increase of 5.8 percent to the overall contribution rate.

# Novi Community School District

## Informational Items (Continued)

### 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 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, could fluctuate until near the end of the School District’s fiscal year.

**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 and represented approximately \$106,000 in revenue to the School District. The program continues for 2015-2016 and has been expanded by the state in terms of funding.

### Health Care - Cadillac Tax

For taxable years beginning in 2018, the 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 49801, 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 toward 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.

# **Novi Community School District**

## **Informational Items (Continued)**

Districts should project the gross cost of its plans today to determine if or 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 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 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.

### **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 District's written policy governing procurement of supplies, materials, and equipment
- The District's written policy establishing specific categories of reimbursable expenses
- The 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 district employees that were reimbursed by the School District for the most recent fiscal year
- Any deficit elimination or enhanced deficit elimination plan the District was required to submit
- Identification of all credit cards maintained by the District as 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 districts that may be showing signs of fiscal distress, creating a system of reporting this situation sooner than in the past, and requiring those 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 districts and charter schools.

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

# Novi Community School District

## Informational Items (Continued)

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 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 District may conclude to contract with the ISD (or the authorizing body for charter schools) to review the 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.

### 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. 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 School District has historically been above the new \$750,000 threshold. However, from time to time, depending upon the level of federal spending, the School District may drop below the audit requirement threshold and monitoring of federal program expenditures will be important to ensure compliance with the audit requirement.

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.

# Novi Community School District

## Informational Items (Continued)

- 3. Administrative Requirements** - Also effective for new awards or funding increases on or after December 26, 2014, non-federal entities receiving federal funding must adhere to new rules related to administering federal awards. Most notably, these requirements may impact the 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 than 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 district by 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 districts in increasing their understanding of the changes.

### Accounting Items

#### **GASB Statement No. 75 - OPEB**

GASB Statement 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 statement requires governments providing nonpension 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 (MPERS), 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 state-wide 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 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 supplementary information (RSI).

# **Novi Community School District**

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## **Informational Items (Continued)**

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

- The Office of Retirement Services is working on an implementation plan to assist 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 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.



## **Other Comments and Recommendations**

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# Novi Community School District

## Other Comments and Recommendations

We commend the business office, especially Carmen Jaroslowski, for the assistance, responsiveness, and receptiveness displayed during the audit process. Her level of professionalism and that of the entire team ensured that the audit was completed in a timely fashion.

As the result of our audit procedures for the year ended June 30, 2015, we offer the following suggestions for your review and consideration:

- **Construction Transactions** - As previously discussed with the Finance Committee, the School District engaged another CPA firm to review the transactions associated with the Sinking Fund and the 2014 Capital Projects Fund for the year ended June 30, 2015. Their agreed-upon procedures letter indicated all transactions were in compliance with Section 1212(1) (Sinking Fund) or Section 1351(1) (2014 Capital Projects Fund) of the Revised School Code and the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.
- **Segregation of Duties** - We offer the following recommendation to the School District as it relates to areas in which segregation of duties could be strengthened, but will need to be balanced with district resources and capacity:

Certain school district employees are "super users" for the finance system. They have access to nearly all levels of the financial system, which allows them to initiate transactions, add vendors, perform certain payroll tasks, and process transactions. The School District currently runs edit reports which will identify new transactions and/or changes made to system data in order to verify these changes are supported and approved. These reports should be reviewed by individuals other than those who can make changes. Additionally, we recommend that at least annually the levels of system access for all personnel be reviewed for (1) continued need and (2) changing responsibilities. The overall controls are changing with the conversion to a new financial system, effective July 1, 2015, which will address this situation.

- **Information Technology (IT) Recommendations** - As a result of our review of the School District's policies and controls surrounding the IT environment, we offer the following recommendations:
  - **User Access Review** - We noted that management does not review user access to systems. We recommend that management implement a process to review user access at least annually. This is best achieved when the review is performed by someone other than IT (as they administer access). Access reports should be provided by IT to each supervisor or human resources for review of access. Any exceptions should be clearly documented with IT remediation.

# Novi Community School District

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## Other Comments and Recommendations (Continued)

- **User Access Changes** - We recommend management implement a process to review user access changes upon the time of the change. This is best achieved when the review is performed by someone other than IT (as they administer access). Changes to user access should be approved by supervisors or human resources before being implemented by IT. Changes to user access, including the approval of such changes, should be clearly documented via a user access change form.
- **User Access Lockout** - The current settings of the network allow five invalid login attempts before a user ID is set to inactive. The counter resets automatically after 10 minutes. We recommend that once the number of invalid login attempts is reached, the user ID should be set as inactive until the user who is attempting to login contacts the IT administrator to verify identity prior to having the user ID reset and set to active.