

Northville Public Schools

**Report to the Board of Education
June 30, 2011**

To the Board of Education
Northville Public Schools

We have recently completed our audit of the basic financial statements of Northville Public Schools (the “School District”) for the year ended June 30, 2011. In addition to our audit report, we are providing the following results of the audit, other recommendations, and informational comments which impact the School District:

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We would like to thank Millie Whitbeck and Mike Zopf as well as all of the business office staff for their assistance during the audit. We are grateful for the opportunity to be of service to Northville Public Schools. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

September 1, 2011

Results of the Audit

September 1, 2011

To the Board of Education
Northville Public Schools

We have audited the financial statements of Northville Public Schools (the "School District") for the year ended June 30, 2011 and have issued our report thereon dated September 1, 2011. 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 April 4, 2011, 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. We are responsible for planning and performing 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. Our consideration of internal control was 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 and our audit of the financial statements does not relieve you or management of your responsibilities.

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 have made some assessments of the School District's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated September 1, 2011 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. We are also obligated to communicate certain matters related to our audit to those responsible for the governance of the School District, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

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 June 14, 2011.

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. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2011, except for the adoption of Government Accounting Standards Board (GASB) No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, for the 2010-2011 fiscal year.

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

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 estimates affecting the financial statements were the determination of deferred revenue amounts, the assessment of collectibility of property taxes, and the determination of self-insurance obligations.

Management's estimates of the above are based on the facts and circumstances surrounding each item. We evaluated the key factors and assumptions used to develop the estimates in determining that they are 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.

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.

Disagreements with Management

For purposes 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 1, 2011.

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 Audit Findings or Issues

In the normal course of our professional association with the School District, 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. None of the matters discussed resulted in a condition of our retention as the School District's auditors.

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 September 1, 2011.

Other Information in Documents Containing Audited Financial Statements

Our responsibility relates to the School District's financial statements and other information as identified in the auditor's report. We have no responsibility for any other information that may be included in documents containing those audited statements. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. We are not aware of the inclusion of the financial statements in any other documents.

To the Board of Education
Northville Public Schools

September 1, 2011

In addition to the comments and recommendations in this letter, our observations and comments regarding the School District's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the supplemental schedule of federal awards (single audit report), and we recommend that the matters we have noted there receive your careful consideration.

This information is intended solely for the use of the Board of Education and management of Northville Public Schools 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, appearing to read "Eric Formberg", written in a cursive style.

Eric V. Formberg

Other Recommendations

Cash Flow and Property Tax Collections

The district currently collects its property taxes two times per year, half in the late summer and half in winter. Due to declining fund balances and the need to borrow, many districts have elected to collect property tax one time, during the summer tax collection period. By doing so, the School District would be able to accelerate property tax collection of about \$4 million by about four to six months, and potentially reduce interest and other costs incurred by the School District related to state aid anticipation note borrowings.

Counting Machine

A significant amount of cash is brought into the School District's accounting department from multiple sources. It would be more efficient and improve accuracy if a money counting machine was purchased.

Information Technology Review

During the audit process, we reviewed the information technology system to identify opportunities for the School District to revise or update its system of internal control. The primary goal of the review is to provide reasonable protection to the School District and its assets and financial information. We did note during our review that the School District has implemented most of the general practices related to information technology and we commend the School District in this regard. We offer the following for School District consideration as it continues to improve its operations:

- Password complexity is not enforced on the network. We encourage the School District to consider instituting applications that can enforce password complexity.

Pupil Accounting

During tough economic times, each School District dollar counts. The primary source of district funding is the student counts produced during the fall and winter semesters and submitted to the State via the Single Record Student Database (SRSD). We recommend that the School District evaluate their existing pupil accounting processes and systems to ensure that they are reporting accurate student counts to maximize their funding potential. This evaluation should consider the current pupil accounting processes (from the School District, ISD, and State perspective); explore organizational issues related to pupil accounting; and the appropriate use of technology to enhance the pupil accounting process.

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Other Recommendations (Continued)

Capital Asset Replacement Plan

The School District currently has operating budgets for its funds, but should also have an operating budget in place for capital assets. We recommend that the School District implement a long-term capital asset replacement plan. This plan should be based on the age and life of capital assets so as to estimate when to acquire and replace specific capital assets. Currently, the School District has set up a Sinking Fund; however, this fund cannot purchase equipment for replacement. Therefore, a separate fund could be created for this purpose.

Best Practice Operations Assessment

The School District engaged a consultant to conduct a process review of administrative functions across the School District to identify cost reduction opportunities and increase efficiency with a goal of continuing to improve operations and apply best practice. It is our understanding the School District is in the process of working with the consultant in assessing his recommendations and determining the best alternatives for the School District. We compliment the School District for its initiative and believe the process will provide the School District with many benefits.

Informational Items

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Informational Items

Budgeting Strategy in Difficult Financial Times

Over the last several years, Michigan schools have struggled with the reality that the State has not been able to significantly increase school funding to keep pace with rising costs. Now, for the first time, districts are actually experiencing substantial cuts to funding for 2011-2012.

Clearly, the School District's budget plan for 2012 and beyond will require difficult financial decisions of a significant scale. Never before have districts been required to examine how educational programs and services need to be adapted or redefined to cope with the funding issues while meeting educational needs of the students. These tasks are not easy, but in the end the decisions made could become opportunities to redesign how services are provided and educational objectives are met. If the School District can identify opportunities to "do things differently," it may be able to mitigate some of the negative effects of a reduced funding environment.

Fund Balance

Given the continued uncertainties with State funding, 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. This becomes especially important due to the funding caps imposed by school finance reform, retirement, health care, energy, and other cost pressures, 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 2011-2012 and beyond.

During the 2010-2011 school year, the School District's General Fund expenditures exceed revenues by approximately \$1.3 million. This resulted in decreasing the General Fund equity to approximately \$2.4 million at June 30, 2011. 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, 2010 (excluding Detroit) is approximately 10.44 percent of expenditures, down from 11.68 in 2009. Fund equity of 5.5 percent of expenditures would approximately equal the School District's average accounts payable and payroll for a three-week period, while 11 percent would approximately equal six weeks. The School District's fund equity percentage is 3.7 percent and equals approximately 1.9 weeks of operation. The fund equity decrease demonstrates the School District is not keeping pace with the goal of 11 percent fund equity. Additionally, as fund balance declines, the pressure on cash flow of the School District, particularly in the summer months, is significantly greater. Clearly, as the School District moves through 2011/2012, it will face unprecedented challenges in this area given the funding plan put in place by the State, coupled with fringe benefit and other costs.

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Informational Items (Continued)

Sec. 22F - \$100 Per Pupil “Best Practice” Guidelines

Section 22F of the recently enacted State School Aid Bill provides funding for 2011-2012 to districts that undertake prescribed “best practices”. In order to qualify for the funds, a district must demonstrate compliance before June 1, 2012 with four of the five “best practice” criterion which include:

- The school district pays no more than 90 percent of health benefits cost for any employee.
- The school district is the “policy holder” for employee health insurance policies.
- The school district develops or continues a service consolidation plan under former IID language.
- The school district obtains competitive bids for at least one non-instructional service over \$50,000 in value.
- The school district provides report card or dashboard with financial and performance data via their Website.

Other State Aid Act Changes Impacting 2011/2012

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:

Funding for Half Day Kindergarten - Beginning in 2012/2013, intent language is included to reduce per-pupil funding for kindergarten students if the district does not provide a full-day program.

2011/2012 Intent Language for Funding Levels - One legislature cannot bind another legislature. However, the State Aid Act includes intent language regarding funding levels for 2012/2013.

Added Higher Education - The School Aid Fund was restructured and now includes the funding mechanism for higher education as well as K12.

Pupil Count Weighting - The School District will continue to have two pupil counts per year. However, the weighting of the counts is changed from 25 percent/75 percent to 10 percent/90 percent for the winter and fall counts, respectively. The fall count day is now the first Wednesday in October.

Proration Language - Revised language to address how proration would be applied now that higher education is included in the State Aid Act

Early Childhood - Intent language added to consolidate programming, administration, and focus of early childhood and utilize a block grant approach

Bus Inspections - Fully funded the State Police bus inspection program

Northville Public Schools

Informational Items (Continued)

Retirement Rate - For 2011, once again, the School District will experience a rise in the retirement rate and the need to apply multiple rates depending on employee hire date. Beginning October 1, 2011, for employees hired before July 1, 2010, the rate will be 24.46 percent of compensation, up from 20.66 percent. For employees hired on or after July 1, 2010, the rate will be 23.23 percent, up from 19.16 percent. In 2010, the retirement system began requiring an additional 3 percent employee contribution. Legal challenges have not allowed the employee contribution to be “counted” as part of the School District’s contribution and are currently being held in trust by the retirement system pending the legal outcome. As a result, the School District is both collecting and remitting the 3 percent employee contribution but is unable to use the employee contribution to the retirement system to reduce the district required contribution rate. Without significant changes to the retirement system, it is estimated that the retirement rate will increase to over 30 percent in the next few years. An estimate of the increased retirement costs in 2011/2012 for the School District as a result of the newly implemented rates is \$1,700,000.

Protection from Headlee Override

Under Michigan law, millages, except debt millages and the state education tax, are subject to a rollback of the authorized millage when taxable values increase by a rate greater than inflation. Because of the limitations placed on the taxable value by Proposal A, it was expected that the need for a Headlee rollback would be rare. However, we have seen districts required to rollback authorized millage because taxable values increased by a rate greater than the inflation rate. It appears the primary reason is non-homestead properties being “transferred”, thus creating a significant increase in the taxable value. Whenever a property is transferred, its taxable value is “re-priced” to 50 percent of the true cash value of the property. In the past, the School District has experienced a Headlee reduction and has had to introduce a supplemental millage to return funding to the levels promised by Proposal A.

Previously, to limit the unforeseen adverse impact of Headlee, the School District obtained approval from the voters for a millage greater than the School District would ever be allowed to levy under Proposal A. The result of this allows the School District to fully receive the funds promised under Proposal A and protect the School District from future rollbacks. This voter-approved millage expires in June 2012. It is our understanding the School District is pursuing voter approval in an upcoming election to renew its millage. We suggest that the School District, once again, gain voter authorization for a millage rate that would allow the School District to levy the its full allowable millage for the foreseeable future without being reduced by Headlee.