

# **South Lyon Community Schools**

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**Report to the Board of Education**

**June 30, 2008**



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To the Board of Education  
South Lyon Community Schools

We have recently completed our audit of the basic financial statements of South Lyon Community Schools (the "School District") for the year ended June 30, 2008. We would like to express our appreciation to Dr. Pearson, Mr. Graham, Ms. Dagenhardt, and the rest of the business office staff for the cooperation and assistance provided us during the audit process. We found the overall condition of the books and records to be very good.

In addition to our audit report, we are providing the following results of the audit, comments and recommendations, and informational items which impact the School District:

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We are grateful for the opportunity to be of service to the South Lyon Community Schools. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Very truly yours,

**Plante & Moran, PLLC**

Jeffrey C. Higgins



## Results of the Audit

October 6, 2008

To the Board of Education  
South Lyon Community Schools

We have audited the financial statements of South Lyon Community Schools (the "School District") for the year ended June 30, 2008 and have issued our report thereon dated October 6, 2008. 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 27, 2008, 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 South Lyon Community Schools' 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 October 6, 2008 regarding our consideration of South Lyon Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

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We also are 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 August 11, 2008.

### **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 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the 2007-2008 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 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.

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

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

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### ***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. There were no corrected or uncorrected misstatements as a result of the 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.

### ***Management's Representations***

We have requested certain representations from management that are included in the management representation letter dated October 6, 2008.

### ***Management's 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 South Lyon Community Schools, 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 South Lyon Community Schools. 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 6, 2008.

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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 South Lyon Community 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**



Jeffrey C. Higgins

## **Recommendations**

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# South Lyon Community Schools

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## Recommendations

During our audit process, we attempt to identify opportunities for the School District to revise or update its system of internal control. The primary goal of internal control is to provide reasonable, practical, and affordable protection to the School District and its assets and financial information. We appreciate that the School District has limited resources and must look to maximize the benefits from the resources it utilizes. With that in mind, we offer the following suggestions for the School District's consideration as it continues to improve its operations.

### IT General Controls

After review of the IT general controls self-assessment completed by the School District, we have the following recommendations relating to the accounting applications of the School District:

- **Perimeter Controls** - During our review, it appears that regular firewall log reviews are not occurring; best practices would generally indicate they should be reviewed daily or weekly for any unusual activity; however, the School District performs log reviews whenever auto alerts are triggered by suspicious activity.
- **Authentication Controls** - Minimum password length is recommended to be seven characters (alpha and special) and complexity requirements should be enforced. Passwords should expire minimally within 90 days. The network should be set up to lock out users after a set number of unsuccessful logon attempts. A common practice would be to lock out users after three unsuccessful attempts for at least 15 minutes.

# **Informational**

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### ***CERTIFICATE OF EXCELLENCE IN FINANCIAL REPORTING***

For the eleventh consecutive year, South Lyon Community Schools has received the Certificate of Excellence in Financial Reporting presented by the Association of School Business Officials (ASBO) for the 2006-2007 fiscal year. This award certifies that the School District has presented its comprehensive annual financial report to the ASBO Panel of Review for critical evaluation and that the report was judged to have complied with the principles and practices of financial reporting recognized by the organization. The School District's focus on financial accountability is further highlighted by the School District, once again, receiving ASBO's Meritorious Budget Award. We commend the administration for its efforts in reporting accurate and meaningful financial information.

### ***STATE AID ISSUES***

The fiscal year ended June 30, 2008 brought many financial challenges to the School District. Among them was the State's inability to put a budget plan together, resulting in a state shut-down in October 2007. These budget challenges at the State level meant that the School District operated for three months without knowing the final funding level the State was to provide for the 2007-2008 fiscal year. Once the budget plan was approved, the State was able to fully fund the plan. Among the measures put in place are the following provisions:

**Foundation Allowance** - The State Aid Act provided for a \$118 increase, or 1.7 percent, in the School District's foundation allowance for 2007-2008.

**Retirement Rate** - Legislation restructured the elements computing the MPSERS retirement rate creating a lower cost to the retirement system. The School District paid in 17.74 percent of eligible payroll through September 30, 2007. Beginning October 1, 2007 the rate was reduced to 16.72 percent. Beginning October 1, 2008, the MPSERS retirement rate will be further reduced to 16.54 percent.

**Kindergarten Full-funding "Intent" Language** - As part of the State's budget plan, the amendments to the State Aid Act include "intent language" to move toward a full-day kindergarten requirement. Essentially, the language provides that beginning in fiscal year 2009-2010, half-day developmental kindergarten programs would be funded at 50 percent. Kindergarten programs would be fully funded in 2010-2011 if they operated for 60 percent of a day, and fully funded in fiscal year 2011-2012 if they operated for 70 percent of a day.

The State monitors its budget against its revenue intake with periodic revenue-estimating conferences. State law requires that the appropriations cannot exceed revenue estimates. As a result, it is possible there could be reductions to School District funding if the State is not able to generate the funding levels identified in the May 2008 revenue-estimating conference.

### RECENT AUDITING PRONOUNCEMENTS

#### Initially Effective for the June 30, 2008 Fiscal Year

The standards initially effective for June 30, 2008 audits continue the process of redefining an audit. These standards have changed much of what occurs during the audit process and what is provided to the Board of Education and others charged with governance.

#### Statement on Auditing Standards 104 to 111 - The Risk Assessment Standards

The AICPA issued Statements on Auditing Standards (SAS 104 - SAS 111) that have substantially affected the auditing process. The effective date for all school district audits is for the audit of the financial statements for the year ended June 30, 2008. These standards essentially redefine the audit process from start to finish and the ramifications for the audit process are substantial.

The new standards primarily require the following:

- The auditor to obtain a deeper understanding of (1) the School District and its internal control, for the purpose of identifying the risks of material misstatement in the financial statements and (2) what the School District is doing to mitigate those risks.
- A more rigorous assessment of the risks of material misstatement based on that understanding, with additional emphasis on significant risks that call for special audit consideration.
- A clearer linkage between the assessed risks and the audit procedures performed, including tests of controls and substantive tests, in response to those risks.

We invested substantial resources into the redesign of our audit process to conform to these requirements. Our ultimate goal, as in the past, is to provide a quality audit, in full conformance to the requirements, which is tailored to the unique environment for Michigan schools. As a result, our 2008 audit process included many new features and elements. We worked with the School District to understand the elements, involved it in the information gathering process, and performed audit tests focused on the risks embedded in the School District's financial statements. To provide the School District with as much lead time as possible in the data gathering process, we reviewed the information needs and provided the School District with the necessary tools. We appreciate that change can be difficult and time consuming. Our goal was to insure any changes made were done with a purpose and the changes focused on issues directly impacting your school district.

# South Lyon Community Schools

## Informational (Continued)

### ***MICHIGAN BUSINESS TAX CHANGES IMPACTING PUBLIC SCHOOLS***

The State of Michigan has recently replaced the Michigan single business tax with the new Michigan business tax (MBT). Two provisions of the new MBT will impact K-12 funding.

The MBT expands the existing community foundation credit to include educational foundations. If your educational foundation meets certain specified criteria, business donors can receive an MBT credit equal to 50 percent of their contribution, limited to 5 percent of the donor's tax liability or \$5,000. This provision will provide tax incentives to businesses to support educational foundations and, as a result, could lead to enhanced funding to the School District.

The MBT also provides for personal property tax relief to businesses. Business will receive a 24 mill reduction on industrial personal property, and a 12 mill reduction on commercial personal property. Most school districts will experience a substantial reduction in personal property tax receipts. To offset this reduction, the MBT requires the State to make specific payments to the School Aid Fund. It remains uncertain exactly how these funding changes will impact individual school districts, and the resulting cash flow may be delayed as the payments migrate to the 11 monthly state aid payments. We encourage you to closely monitor these changes and adjust your budgeting and cash flow plans accordingly.

### **403(b) ANNUITY PLANS**

The IRS has finalized regulations that will require schools to take more responsibility in the operation and compliance of their 403(b) arrangements, including operating the plans under a written document. The regulations have a delayed effective date of January 1, 2009. Districts will want to carefully balance the degree of involvement versus delegation as they implement a compliance strategy. It will be important to establish a district plan document and implement vendor agreements that establish the responsibilities of the School District and the vendor to eliminate confusion and provide a compliance road map. Watch for updates in Plante & Moran's School Advisor or in an Alert publication.

The IRS is currently reviewing 403(b) plans for compliance with the universal availability eligibility requirements. The universal availability rule generally requires that all employees have the right to make salary deferral contributions to the 403(b) plan, with few exceptions. Further, the final regulations reduce the number of exemptions from this requirement.