

Avondale School District

Single Audit Report

June 30, 2017



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**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***

Independent Auditors' Report

Management and the Board of Education
Avondale School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Avondale School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Avondale School District's basic financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Avondale School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Avondale School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Avondale School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Avondale School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yeo & Yeo, P.C.

Saginaw, MI
October 31, 2017

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Management and the Board of Directors
Avondale School District

Report on Compliance for Each Major Federal Program

We have audited Avondale School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Avondale School District's major federal programs for the year ended June 30, 2017. Avondale School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Avondale School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Avondale School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Avondale School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Avondale School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Avondale School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and

performing our audit of compliance, we considered Avondale School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Avondale School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Avondale School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Avondale School District's basic financial statements. We issued our report thereon dated October 31, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Yeo & Yeo, P.C.

Saginaw, MI
October 31, 2017

Avondale School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Amount	Accrued (Unearned) Revenue July 1, 2016	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Unearned) Revenue June 30, 2017
U.S. Department of Agriculture							
Passed through Michigan Department of Education							
Child Nutrition Cluster							
Non-cash assistance (commodities)							
National School Lunch Program							
Entitlement Commodities	10.555	\$ 73,883	\$ -	\$ -	\$ 73,883	\$ 73,883	\$ -
Cash assistance							
161970 School Breakfast Program	10.553	82,973	-	70,109	12,864	12,864	-
171970 School Breakfast Program		72,007	-	-	72,007	66,713	5,294
161960 National School Lunch Program	10.555	461,423	-	389,267	72,156	72,156	-
171960 National School Lunch Program		401,813	-	-	401,813	377,060	24,753
160900 Summer Food Service Program for Children	10.559	56,825	-	25,538	31,287	31,287	-
161900 Summer Food Service Program for Children		4,797	-	2,152	2,645	2,645	-
170900 Summer Food Service Program		6,514	-	-	6,514	-	6,514
171900 Summer Food Service Program		1,714	-	-	1,714	-	1,714
Total cash assistance			-	487,066	601,000	562,725	38,275
Total U.S. Department of Agriculture - Child Nutrition Cluster			-	487,066	674,883	636,608	38,275

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Avondale School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Amount	Accrued (Unearned) Revenue July 1, 2016	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Unearned) Revenue June 30, 2017
U.S. Department of Education							
Passed through Michigan Department of Education							
Title I Grants to Local Educational Agencies							
161530 1516 Title I Grants to Local Educational Agencies	84.010	\$ 294,137	\$ 94,419	\$ 245,628	\$ 15,624	\$ 110,043	\$ -
171530 1617 Title I Grants to Local Educational Agencies		296,382	-	-	280,487	218,835	61,652
Total Title I Grants to Local Educational Agencies			94,419	245,628	296,111	328,878	61,652
Passed through Oakland County Intermediate School District							
Special Education Cluster							
150450 1415 Special Education Grants to States	84.027	659,640	54,593	659,640	-	54,593	-
160450 1516 Special Education Grants to States		674,308	652,671	652,671	21,637	674,308	-
170450 1617 Special Education Grants to States		702,996	-	-	637,809	461,299	176,510
Total Special Education Grants to States			707,264	1,312,311	659,446	1,190,200	176,510
160460 1516 Special Education Preschool Grants	84.173	20,071	20,071	20,071	-	20,071	-
170460 1617 Special Education Preschool Grants		23,850	-	-	23,850	15,453	8,397
Total Special Education Preschool Grants			20,071	20,071	23,850	35,524	8,397
Total Special Education Cluster			727,335	1,332,382	683,296	1,225,724	184,907

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Avondale School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Amount	Accrued (Unearned) Revenue July 1, 2016	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Unearned) Revenue June 30, 2017
U.S. Department of Education							
Passed through Michigan Department of Education							
English Language Acquisition State Grants							
160580 1516 English Language Acquisition State Grants	84.365	\$ 47,846	\$ 12,130	\$ 26,068	\$ 10,217	\$ 22,347	\$ -
170580 1617 English Language Acquisition State Grants		49,601	-	-	9,482	9,271	211
Total English Language Acquisition State Grants			12,130	26,068	19,699	31,618	211
Supporting Effective Instruction State Grants							
160520 1516 Supporting Effective Instruction State Grants	84.367	85,910	23,376	66,700	-	23,376	-
170520 1617 Supporting Effective Instruction State Grants		93,496	-	-	62,086	28,990	33,096
Supporting Effective Instruction State Grants			23,376	66,700	62,086	52,366	33,096
Total U.S. Department of Education			857,260	1,670,778	1,061,192	1,638,586	279,866
U.S. Department of Health and Human Services							
Passed through Oakland County Intermediate School District							
Medical Assistance Program							
2015 Administrative Outreach Program	93.778	4,604	-	-	4,604	4,604	-
Total Federal Financial Awards			\$ 857,260	\$ 2,157,844	\$ 1,740,679	\$ 2,279,798	\$ 318,141

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Avondale School District
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2017

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Avondale School District under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Avondale School District, it is not intended to and does not present the financial position, changes in financial positions of Avondale School District.

Note 2 - Summary of Significant Accounting Policies

Expenditures

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in the Uniform Guidance where certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

Avondale School District has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Reconciliation to the Financial Statements

The federal revenues per the financial statements are in agreement with the schedule of expenditures of federal awards except for the following items:

Federal revenues per the financial statements	\$2,206,672
Federal reimbursed interest	(670,731)
Grant funds not received within 60 days	271,469
Prior year grant funds not received within 60 days received in the current year	<u>(66,731)</u>
Federal revenues per schedule of federal awards	<u>\$1,740,679</u>

Note 4 - Subrecipients

No amounts were provided to subrecipients.

Note 5 - Michigan Department of Education Disclosures

The federal amounts reported on the grant auditor report are in agreement with the schedule of expenditures of federal awards.

The amounts reported on the recipient entitlement balance report agree with the schedule of expenditures of federal awards for U.S.D.A. donated food commodities.

Avondale School District
Schedule of Findings and Questioned Costs
June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(s) identified that are not considered to be material weaknesses? _____yes X none

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(s) identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with §200.516(a)? _____yes X no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.027, 84.173

Special Education Cluster

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X yes _____ no

Avondale School District
Schedule of Findings and Questioned Costs
June 30, 2017

Section II - Government Auditing Standards Findings

There were no *Governmental Auditing Standards* findings for the year ended June 30, 2017.

Section III – Federal Award Findings

There were no findings or questions costs for Federal Awards for the year ended June 30, 2017.

Avondale School District
Summary Schedule of Prior Audit Findings
June 30, 2017

Section IV - Prior Audit Findings

Government Auditing Standards Findings

Finding 2016-001, 2015-001 – Significant Deficiency

Criteria: Michigan Department of Education Bulletin 1022 Michigan Public School Accounting Manual states that the School District must have a system that provides for the design, implementation and maintenance of effective control-related policies and procedures. This includes performing timely reconciliation and review of all account balances.

Status: This was corrected in the current year.

Finding 2016-002, 2015-002 – Significant Deficiency and Noncompliance

Criteria: Uniform Guidance has specific requirements for establishing written policies and procedures. The policies should address the reasons the School District administers its grant program a certain way and should also contain goals or objectives. The procedures should detail how to perform the functions necessary to conform to the policies. The policies and procedures will pertain to both state-administered grants and those received directly from Federal agencies. As they are developed, policies and procedures should be specific to the School District.

Status: This was corrected in the current year.

Federal Award Findings

Finding 2016-003 – Significant Deficiency and Noncompliance – Allowable Costs

Criteria: Per 2 CFR Part 430, federal awards for salaries and wages must be based on records that accurately reflect the work performed and be supported by a system of internal control, which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.

Status: This was corrected in the current year.

October 31, 2017

Management and the Board of Education
Avondale School District
2940 Waukegan Street
Auburn Hills, MI 48326

We have completed our audit of the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Avondale School District as of and for the year ended June 30, 2017, and have issued our report dated October 31, 2017. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The first appendix to this letter sets forth those communications as follows:

I. Auditors' Communication of Significant Matters with Those Charged with Governance

In addition, we have identified additional matters that are not required to be communicated but we believe are valuable for management:

II. Matters for Management's Consideration

We discussed these matters with various personnel in the School District during the audit and have already met with management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, and others within the School District, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 24, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. The School District has adopted Government Accounting Standards Board Statement (GASB) No. 77, *Tax Abatement Disclosures*, effective July 1, 2016. The Statement requires disclosures of tax abatement information. We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 School District's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service. We have evaluated management's estimates in these areas and the process used for making the accounting estimates, the risk of material misstatement, and the indication of possible bias and disclosure and uncertainty in the financial statements. We noted no bias in the calculation of the estimate.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report. We noted no bias in the calculation of the estimate.
- Management's estimate of the retirement severance liability, which is based on language obtained within the union contracts and a five year historical average of actual payouts. We noted no bias in the calculation of the estimate.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred

inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending June 30, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. The effective date is for the fiscal year ending June 30, 2018.

The School District is evaluating the impact the above pronouncements will have on its financial reporting.

Regulatory and Other Updates

Cybersecurity Posture

Cybersecurity posture, an overall measure of cybersecurity strength, is more prevalent than ever as organizations continue to face cybersecurity risks. Billions of emails are sent every day, some of which contain attachments with malicious files or malicious embedded links aimed at negatively impacting unsuspecting organizations. A recent study showed as many as four out of five U.S. companies have suffered from an attack. Not only can a successful attack cost thousands of dollars and put a strain on IT resources while remediation efforts are underway, but sensitive information may be breached.

Risk assessment is a first step in mitigating cybersecurity risks and improving your School District's overall cybersecurity posture. The National Institute of Standards and Technology published *Framework for Improving Critical Infrastructure Cybersecurity*, which "enables organizations, regardless of size, degree of cybersecurity risk, or cybersecurity sophistication, to apply the principles and best

practices of risk management to improving the security and resilience of critical infrastructure.” The framework is designed to cover five areas including identification, protection, detection, responsiveness and recovery. The publication can be found at www.nist.gov.

Placing significant emphasis on evaluating your School District’s cybersecurity posture, and channeling sufficient resources towards proper risk assessment, implementation, and education will reduce the likelihood of a cybersecurity threat, and help lessen the impact of a breach.

Audit and FID Submission Deadline

The deadline to submit the Financial Information Database (FID) and school district financial audits will be November 1st. This will continue to be the deadline for future fiscal years as it is now State Law.

Uniform Grant Guidance (Super Circular)

In December 2013, the Federal Office of Management and Budget (OMB) issued final guidance on administrative requirements. The Guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102 and A-133 and the guidance in Circular A-50 on Single Audit Act follow-up. School districts implemented the new administrative requirements and Cost Principles for all new federal grants awarded after December 26, 2014, and to additional funding to existing awards (referred to as funding increments) made after that date. EDGAR is the source for guidance that school districts will follow. Additional information and resources are available at the following websites:

- OMB http://www.whitehouse.gov/omb/grants_docs
- Council on Federal Assistance Reform (COFAR) <https://cfo.gov/cofar/>
- US Department of Education <http://1.usa.gov/1rzFswz>
- EDGAR <http://1.usa.gov/1pOUq2p>
- MDE http://www.michigan.gov/mde/0,4615,7-140-5236_76204---,00.html

Implementation of Federal Grant Procurement Standards is Delayed

In May 2017, the federal government granted an additional one-year delay for implementation of the procurement standards under the Uniform Guidance. The grace period now extends through December 25, 2017. Therefore entities with fiscal years beginning on or after December 26, 2017 must have procurement standards, for federal expenditures, that meet the more stringent requirements of 2 CFR 200.317 to 326. For school districts, it will apply to fiscal year 2019 and therefore, must be in place starting July 1, 2018. If your School District did not previously adopt and implement procurement policies and procedures in accordance with 2 CFR 200 you should go through the appropriate channels to elect and document usage of the additional grace period year. The grace period decision and documentation should go through the same process as the adoptions of procurement policies. It is imperative that your procurement policies – whatever they are documented as – be followed. The Uniform Guidance and the old guidance in the OMB Circulars provide minimum requirements that must be covered by an entity’s procurement policies. If an entity’s policies are stricter than the federal rules, the entity policies still must be followed. As you adopt new procurement policies, we also recommend that you consider separate policies for federal and non-federal expenditures to ease the administrative burden of certain federal requirements.

Fiscal Year (FY) 2018 School Aid

The School Aid budget for FY 2018 was not signed until late July. Following are some significant highlights of the bill:

- The per pupil Foundation Grants for FY 2018 will increase by a range of \$60 to \$120 using the “2X formula.” The increase will be added to the FY 2017 foundation grant resulting in the lowest foundation for FY 2018 being \$7,631 and the maximum state guaranteed foundation being \$8,289.

- The Pupil Membership Blend will remain at 90% of the current school year October count and 10% of the prior school year February count.
- The Section 31a At-Risk funding is increased by \$120,011,800 to \$499,000,000. Eligibility is expanded from free lunch eligible pupils to include pupils eligible for reduced price lunch, TANF, SNAP, or migrant, homeless, or pupils in foster care. Hold Harmless and Out of Formula districts are now eligible, but will be capped at 30% of the per pupil allowance. Districts that are currently eligible would receive approximately \$777 per pupil and newly eligible districts would receive approximately \$233 per pupil.
- The per pupil funding under Sections 20f(2) and 20f(4) will be equal to the per pupil funding under those Sections in 2016-17.
- Section 147c is reduced by approximately \$22.0 million to reflect higher rates of return on investments.
- ISD General Operation funding under Section 81 will remain at \$67.1 million.
- Shared Time Instruction for Nonpublic and Homeschool Pupils Section 23f caps the maximum FTE for which a nonpublic school pupil may be counted in a shared-time program at 0.75 FTE per pupil.

Boilerplate changes include:

- A New Section 160 has been added which requires districts seeking a waiver to begin the school year before Labor Day to hold a public hearing with the MDE in the district before the waiver can be granted.
- A New Section 164g has been added which imposes a penalty on any district using State Aid funds to pay expenses related to legal action against the state.
- A New Section 164h has been added to state that there will be a state school aid penalty for a district or ISD that enters into a collective bargaining agreement that fails to comply with requirements including prohibitions on the automatic deduction of union dues from payroll and racial or religious preferences in hiring.

Early Warning

Pursuant to Public Act 109 of 2015, each school district and public school academy that has a General Fund balance less than 5% of total unrestricted general revenue for either of the 2014-2015 or 2015-2016 school fiscal years is required to submit budget assumptions to the Center for Educational Performance and Information (CEPI). The budget assumption data collection period begins June 1, 2017 and is open through July 7, 2017. The Department of Treasury will not declare potential fiscal stress based solely on a school district's or public school academy's budget assumption data.

Uniform Budgeting and Accounting Act (UBAA)

The UBAA establishes budget and accounting requirements for local governments and school districts, including public school academies. It also establishes oversight requirements for MDE as well as the Michigan Attorney General. Material violations of the UBAA, including but not limited to General Fund deficits, should be reported as financial statement findings in the audit report. UBAA states that if it becomes apparent during the year that the probable revenues will be less than the budgeted revenues, the fiscal officer shall present recommendations to the legislative body which, if fiscal adopted, would prevent expenditures from exceeding available revenues for the fiscal year. UBAA states that an officer of the School District shall not incur expenditures against an appropriation account in excess of the amount appropriated by the board. Noncompliance includes, but is not limited to, over-expending the budget authorized by the board. MDE is analyzing the General Fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level. MDE has stated a 0% tolerance for UBAA noncompliance.

Sinking Fund

Effective March 29, 2017, Public Act 319 amended Section 1212 of the School Code (MCL § 380.1212) to allow additional uses for sinking fund proceeds. This amendment applies only to sinking fund millage authorized after this effective date. The new amendment expanded the definition of permissible expenditures that previously did not allow for the purchase of equipment and furnishings. Under the new authorization, such items may be purchased with sinking fund resources, if they are for the following purposes: 1. School security improvements (including any capital improvement or purchase that is

designed to act as a deterrent to unauthorized entry of persons or items onto school premises or to otherwise promote security, including, but not limited to, metal detectors, locks, doors, lighting, cameras, and enhancements to entryways) 2. Acquisition and upgrading of technology (including hardware and communication devices that transmit, receive, or compute information for pupil instructional purposes; the initial purchase of operating system software or customized application software, or both, accompanying the purchase of hardware and communication devices under subdivision; and the costs of design and installation of the hardware, communication devices, and initial operating system software or customized application software).

Unclaimed Property

Beginning in 2018, the State of Michigan will require the filing of zero balance reports for businesses and governmental agencies who hold property on behalf of others, such as uncashed payroll or vendor checks and other items comprising unclaimed property. This is a revision from the most recent change in 2012, which only encouraged, but did not require, reporting of zero unclaimed property situations. Under the negative attestation requirement, businesses and governmental agencies must ensure they are filing even in situations where entities have no unclaimed property.

Current rules require unclaimed property to be identified as of March 31st of each year and reported to the State on or before July 1. Property that has reached its applicable dormancy period (generally one year or three years) as of March 31 must be remitted with and reported on Michigan State Form 2011, *Michigan Holder Transmittal for Annual Report of Unclaimed Property* and the appropriate annual reporting form (there are separate forms for cash & safe deposit boxes and for securities). If the holder (business or government entity) has more than ten items to report, they must use electronic media for the annual report. The due date for this filing is July 1 (or the next work day if the 1st is on a weekend).

These rules remain unchanged, except that beginning in 2018, the negative attestation requirement will go into effect. Free software is available on the State of Michigan web site at <http://www.michigan.gov/treasury/>. The web site is a valuable resource for information regarding the law, filing requirements and related penalties, including the 33 page *Manual for Reporting Unclaimed Property*.

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 that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

There were no uncorrected misstatements that were more than trivial.

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 auditors' report. We are pleased to report we had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other 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

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, 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 to our retention.

Other Reports

Other information that is required to be reported to you is included in the: Independent Auditors' 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*; Independent Auditors' Report on Compliance For Each Major Federal Program; Independent Auditors' Report on Internal Control Over Compliance; Independent Auditors' Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance; and the Schedule of Findings and Questioned Costs and Responses. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's contributions, and budgetary comparison information, we applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

Report on Other Supplementary Information

With respect to the other supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Appendix II

Matters for Management's Consideration

In planning and performing our audit of the financial statements of Avondale School District as of and for the year ended June 30, 2017, we considered Avondale School District's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

However, during our audit we became aware of several matters for management's consideration that are opportunities for strengthening internal controls. This letter does not affect our report dated October 31, 2017, on the financial statements of Avondale School District. Our comments and recommendations regarding those matters are:

Audit Adjustments

During the course of the audit, several audit journal entries were required to be posted to the District's accounts. These entries were discovered after the District provided the initial trial balance. Rather than posting all entries to the initial audit trial balance received, an updated trial balance was provided by the District with the entries posted. We recommend that the District ensure that all accounts are reconciled timely, year end accruals are recorded prior to start of audit, and financial records are kept more current.

Budget Overages

During our review of the District final budget to actual amounts, it was noted that two General Fund line items were expended over budget. Both Operations and Maintenance and Athletics were over expended over budget. Neither line item was materially over budget either individually or in the aggregate.

We recommend the District monitor the budget more closely and ensure that the final budget amendment is performed close to year end and monitored to ensure that budgeted amounts are accurate with final expenditures.

Proportionate Share

During our review of the District's proportionate share calculation of IDEA services provided to private school students within the District, it was noted that the District failed to meet the proportionate share spending minimum. Through discussions with management, it was noted that this was due mainly to a lack of eligible private school students within the District utilizing the services.

We recommend the District explore ways to further promote and push these services out to the private schools to ensure the spending requirements are met.

Adult Meal Pricing

The School District's current adult meal price is not meeting the federal standards. Adult lunch prices must equal at least the price charged to paying students plus the current value of federal cash and commodity assistance for full price meals and 6% sales tax. In the current year, the School District under-charged for meals in the amount of \$0.57 for each adult lunches served. We recommended that the School District raise their adult meal price to meet the minimum amount. We further recommended that the School District review the adult meal price on an annual basis. This will ensure that they are in compliance with the updated standards. This comment was also noted in the prior year. It was noted during discussions with management that the Board of Directors approved a \$0.25 increase in student meal prices for the 2017-18 school year.

Student Lunch Pricing

Each year the School District is required to evaluate the price of student lunches based on a weight average price calculator provided by the Michigan Department of Education (MDE). Based on weighted average for the 2015-16 school year, the lunch price for students should have increased by \$.10 for the 2016-17 school year. This increase did not occur, thus the School District is not in compliance with the requirement. We recommend that the School District raise the student lunch prices to match the calculation. We further recommend that the School District review this calculation on an annual basis. This will ensure that they are in compliance with the updated standards.