

SOUTH LAKE SCHOOLS
St. Clair Shores, Michigan

SUPPLEMENTARY INFORMATION TO
FINANCIAL STATEMENTS

(FEDERAL AWARDS)

FOR THE YEAR ENDED JUNE 30, 2016



SOUTH LAKE SCHOOLS

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**INDEPENDENT AUDITOR'S REPORT ON SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS REQUIRED
BY THE UNIFORM GUIDANCE**

To the Board of Education
South Lake Schools
St. Clair Shores, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Lake Schools (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 14, 2016, 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 the purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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.


Certified Public Accountants

October 14, 2016

SOUTH LAKE SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass Through Grantor/Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued (Unearned) Revenue June 30, 2015	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Unearned) Revenue June 30, 2016	Expenditures Passed to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE -								
Passed through Michigan Department of Education:								
Child Nutrition Cluster -								
School Breakfast Program -								
151970 2014-15	10.553	\$ 162,675	\$ -	\$ 148,096	\$ 14,579	\$ 14,579	\$ -	\$ -
161970 2015-16		156,704	-	-	156,704	156,704	-	-
		<u>319,379</u>	<u>-</u>	<u>148,096</u>	<u>171,283</u>	<u>171,283</u>	<u>-</u>	<u>-</u>
National School Lunch Program -								
151960 2014-15	10.555	429,377	-	387,390	41,987	41,987	-	-
161960 2015-16		409,710	-	-	409,710	409,710	-	-
USDA Commodities (Non-Cash Assistance) -								
Entitlement								
		47,898	-	-	47,898	47,898	-	-
		<u>886,985</u>	<u>-</u>	<u>387,390</u>	<u>499,595</u>	<u>499,595</u>	<u>-</u>	<u>-</u>
Summer Food Service Program for Children -								
150900 2014-15	10.559	6,903	-	-	6,903	6,903	-	-
151900 2014-15		710	-	-	710	710	-	-
		<u>7,613</u>	<u>-</u>	<u>-</u>	<u>7,613</u>	<u>7,613</u>	<u>-</u>	<u>-</u>
Total Child Nutrition Cluster		<u>1,213,977</u>	<u>-</u>	<u>535,486</u>	<u>678,491</u>	<u>678,491</u>	<u>-</u>	<u>-</u>
Child and Adult Care Food Program -								
151920 2014-15	10.558	8,783	365	7,966	817	1,182	-	-
152010 2014-15		557	26	511	46	72	-	-
161920 2015-16		8,961	-	-	8,961	8,961	-	-
162010 2015-16		469	-	-	469	469	-	-
		<u>18,770</u>	<u>391</u>	<u>8,477</u>	<u>10,293</u>	<u>10,684</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Agriculture		<u>1,232,747</u>	<u>391</u>	<u>543,963</u>	<u>688,784</u>	<u>689,175</u>	<u>-</u>	<u>-</u>

The accompanying notes are an integral part of this schedule.

SOUTH LAKE SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass Through Grantor/Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued (Unearned) Revenue June 30, 2015	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Unearned) Revenue June 30, 2016	Expenditures Passed to Subrecipients
U.S. DEPARTMENT OF LABOR -								
Passed Through Macomb/St. Clair Workforce Development Board:								
WIA/WIOA Cluster -								
WIA/WIOA Youth Activities-								
Youth Regular 2015 Continuum								
	17.259	\$ 33,997	\$ 1,684	\$ 29,521	\$ -	\$ 1,684	\$ -	\$ -
Total U.S. Department of Labor		<u>33,997</u>	<u>1,684</u>	<u>29,521</u>	<u>-</u>	<u>1,684</u>	<u>-</u>	<u>-</u>
U.S. DEPARTMENT OF EDUCATION -								
Passed Through Michigan Department of Education:								
Title I, Grants to Local Educational Agencies -								
Title I, Part A -								
151530 1415								
161530 1516								
		414,584	19,233	315,528	21,365	40,598	-	-
		444,483	-	-	334,494	333,453	1,041	-
		<u>859,067</u>	<u>19,233</u>	<u>315,528</u>	<u>355,859</u>	<u>374,051</u>	<u>1,041</u>	<u>-</u>
Improving Teacher Quality, State Grants								
Title II, Part A -								
160520-1516								
	84.367	155,978	-	-	99,869	97,535	2,334	-
Total Passed Through Michigan Department of Education		<u>1,015,045</u>	<u>19,233</u>	<u>315,528</u>	<u>455,728</u>	<u>471,586</u>	<u>3,375</u>	<u>-</u>
Passed Through Macomb Intermediate School District:								
Special Education Cluster (IDEA) -								
Handicapped Preschool and School Program -								
PL 94-142 Flowthrough -								
150450-1415								
160450-1516								
		427,737	88,274	422,207	5,530	93,804	-	-
		406,219	-	-	398,948	332,706	66,242	-
		<u>833,956</u>	<u>88,274</u>	<u>422,207</u>	<u>404,478</u>	<u>426,510</u>	<u>66,242</u>	<u>-</u>
Preschool Grants -								
PL 94-142 Preschool Incentive -								
160460-1516								
	84.173	15,883	-	-	15,883	15,883	-	-
Total Special Education Cluster		<u>849,839</u>	<u>88,274</u>	<u>422,207</u>	<u>420,361</u>	<u>442,393</u>	<u>66,242</u>	<u>-</u>

The accompanying notes are an integral part of this schedule.

SOUTH LAKE SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass Through Grantor/Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued (Unearned) Revenue June 30, 2015	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Unearned) Revenue June 30, 2016	Expenditures Passed to Subrecipients
U.S. DEPARTMENT OF EDUCATION (Cont'd) -								
Passed Through Macomb Intermediate School District (Cont'd):								
Career and Technical Education, Basic Grants to States-	84.048							
Vocational Education - 163520-161216 Program		\$ 18,000	\$ -	\$ -	\$ 18,000	\$ 18,000	\$ -	\$ -
Total Passed Through Macomb Intermediate School District		867,839	88,274	422,207	438,361	460,393	66,242	-
Total U.S. Department of Education		<u>1,882,884</u>	<u>107,507</u>	<u>737,735</u>	<u>894,089</u>	<u>931,979</u>	<u>69,617</u>	<u>-</u>
TOTAL FEDERAL AWARDS		<u>\$ 3,149,628</u>	<u>\$ 109,582</u>	<u>\$ 1,311,219</u>	<u>\$ 1,582,873</u>	<u>\$ 1,622,838</u>	<u>\$ 69,617</u>	<u>\$ -</u>

The accompanying notes are an integral part of this schedule.

SOUTH LAKE SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of South Lake Schools (the "District") for the year ended June 30, 2016. Expenditures reported on the Schedule are reported on the same basis of accounting, the modified accrual basis, as the financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). In addition, expenditures reported on the Schedule are recognized following the cost principles contained in Subpart E of the Uniform Guidance or OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The cost principles followed for expenditures presented on this Schedule are based on whether incremental funding of existing federal awards was provided after December 26, 2014 and for all new federal awards expended after this date (effective date of the Uniform Guidance). For other awards not meeting this criteria, OMB Circular A-87 is applicable. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Revenue has been accrued at June 30, 2016, to match allowable expenditures incurred during the year for each program. Grant funds received in advance that are in excess of incurred costs have been reflected as unearned revenue. All year-end accruals are considered to have met the modified accrual basis revenue recognition criteria of measurability and availability. USDA commodities have been recognized as revenue when received by the District.

For purposes of charging indirect costs to federal awards, the District has not elected to use the 10% de minimus cost rate.

The District administers a number of federal grants, which are paid under reimbursement arrangements in which the District bills the Michigan Department of Education (MDE) or other pass-through grantors for allowable costs incurred. The programs identified on the Schedule are reported in the General and Special Revenue Funds of the District.

Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

NOTE 2 - NONCASH ASSISTANCE:

The value of the noncash assistance (commodities) received was determined in accordance with the provisions of the Uniform Guidance. The Recipient Entitlement Balance Report is utilized to determine the value of commodities distributed to the District.

NOTE 3 - CASH MANAGEMENT SYSTEM AND GRANT AUDITOR REPORT UTILIZATION:

The District utilizes the MDE Cash Management System (CMS) and Grant Auditor Report (GAR) in preparing the Schedule.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS***

To the Board of Education
South Lake Schools
St. Clair Shores, Michigan

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 South Lake Schools (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as 2016-001.

We noted certain other matters that we reported to management of the District in a separate letter dated October 14, 2016.

District Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. South Lake Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.


Certified Public Accountants

October 14, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Education
South Lake Schools
St. Clair Shores, Michigan

Report on Compliance for Each Major Federal Program

We have audited South Lake Schools' (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2016. The District's major federal program is 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 the 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 the District's major federal program 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* (CFR) 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 the 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 the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the 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 the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 South Lake School'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.


Certified Public Accountants

October 14, 2016

SOUTH LAKE SCHOOLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Section I - Summary Of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unmodified

Internal controls over financial reporting:
Material weakness(es) identified? _____ yes x no
Significant deficiency(ies) identified not
considered to be material weaknesses? _____ yes x none reported

Noncompliance material to financial
statements noted? x yes _____ no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? _____ yes x no
Significant deficiency(ies) identified not
considered to be material weaknesses? _____ yes x none reported

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

Any audit findings disclosed that are required to
be reported in accordance with 2 CFR Section
200.516(a) of the Uniform Guidance? _____ yes x no

Identification of Major Program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
CFDA #84.010	Title I, Grants to Local Educational Agencies
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u> x </u> yes _____ no

Section II - Financial Statement Findings:

2016-001 - (Repeat Comment - Prior Year Finding 2015-001)

Type: Material noncompliance with laws and regulations

Criteria: Section 103 of the State of Michigan School Aid Act and the State of Michigan Uniform Budgeting and Accounting Act prohibits a school district to adopt or operate under a deficit budget and a district shall not incur an operating deficit in a fund during the school year.

Condition: The District's original budget estimated a General Fund fund balance deficit of \$2,095,032 with the final amended budget estimating a deficit of \$1,331,153. The actual deficit for June 30, 2016 amounted to \$1,296,368. The District has filed and is operating under a deficit reduction plan which was originally approved by the State Treasury in September 2013.

Cause: Current operating revenues and carryover fund balance are not sufficient to cover operating expenditures.

Effect: The District is not operating in accordance with the Michigan State School Aid Act.

Questioned Costs: None

Recommendation: The Board should continue to monitor its budget very closely and adopt a balanced budget as soon as possible.

View of Responsible Official and Planned Corrective Action: Management agrees with the finding. See corrective action plan.

Section III - Federal Award Findings and Questioned Costs:

There were no federal award findings or questioned costs.

Section IV - Prior Years Findings and Questioned Costs:

See summary schedule of prior audit findings.

**SOUTH LAKE SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

Audit finding number: 2015-001

Initial year finding occurred: 2014

Status of finding: The District continues to monitor budget and spending. However, the finding has been repeated in the current year as finding 2016-001.

Revision or deviation from previous corrective action reported: None. The District continues to work closely with MDE to make significant strides in meeting all required milestones in the elimination of the District's deficit.

Reasons for belief finding no longer valid or warrants further action: N/A

Audit finding number: 2015-002

Initial year finding occurred: 2015

Status of finding: The District has cleared this finding. Reported corrective action in the prior year was taken.



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October 14, 2016

District corrective action plan to the findings reported in the Schedule of Findings and Questioned Costs for the year ending June 30, 2016.

Section III – Federal Award Findings and Questioned Costs:

2016-001 Budget Noncompliance with the Michigan State School Aid Act

District Response:

- As noted in the Summary Schedule of Prior Audit Findings, the District continues to monitor their budget and spending. The District continues to submit the required monthly reports to the State to show progress on the Deficit Elimination Plan that was approved by the Michigan Department of Education on September 4, 2014. The District continues to work closely with the Michigan Department of Education to make significant strides in meeting all required milestones in the elimination of the District’s deficit.

We appreciate the opportunity to submit our corrective action plan to the findings reported in the Schedule of Findings and Questioned Costs for the year ending June 30, 2016. We believe the implementation of the aforementioned comments and suggestions and our improvements or changes in procedures will not only correct the findings, but prevent them from reoccurring in the future.

Sincerely,

Frank Thomas
 Director of Business & H.R.

Theodore VonHiltmayer
 Superintendent
 586-435-1602

Frank Thomas
 Business/Human Resources
 586-435-1660

John Thero
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 586-435-1640

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