

**Dearborn Heights School District No. 7
Dearborn Heights, Michigan**

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2016

Dearborn Heights School District No. 7

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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
Dearborn Heights School District No. 7
Dearborn Heights, Michigan

Report on Compliance for Each Major Federal Program

We have audited Dearborn Heights School District No. 7's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 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 each major federal program. However, our audit does not provide a legal determination on District's compliance.

Opinion on Each Major Federal Program

In our opinion, Dearborn Heights School District No. 7 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, 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 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 Dearborn Heights School District No. 7's internal control over compliance.

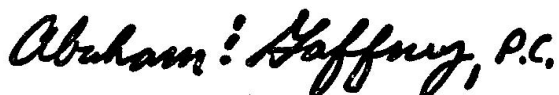
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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 the 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of 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 19, 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 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 financial statements as a whole.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 19, 2016

Dearborn Heights School District No. 7

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

Federal Grantor / Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	(Memo Only) Prior Years' Expenditures	Balance July 1, 2015 Accrued or (Unearned) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2016 Accrued or (Unearned) Revenue
U.S. DEPARTMENT OF AGRICULTURE								
Passed Through the Michigan Department of Education								
Child Nutrition Cluster								
School Breakfast Program	10.553	(d)(e)						
2015-16		161970	\$ 255,056	\$ -	\$ -	\$ 255,056	\$ 255,056	\$ -0-
2014-15		151970	251,977	226,801	-	25,176	25,176	-0-
			507,033	226,801	-0-	280,232	280,232	-0-
National School Lunch Program	10.555	(d)(e)						
2015-16 Noncash assistance - Entitlement commodities (a)		82040	67,274	-	-	67,274	67,274 (c)	-0-
2015-16		161960, 161980	679,508	-	-	679,508	679,508	-0-
2014-15		151960, 151980	678,169	611,657	-	66,512	66,512	-0-
			1,424,951	611,657	-0-	813,294	813,294	-0-
Summer Food Service Program	10.559	(d)(e)						
2015-16		150900, 151900	19,046	-	-	16,392	19,046	2,654
Total Child Nutrition Cluster			1,951,030	838,458	-0-	1,109,918	1,112,572	2,654
Child and Adult CFP Meals	10.558							
2014-15		151920	2,334	2,334	50	50	-	-0-
2015-16		161920	4,021	-	-	4,021	4,021	-0-
			6,355	2,334	50	4,071	4,021	-0-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			1,957,385	840,792	50	1,113,989	1,116,593	2,654
U.S. DEPARTMENT OF EDUCATION								
Passed Through the Michigan Department of Education								
Title I, Part A								
2015-16 Regular - Part A	84.010	1615301516	485,495	-	-	300,000	476,729	176,729
2014-15 Regular - Part A		1515301415	548,263	500,436	22,701	70,528	47,827	-0-
			1,033,758	500,436	22,701	370,528	524,556	176,729
Title II, Part A								
2015-16	84.367	1605201516	92,167	-	-	40,000	57,114	17,114
2014-15		1505201415	126,172	106,438	51,380	55,754	4,374	-0-
			218,339	106,438	51,380	95,754	61,488	17,114

Dearborn Heights School District No. 7

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2016

Federal Grantor / Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	(Memo Only) Prior Years' Expenditures	Balance July 1, 2015 Accrued or (Unearned) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2016 Accrued or (Unearned) Revenue
U.S. DEPARTMENT OF EDUCATION - CONTINUED								
Passed Through the Michigan Department of Education and Wayne RESA								
IDEA	84.027 ^(f)							
2015-16		1604501516	\$ 500,775	\$ -	\$ -	\$ 386,445	\$ 500,775	\$ 114,330
2014-15		1504501415	459,198	459,198	128,715	128,715	-	-0-
			959,973	459,198	128,715	515,160	500,775	114,330
Perkins III	84.048							
2015-16		N/A	87,705	-	-	66,483	87,705	21,222
2014-15		N/A	86,272	86,272	60,222	60,222	-	-0-
			173,977	86,272	60,222	126,705	87,705	21,222
Preschool Incentive	84.173 ^(f)							
2015-16		1604601516	20,672	-	-	16,238	20,672	4,434
TOTAL U.S. DEPARTMENT OF EDUCATION			2,406,719	1,152,344	263,018	1,124,385	1,195,196	333,829
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES								
Passed Through the Michigan Department of Human Services and Wayne RESA								
Medical Assistance Program								
Title XIX								
Outreach	93.778							
2015-16		82040	7,321	-	-	7,321	7,321	-0-
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 4,371,425	\$ 1,993,136	\$ 263,068	\$ 2,245,695 ^(g)	\$ 2,319,110 ^(b)	\$ 336,483

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Dearborn Heights School District No. 7, and is presented on the modified accrual basis of accounting. 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). The District has elected not to use the 10 percent de minimus indirect rate allowed under the Uniform Guidance.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) through (g) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) The current year revenues for the Food Donation Program are determined based on the 2002/03 guidance provided previously from the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of condition commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) Denotes programs tested as "major program."
- (e) Denotes programs required to be clustered by the United States Department of Agriculture.
- (f) Denotes programs required to be clustered by the United States Department of Education.
- (g) The amounts reported in this schedule as cash received are in agreement with the "paid during date range" amounts in the Grant Auditor Report.

NOTE C: SUBRECIPIENTS

No Federal Awards were passed through by the District to any subrecipients during the year.

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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 *GOVERNMENT AUDITING STANDARDS*

To the Board of Education
Dearborn Heights School District No. 7
Dearborn Heights, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the 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 Dearborn Heights School District No. 7 (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 19, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 preceding paragraph 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

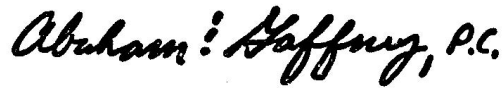
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2016-001.

Dearborn Heights School District No. 7's Responses to Finding

Dearborn Heights School District No. 7's response to the finding identified in our audit is described in the accompanying corrective action plan. The District's 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 19, 2016

Dearborn Heights School District No. 7
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified? _____ 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? _____ 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 200.516(a)? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555, 10.559	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? _____ Yes X No

Section II - Financial Statement Findings

2016-001 FUND DEFICIT

Condition: As indicated in Note K of the notes to the financial statements, the General Fund ended the year with a fund deficit. A similar issue was noted and reported in our prior year audit comments.

Criteria: Michigan Public Act 275 of 1980 provides that the District shall not end its fiscal year with a deficit condition which is a situation where, at the end of the fiscal year, total expenditures, including an accrued deficit, exceeded total revenues for that fiscal year, including any surplus carried forward.

Cause: Reduced Federal and State funding levels placed the District in a position where deficit spending was necessary to preserve educational programs.

Dearborn Heights School District No. 7

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2016

Section II - Financial Statement Findings - continued

2016-001 FUND DEFICIT - CONTINUED

Effect: The District is not in compliance with Public Act 275 of 1980. An updated deficit elimination plan will need to be filed with the Michigan Department of Education.

Recommendation: We recommend the District utilize budgetary controls to limit expenditures and/or transfer funds as needed to alleviate deficits.

Section III - Federal Award Findings

None noted.



Dearborn Heights School District No. 7

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John W. Fazer, Superintendent of Schools
Daniel Scott, Assistant Superintendent
Susan Mitchell, Director of Special Education

CORRECTIVE ACTION PLAN

Government Auditing Standards Finding 2016-001 - FUND DEFICIT

Responsible Parties - Brandy Nusser, Business Manager

The District has filed and received approval of a deficit elimination plan from the State of Michigan. The General Fund has reduced the deficit for 15/16 and is expected to be out of deficit by the end of 16/17. An updated deficit elimination plan is expected to be filed with the State of Michigan by the end of the calendar year.

Doing What's Best for Kids

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2016

FINDINGS/NONCOMPLIANCE

Control Deficiencies and Material Weaknesses Related to Internal Controls over Financial Statements.

2015-001 TONER CARTRIDGES

Condition: During the 2014-2015 school year, a large number of toner cartridges were purchased and were subsequently stolen from the building in which they were being stored. The cartridges were purchased in a volume that appeared to be very unusual and in excess of current needs. Additionally, the cartridges were stored at a location where there were no security cameras, which are commonly used at other buildings owned by the District. The local police and Michigan Department of Education were notified of this issue. No information is available on the whereabouts of the cartridges. The District made a claim for the amount lost (\$75,531) on its insurance policy.

Current status: The loss was covered by insurance subsequent to the current fiscal year. The District also added additional controls which included the installation of security cameras and the discontinuance of automatic shipments for supplies. Supplies are only shipped when needed and expenditures are monitored and compared to the budget on a regular basis. We consider this issue resolved.

2015-002 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the adjustment of accounts payable, accrued liabilities, and prepaids were proposed by the auditors.

Current status: Material misstatements were not noted during this year's audit. We consider this issue resolved.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

2015-003 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for certain activities in the General and Cafeteria Funds.

Current status: This issue is evaluated separately each year. We consider this issue resolved.

2015-004 FUND DEFICITS

Condition: As of June 30, 2015, the General, and Cafeteria Funds reported fund deficits.

Current status: This issue is evaluated separately each year. The General Fund is reporting a deficit in the current year. We do not consider this issue resolved.

2015-005 EVIDENCE OF REVIEW FOR ATHLETIC RECEIPTS

Condition: During our audit procedures for testing athletic receipts, we noted that the gate logs were not being reviewed and signed by a second employee after verifying the cash collected.

Current status: During our audit procedures for testing athletic receipts, we noted that the gate logs were reviewed and signed by a second employee after verifying the cash collected. We consider this issue resolved.

Dearborn Heights School District No. 7

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED

Year Ended June 30, 2016

FINDINGS/NONCOMPLIANCE - CONTINUED

Findings Related to Compliance with Requirements Applicable to the Financial Statements - Continued.

2015-006 BANK RECONCILIATIONS

Condition: During our audit it was noted that certain bank reconciliations had un-posted adjustments as reconciling items, some of which go back several years. The amount of the adjustments was not material to the financial statements.

Current status: During our review of bank reconciliations, we noted that the majority of the un-posted adjustments had been reconciled. We consider this issue resolved.

2015-007 DEBIT CARD TRANSACTION SUPPORT

Condition: During our debit card testing, we noted that three transactions did not have proper support (total of \$490.74), twenty-two transactions had no support (total of \$3,493.89), and two transactions were for items that were not sent to the District or any of its buildings (total of \$40.55).

Current status: The District changed and updated its procedures during the 2015-16 school year. We consider this issue to be resolved.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control over Compliance in Accordance with OMB Circular A-133.

No prior audit findings noted.