

**Hillsdale County Intermediate School District
Hillsdale, Michigan**

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

June 30, 2018

Hillsdale County Intermediate School District

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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
Hillsdale County Intermediate School District
Hillsdale, Michigan

Report on Compliance for Each Major Federal Program

We have audited Hillsdale County Intermediate School District'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, 2018. 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 applicable to its federal programs.

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 of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Hillsdale County Intermediate 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, 2018.

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 the 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.

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, 2018, 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, 2018, 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.

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.

Stevens Kirinovic & Tucker, P.C.

STEVENS, KIRINOVIC & TUCKER, P.C.
Certified Public Accountants

October 19, 2018

Hillsdale County Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Pas-Through Grantor's Number	Program or Award Amount	(Memo Only) Prior Years' Expenditures	Subrecipient Payments	Balance July 1, 2017 Accrued or (Unearned) Revenue	Cash Receipts/ In-Kind Payments	Current Year Expenditures	Balance June 30, 2018 Accrued or (Unearned) Revenue
U.S. DEPARTMENT OF AGRICULTURE									
Passed through Michigan Department of Education									
Nutrition Cluster									
National Breakfast Program ^(d)	10.553								
2017-2018 Program - cash assistance		181970	\$ 6,361	\$ -	\$ -	\$ -	\$ 6,195	\$ 6,361	\$ 166
2016-2017 Program - cash assistance		171970	4,994	3,628	-	332	1,697	1,365	-0-
Noncash assistance - entitlement commodities (7/1/17 - 6/30/18) ^(a)		30000	404	-	404	-	404	404	-0-
			11,759	3,628	404	332	8,296	8,130	166
National School Lunch Program ^(d)	10.555								
Sec. 4 - All Lunches									
2017-2018 Program - cash assistance		181960	8,067	-	-	-	7,723	8,067	344
2016-2017 Program - cash assistance		171960	10,081	7,883	-	756	2,953	2,197	-0-
Noncash assistance - entitlement commodities (7/1/17 - 6/30/18) ^(a)		30000	346	-	346	-	346	346	-0-
			18,494	7,883	346	756	11,022	10,610	344
TOTAL U.S. DEPARTMENT OF AGRICULTURE			30,253	11,511	750	1,088	19,318	18,740	510
U.S. DEPARTMENT OF EDUCATION									
Passed through Michigan Department of Education									
Title I Grant to Local Educational Agencies	84.010A								
2018 (Title I Regional Assistance Grant)		181570	112,083	-	-	-	42,340	52,445	10,105
2017 (Title I Regional Assistance Grant)		171570	108,500	58,092	-	5,443	25,143	19,700	-0-
Total Title I Part A			220,583	58,092	-0-	5,443	67,483	72,145	10,105
Vocational Education Basic Grants to States									
CTE Perkins Grant	84.048A								
2017-2018		183520/181222	583,590	-	496,052	-	474,443	583,590	109,147
2016-2017		173520/171222	668,546	668,546	-	162,093	162,093	-	-0-
			1,252,136	668,546	496,052	162,093	636,536	583,590	109,147
Special Education Cluster									
Handicapped - Preschool and School Children ^{(c)(e)}	84.027A								
PL 94-142 Flow through									
2017-2018 Regular		180450-1718	1,509,134	-	-	-	398,397	513,241	114,844
2016-2017 Regular		170450-1617	1,516,111	743,848	-	140,049	639,734	772,263	272,578
State Initiated/Competitive									
2017-2018 EOSD		180480-EOSD	45,000	-	-	-	36,061	45,000	8,939
2016-2017 EOSD		170480-1617	45,000	45,000	-	16,674	16,674	-	-0-
State Initiated Departments									
2017-2018 TC		180491-TC	50,000	-	-	-	33,211	50,000	16,789
2016-2017 TC		170490-1617	50,000	50,000	-	458	458	-	-0-
			3,215,245	838,848	-0-	157,181	1,124,535	1,380,504	413,150

Hillsdale County Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Pas-Through Grantor's Number	Program or Award Amount	(Memo Only) Prior Years' Expenditures	Subrecipient Payments	Balance July 1, 2017 Accrued or (Unearned) Revenue	Cash Receipts/ In-Kind Payments	Current Year Expenditures	Balance June 30, 2018 Accrued or (Unearned) Revenue
U.S. DEPARTMENT OF EDUCATION - CONTINUED									
Passed through Michigan Department of Education - continued									
Special Education Cluster - continued									
Preschool Grant ^{(c)(e)}									
Special Ed Preschool	84.173A								
2017-2018 Regular		180460-1718	\$ 59,198	\$ -	\$ -	\$ -	\$ 49,982	\$ 56,836	\$ 6,854
2016-2017 Regular		170460-1617	59,349	59,349	-	10,343	10,343	-	-0-
			<u>118,547</u>	<u>59,349</u>	<u>-0-</u>	<u>10,343</u>	<u>60,325</u>	<u>56,836</u>	<u>6,854</u>
Total Special Education Cluster passed through the Michigan Department of Education			3,333,792	898,197	-0-	167,524	1,184,860	1,437,340	420,004
Infant & Toddler Formula GT									
2017-2018	84.181A	181340-1718	93,701	-	-	-	27,379	46,841	19,462
2016-2017		171340-1617	<u>76,676</u>	<u>57,371</u>	<u>-</u>	<u>11,188</u>	<u>11,188</u>	<u>-</u>	<u>-0-</u>
Total			170,377	57,371	-0-	11,188	38,567	46,841	19,462
Office of Great Start/Early Childhood Development & Family Education									
RTT - Trusted Advisors	84.412A								
2017-2018		144740-1718	55,693	-	-	-	-	14,689	14,689
2016-2017		144720-1617	<u>19,430</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,430</u>	<u>19,430</u>	<u>-0-</u>
			<u>75,123</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>19,430</u>	<u>34,119</u>	<u>14,689</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			5,052,011	1,682,206	496,052	346,248	1,946,876	2,174,035	573,407
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES									
Passed Through Michigan Department of Community Health									
Administrative Outreach	93.778	N/A	<u>16,321</u>	<u>-</u>	<u>7,793</u>	<u>-</u>	<u>10,783</u>	<u>16,321</u>	<u>5,538</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 5,098,585</u>	<u>\$ 1,693,717</u>	<u>\$ 504,595</u>	<u>\$ 347,336</u>	<u>\$ 1,976,977</u> (g)	<u>\$ 2,209,096</u> (b) (f)	<u>\$ 579,455</u>

Hillsdale County Intermediate School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Hillsdale County Intermediate School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the *Uniform Guidance*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The District has elected to not 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) - (g) represent explanations that cross reference to amounts and headings on the Schedule of Expenditures of Federal Awards.

- (a) The current year expenditures 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. The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (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) Denotes programs tested as "major program".
- (d) Denotes programs required to be clustered by the United States Department of Agriculture.
- (e) Denotes programs required to be clustered by the United States Department of Education.
- (f) Agrees to total revenues from Federal sources per financial statements.
- (g) The amounts reported in this schedule as cash receipts are in agreement with the amounts reported as "paid during the date range" in the Grant Auditor Report for the grants directly awarded from the Michigan Department of Education.

Hillsdale County Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PROVIDED TO SUBRECIPIENTS

Year Ended June 30, 2018

Federal Grantor / Pass Through Grantor / Program Title and Subrecipient	CFDA Number	Award/ Contract Amount	Current Year Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through Michigan Department of Education - USDA Commodities - National Breakfast Program Hillsdale Community Schools	10.553	\$ 404	\$ 404
USDA Commodities - National Lunch Program Hillsdale Community Schools	10.555	346	346
TOTAL U.S. DEPARTMENT OF AGRICULTURE		750	750
U.S. DEPARTMENT OF EDUCATION			
Passed through Michigan Department of Education - <i>Carl D. Perkins - Basic Grants to the States</i> Jackson Intermediate School Lenawee Intermediate School	84.048	303,467 192,585	303,467 192,585
		496,052	496,052
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through Michigan Department of Community Health - Administrative Outreach -	93.778		
Camden - Frontier Schools		773	773
Hillsdale Community Schools		2,018	2,018
Jonesville Schools		749	749
Litchfield Schools		870	870
North Adams - Jerome Schools		328	328
Pittsford Schools		921	921
Reading Schools		1,652	1,652
Waldron Schools		482	482
		7,793	7,793
Total		\$ 504,595	\$ 504,595



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
Hillsdale County Intermediate School District
Hillsdale, 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 Hillsdale County Intermediate School District (the District) as of and for the year ended June 30, 2018, 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, 2018.

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 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 the 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 which is described in the accompanying schedule of findings and questioned costs as 2018-001.

District's Response to Finding

The District'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.

Stevens Kirinovic & Tucker, P.C.

STEVENS, KIRINOVIC & TUCKER, P.C.
Certified Public Accountants

October 19, 2018

Hillsdale County Intermediate School District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

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	<u> X </u>	No
Significant deficiency(ies) identified?	_____	Yes	<u> X </u>	None reported
Noncompliance material to financial statements noted?	<u> X </u>	Yes	_____	No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	_____	Yes	<u> X </u>	No
Significant deficiency(ies) identified?	_____	Yes	<u> X </u>	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
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

Section II - Financial Statement Findings

2018-001 UNFAVORABLE BUDGET VARIANCES

Condition: As noted in the Notes to Required Supplementary Information, there were some expenditure functions in the General Education Fund, Special Education Fund, and Vocational Education Fund where actual expenditures exceeded the amounts appropriated. While a majority of these overages did not appear to be material to the financial statements as a whole, they were still noted budget overages that professional standards require us to report on.

Criteria: The State of Michigan's Uniform Budgeting and Accounting Act requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Hillsdale County Intermediate School District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
Year Ended June 30, 2018

Section II - Financial Statement Findings - Continued

2018-001 UNFAVORABLE BUDGET VARIANCES - CONTINUED

Cause: The District did not sufficiently amend the budget when it became apparent spending was going to exceed the amounts appropriated in the over budget areas.

Effect: The District had some instances of budgetary noncompliance relative to State law in the areas where the overages occurred.

Recommendation: We recommend the District continue to monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Section III - Federal Award Findings

None noted.

HILLSDALE COUNTY INTERMEDIATE SCHOOL DISTRICT

310 West Bacon Street – Hillsdale, Michigan 49242
(517) 437-0990 – FAX (517) 439-4388

Superintendent
Ronna Steel

Board of Education
Bonnie Leininger, President
Laura Nye, Vice President
Laurie Brandes, Secretary
Scott Gutowski, Treasurer
Val White, Trustee

CORRECTIVE ACTION PLAN

2018-001 UNFAVORABLE BUDGET VARIANCES

District personnel responsible for resolution: Ronna Steel, Superintendent and Belinda Shaffer, Chief Financial Officer

Corrective action plan response: The District makes every attempt to create a budget that is as accurate as possible, and allows the Board and employees to have the best possible information available when making decisions. The District attempts to adopt a realistic and reliable budget for anticipated revenues and expenditures but sometimes unanticipated events occur that are unable to be planned or budgeted for. The total expenditures in the General Fund, Special Education Fund, and Vocational Ed Fund did not exceed budgeted amounts. The District will make a continued effort in its attempt to only expend within the budget and will try to look more at the individual function areas rather than the total.

Anticipated completion date: June 30, 2019

Hillsdale County Intermediate School District
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2018

FINDINGS/NONCOMPLIANCE

Significant Deficiencies and Material Weaknesses Related to Internal Controls Over the Financial Statements.

No prior audit findings noted.

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

2017-001 UNFAVORABLE BUDGET VARIANCES

Condition: As noted in the Notes to Required Supplementary Information, there were some expenditure functions in the General Education Fund, Special Education Fund, and Vocational Education Fund where actual expenditures exceeded the amounts appropriated. While a majority of these overages did not appear to be material to the financial statements as a whole, they were still noted budget overages that professional standards require us to report on.

Resolution: This issue is evaluated each year and in the current year we found expenditures exceeded appropriations in various areas within the District's funds and have commented on that at 2018-001. We consider this issue resolved only as it pertains to the fiscal year ended June 30, 2017.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with the Uniform Guidance.

No prior audit findings noted.