

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

MILAN COMMUNITY SCHOOLS  
RIPLEY COUNTY, INDIANA

July 1, 2010 to June 30, 2012



**FILED**  
02/18/2013



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Independent Auditor's Report .....	3-4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statement Performed in Accordance With Government Auditing Standards .....	5-6
Financial Statement: Statement of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances – Regulatory Basis .....	9
Notes to Financial Statement .....	10-15
Supplementary Information - Unaudited: Combining Schedules of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances –Regulatory Basis .....	18-25
Audit Results and Comments:	
Internal Controls - Lack of Segregation of Duties.....	26
Honors Diploma - Overpayment Received .....	26
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 .....	28-29
Schedule of Expenditures of Federal Awards .....	32
Notes to Schedule of Expenditures of Federal Awards.....	33
Schedule of Findings and Questioned Costs .....	34-35
Auditee Prepared Schedule:	
Corrective Action Plan.....	36
Exit Conference.....	37

### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Gretchen Berger	07-01-10 to 06-30-13
Superintendent of Schools	R. Stephen Gookins Dr. Thomas G. Reale	07-01-01 to 12-31-10 01-01-11 to 06-30-13
President of the School Board	Doug Norman Timothy W. Tuttle	07-01-10 to 06-30-11 07-01-11 to 12-31-13



**STATE OF INDIANA**  
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE MILAN COMMUNITY SCHOOLS, RIPLEY COUNTY, INDIANA

We have audited the accompanying financial statement of the Milan Community Schools (School Corporation), for the period of July 1, 2010 to June 30, 2012. This financial statement is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the School Corporation prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. The basis of accounting noted above is a different basis than that used in the prior period.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position and results of operations of the School Corporation for the period of July 1, 2010 to June 30, 2012.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the School Corporation for the period of July 1, 2010 to June 30, 2012, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated January 17, 2013, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting

INDEPENDENT AUDITOR'S REPORT  
(Continued)

and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the School Corporation's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other reports used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, 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 statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the School Corporation's financial statement. The Combining Schedules of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances – Regulatory Basis, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

January 17, 2013



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE MILAN COMMUNITY SCHOOLS, RIPLEY COUNTY, INDIANA

We have audited the financial statement of the Milan Community Schools (School Corporation), for the period of July 1, 2010 to June 30, 2012, and have issued our report thereon dated January 17, 2013. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

Management of the School Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 to be material weaknesses.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Corporation's financial statement is free of 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.

The School Corporation's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, School Board, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 17, 2013

## FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the School Corporation. The financial statement and notes are presented as intended by the School Corporation.

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MILAN COMMUNITY SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For the Years Ended June 30, 2011 and 2012

	Cash and Investments 07-01-10		Other Financing Sources (Uses)		Cash and Investments 06-30-11		Other Financing Sources (Uses)		Cash and Investments 06-30-12	
	Receipts	Disbursements			Receipts	Disbursements			Receipts	Disbursements
General	\$ 191,724	\$ 7,957,596	\$ 7,352,517	\$ (270,500)	\$ 526,303	\$ 7,872,003	\$ 7,490,306	\$ -	\$ 908,000	
Debt Service	473,585	774,329	764,047	-	483,867	890,157	827,252	(5,580)	541,192	
Capital Projects	362,404	837,922	903,143	-	297,183	887,504	1,017,043	-	167,644	
School Transportation	568,601	1,017,669	924,532	(73,457)	588,281	843,198	766,547	(9,068)	655,864	
School Bus Replacement	161,954	350,379	477,219	(35,000)	114	314,792	303,215	(4,224)	7,467	
Rainy Day	99,500	5,580	35,000	420,000	490,080	-	35,000	-	455,080	
School Lunch	294,205	591,885	502,290	-	383,800	589,265	546,270	(16,207)	410,588	
Textbook Rental	141,481	134,087	50,060	-	225,508	132,998	197,345	-	161,161	
Levy Excess	-	11,543	-	(11,543)	-	-	-	-	-	
Educational License Plates	3,056	506	-	-	3,562	169	-	-	3,731	
Alternative Education	147,861	94,359	185,362	-	56,858	136,414	100,465	-	92,807	
Miscellaneous Programs	(1,699)	52,656	59,950	-	(8,993)	81,930	81,083	-	(8,146)	
RCCF- PLTW	2,797	11,213	13,828	-	182	20,358	24,871	-	(4,331)	
RCCF-MES	-	-	-	-	-	5,000	5,000	-	-	
Career Center- PLTW	-	-	300	-	(300)	15,000	14,700	-	-	
Rising Sun- Grant	4,216	-	4,216	-	-	-	-	-	-	
College Success Coalition	-	-	-	-	-	1,000	-	-	1,000	
Technology Loan	-	25,780	25,780	-	-	-	-	-	-	
Non-English Speaking Programs P.L. 273-1999	309	-	-	-	309	-	-	-	309	
School Technology	-	-	-	-	-	24,700	24,700	-	-	
Construction, Remodeling, and Equipping Buildings	(3,390)	177,977	186,346	-	(11,759)	87,389	86,747	-	(11,117)	
Rising Sun H1N1	7,481	-	-	-	7,481	-	-	-	7,481	
Rising Sun- PLATO	-	20,000	20,000	-	-	-	-	-	-	
Title I	15,525	81,176	131,783	-	(35,082)	182,941	148,367	-	(508)	
P.LInnovative Education Program										
Strategies Title V (Part A)	2,723	-	2,723	-	-	-	-	-	-	
Drug Free Schools	-	4,058	3,184	-	874	-	874	-	-	
Improving Teaching Quality, No Child Left, Title II, Part A	-	42,445	42,445	-	-	36,433	36,433	-	-	
Title I - Grants to LEAs	11,294	10,322	36,911	-	(15,295)	15,295	-	-	-	
Special Education - Part B	(2,988)	34,533	35,505	-	(3,960)	3,833	(127)	-	-	
Education Jobs	-	-	-	-	-	200,027	182,371	-	17,656	
Payroll	3,874	1,795,493	1,779,807	-	19,560	1,863,727	1,829,552	-	53,735	
<b>Totals</b>	<b>\$ 2,484,513</b>	<b>\$ 14,031,508</b>	<b>\$ 13,536,948</b>	<b>\$ 29,500</b>	<b>\$ 3,008,573</b>	<b>\$ 14,204,133</b>	<b>\$ 13,718,014</b>	<b>\$ (35,079)</b>	<b>\$ 3,459,613</b>	

The notes to the financial statement are an integral part of this statement.

MILAN COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENT

**Note 1. Summary of Significant Accounting Policies**

*A. Reporting Entity*

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The accompanying financial statement presents the financial information for the School Corporation.

*B. Basis of Accounting*

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

*C. Cash and Investments*

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

*D. Receipts*

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts may include the following sources:

Local sources which include taxes, revenue from local governmental units other than school corporations, transfer tuition, transportation fees, investment income, food services, school corporation activities, revenue from community services activities, and other revenue from local sources.

Intermediate sources which include distributions from the County for fees collected for or on behalf of the School Corporation including educational license plate fees, congressional interest, riverboat distributions, and other similar fees.

State sources include distributions from the State of Indiana and are to be used by the School Corporation for various purposes. Included in state sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

MILAN COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENT  
(Continued)

Federal sources include distributions from the federal government and are to be used by the School Corporation for various purposes. Included in federal sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

Temporary loans which include money received from a loan obtained to pay current expenses prior to the receipt of revenue from taxes levied for that purpose. These loans, sometimes designated tax anticipation warrants, must be repaid from the next semiannual distribution of local property taxes levied for such fund.

Other receipts which include amounts received from various sources which include return of petty cash, return of cash change, insurance claims for losses, sale of securities, and other receipts not listed in another category above.

*E. Disbursements*

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements may include the following uses:

Instruction which includes outflows for regular programs, special programs, adult and continuing education programs, summer school programs, enrichment programs, remediation, and payments to other governmental units.

Support services which include outflows for support services related to students, instruction, general administration, and school administration. It also includes outflows for central services, operation and maintenance of plant services, and student transportation.

Noninstructional services which include outflows for food service operations, and community service operations.

Facilities acquisition and construction which includes outflows for the acquisition, development, construction, and improvement of new and existing facilities.

Debt services which include fixed obligations resulting from financial transactions previously entered into by the School Corporation. It includes all expenditures for the reduction of the principal and interest of the School Corporation's general obligation indebtedness.

Nonprogrammed charges which include outflows for donations to foundations, securities purchased, indirect costs, scholarships, funds held temporarily for an authorized recipient, and self-insurance payments.

*F. Other Financing Sources and Uses*

Other financing sources and uses are presented in the aggregate on the face of the financial statement. The aggregate other financing sources and uses may include the following:

Proceeds of long-term debt which includes money received in relation to the issuance of bonds or other long-term debt issues.

Sale of capital assets which includes money received when land, buildings, or equipment owned by the School Corporation is sold.

MILAN COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENT  
(Continued)

Transfers in which includes money received by one fund as a result of transferring money from another fund. The transfers are used for cash flow purposes as provided by various statutory provisions.

Transfers out which includes money paid by one fund to another fund. The transfers are used for cash flow purposes as provided by various statutory provisions.

*G. Fund Accounting*

Separate funds are established, maintained, and reported by the School Corporation. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the School Corporation. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the School Corporation in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

**Note 2. Budgets**

The operating budget is initially prepared and approved at the local level. The fiscal officer of the School Corporation submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied is subject to final approval by the Indiana Department of Local Government Finance.

**Note 3. Property Taxes**

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the School Corporation in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

**Note 4. Deposits and Investments**

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

MILAN COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENT  
(Continued)

State statutes authorize the School Corporation to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

**Note 5. Risk Management**

The School Corporation may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the School Corporation to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

**Note 6. Pension Plans**

*A. Public Employees' Retirement Fund*

*Plan Description*

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System  
1 North Capital Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

*Funding Policy and Annual Pension Cost*

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

MILAN COMMUNITY SCHOOLS  
 NOTES TO FINANCIAL STATEMENT  
 (Continued)

*B. Teacher's Retirement Fund*

*Plan Description*

The Indiana Teacher's Retirement Fund (TRF) is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the TRF plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System  
 1 North Capital Street, Suite 001  
 Indianapolis, IN 46204  
 Ph. (888) 286-3544

*Funding Policy and Annual Pension Cost*

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

**Note 7. Restated Beginning Balance and Fund**

Certain changes have been made to the financial statement to more appropriately reflect the School Corporation's financial activity. The following schedule presents a restated beginning fund balance on the financial statement for the two year period ending June 30, 2012:

Fund	Balance as Reported 06-30-10	Prior Period Adjustment	Balance as Restated 07-01-10
Payroll	\$ -	\$ 3,874	\$ 3,874

The payroll fund was not included in the financial statement for the period ending June 30, 2010. The fund and activity are included in the financial statement for the two year period beginning July 1, 2010.

MILAN COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENT  
(Continued)

**Note 8. Cash Balance Deficits**

The financial statement contain funds with deficits in cash. This is a result of funds being set up for reimbursable grants; a fund being set up to record expenditures and receipts for services rendered; and a fund being set up to record construction expenditures and receipts funded through a line of credit. The reimbursements for expenditures made by the School Corporation for the respective funds were not received by June 30, 2011 or June 30, 2012.

**Note 9. Negative Disbursement**

The financial statement contains a fund with a disbursement which appears as a negative entry. This is the result of a correction of an error from a prior period. The error made in the prior period was corrected by reversing the original entry. Since the original entry and correcting entry were made in separate periods, a negative disbursement was shown in the reporting period.

**Note 10. Holding Corporation**

The School Corporation has entered into a capital lease with the Milan 21<sup>st</sup> Century School Building Corporation. The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the years ending June 30, 2011 and June 30, 2012 were \$58,000 and \$118,500 respectively.

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## SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the School Corporation's Financial Reports can be found on the Indiana Department of Education website: <http://mustang.doe.state.in.us/TRENDS/fin.cfm>. This website is maintained by the Indiana Department of Education. More current financial information is available from the School Corporation Treasurer's office.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Financial Reports of the School Corporation which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the School Corporation. It is presented as intended by the School Corporation.

MILAN COMMUNITY SCHOOLS  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2011

	General	Debt Service	Capital Projects	School Transportation	School Bus Replacement	Rainy Day	School Lunch	Textbook Rental
Cash and investments - beginning	\$ 191,724	\$ 473,585	\$ 362,404	\$ 568,601	\$ 161,954	\$ 99,500	\$ 294,205	\$ 141,481
Receipts:								
Local sources	481,168	774,329	690,475	764,009	350,379	5,580	285,764	96,986
Intermediate sources	112	-	-	-	-	-	-	-
State sources	7,476,316	-	-	-	-	-	7,289	37,101
Federal sources	-	-	-	-	-	-	298,832	-
Temporary loans	-	-	147,447	253,660	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total receipts	<u>7,957,596</u>	<u>774,329</u>	<u>837,922</u>	<u>1,017,669</u>	<u>350,379</u>	<u>5,580</u>	<u>591,885</u>	<u>134,087</u>
Disbursements:								
Current:								
Instruction	5,268,709	-	-	-	-	-	-	-
Support services	2,028,467	-	553,324	667,624	477,219	35,000	-	50,060
Noninstructional services	55,341	-	-	-	-	-	502,290	-
Facilities acquisition and construction	-	-	123,045	-	-	-	-	-
Debt services	-	764,047	226,774	256,908	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	<u>7,352,517</u>	<u>764,047</u>	<u>903,143</u>	<u>924,532</u>	<u>477,219</u>	<u>35,000</u>	<u>502,290</u>	<u>50,060</u>
Excess (deficiency) of receipts over disbursements	<u>605,079</u>	<u>10,282</u>	<u>(65,221)</u>	<u>93,137</u>	<u>(126,840)</u>	<u>(29,420)</u>	<u>89,595</u>	<u>84,027</u>
Other financing sources (uses):								
Transfers in	29,500	-	-	11,543	-	420,000	-	-
Transfers out	(300,000)	-	-	(85,000)	(35,000)	-	-	-
Total other financing sources (uses)	<u>(270,500)</u>	<u>-</u>	<u>-</u>	<u>(73,457)</u>	<u>(35,000)</u>	<u>420,000</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>334,579</u>	<u>10,282</u>	<u>(65,221)</u>	<u>19,680</u>	<u>(161,840)</u>	<u>390,580</u>	<u>89,595</u>	<u>84,027</u>
Cash and investments - ending	<u>\$ 526,303</u>	<u>\$ 483,867</u>	<u>\$ 297,183</u>	<u>\$ 588,281</u>	<u>\$ 114</u>	<u>\$ 490,080</u>	<u>\$ 383,800</u>	<u>\$ 225,508</u>

MILAN COMMUNITY SCHOOLS  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2011  
 (Continued)

	Levy Excess	Educational License Plates	Alternative Education	Miscellaneous Programs	RCCF- PLTW	RCCF- MES	Career Center PLTW	Rising Sun- Grant
Cash and investments - beginning	\$ -	\$ 3,056	\$ 147,861	\$ (1,699)	\$ 2,797	\$ -	\$ -	\$ 4,216
Receipts:								
Local sources	11,543	-	-	52,656	11,213	-	-	-
Intermediate sources	-	506	-	-	-	-	-	-
State sources	-	-	94,359	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total receipts	<u>11,543</u>	<u>506</u>	<u>94,359</u>	<u>52,656</u>	<u>11,213</u>	<u>-</u>	<u>-</u>	<u>-</u>
Disbursements:								
Current:								
Instruction	-	-	180,862	-	13,450	-	300	-
Support services	-	-	-	59,950	378	-	-	4,216
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	4,500	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	<u>-</u>	<u>-</u>	<u>185,362</u>	<u>59,950</u>	<u>13,828</u>	<u>-</u>	<u>300</u>	<u>4,216</u>
Excess (deficiency) of receipts over disbursements	<u>11,543</u>	<u>506</u>	<u>(91,003)</u>	<u>(7,294)</u>	<u>(2,615)</u>	<u>-</u>	<u>(300)</u>	<u>(4,216)</u>
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	<u>(11,543)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(11,543)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>-</u>	<u>506</u>	<u>(91,003)</u>	<u>(7,294)</u>	<u>(2,615)</u>	<u>-</u>	<u>(300)</u>	<u>(4,216)</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 3,562</u>	<u>\$ 56,858</u>	<u>\$ (8,993)</u>	<u>\$ 182</u>	<u>\$ -</u>	<u>\$ (300)</u>	<u>\$ -</u>

MILAN COMMUNITY SCHOOLS  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2011  
 (Continued)

	College Success Coalition	Technology Loan	Non-English Speaking Programs P.L. 273-1999	School Technology	Construction Remodeling and Equipping Buildings	Rising Sun- H1N1	Rising Sun- PLATO	Title I
Cash and investments - beginning	\$ -	\$ -	\$ 309	\$ -	\$ (3,390)	\$ 7,481	\$ -	\$ 15,525
Receipts:								
Local sources	-	25,780	-	-	177,977	-	20,000	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	81,176
Temporary loans	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total receipts	-	25,780	-	-	177,977	-	20,000	81,176
Disbursements:								
Current:								
Instruction	-	-	-	-	-	-	20,000	130,940
Support services	-	25,780	-	-	-	-	-	687
Noninstructional services	-	-	-	-	-	-	-	156
Facilities acquisition and construction	-	-	-	-	186,346	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	-	25,780	-	-	186,346	-	20,000	131,783
Excess (deficiency) of receipts over disbursements	-	-	-	-	(8,369)	-	-	(50,607)
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	-	-	(8,369)	-	-	(50,607)
Cash and investments - ending	\$ -	\$ -	\$ 309	\$ -	\$ (11,759)	\$ 7,481	\$ -	\$ (35,082)

MILAN COMMUNITY SCHOOLS  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2011  
 (Continued)

	Innovative Education Program Strategies Title V (Part A)	Drug Free Schools	Improving Teaching Quality No Child Left Title II, Part A	Title I Grants to LEAs	Special Education Part B	Education Jobs	Payroll	Totals
Cash and investments - beginning	\$ 2,723	\$ -	\$ -	\$ 11,294	\$ (2,988)	\$ -	\$ 3,874	\$ 2,484,513
Receipts:								
Local sources	-	-	-	-	-	-	-	3,747,859
Intermediate sources	-	-	-	-	-	-	-	618
State sources	-	-	-	-	-	-	-	7,615,065
Federal sources	-	4,058	42,445	10,322	34,533	-	-	471,366
Temporary loans	-	-	-	-	-	-	-	401,107
Other	-	-	-	-	-	-	1,795,493	1,795,493
Total receipts	-	4,058	42,445	10,322	34,533	-	1,795,493	14,031,508
Disbursements:								
Current:								
Instruction	-	-	42,445	36,911	35,505	-	-	5,729,122
Support services	2,723	3,184	-	-	-	-	-	3,908,612
Noninstructional services	-	-	-	-	-	-	-	557,787
Facilities acquisition and construction	-	-	-	-	-	-	-	313,891
Debt services	-	-	-	-	-	-	-	1,247,729
Nonprogrammed charges	-	-	-	-	-	-	1,779,807	1,779,807
Total disbursements	2,723	3,184	42,445	36,911	35,505	-	1,779,807	13,536,948
Excess (deficiency) of receipts over disbursements	(2,723)	874	-	(26,589)	(972)	-	15,686	494,560
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	461,043
Transfers out	-	-	-	-	-	-	-	(431,543)
Total other financing sources (uses)	-	-	-	-	-	-	-	29,500
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(2,723)	874	-	(26,589)	(972)	-	15,686	524,060
Cash and investments - ending	\$ -	\$ 874	\$ -	\$ (15,295)	\$ (3,960)	\$ -	\$ 19,560	\$ 3,008,573

MILAN COMMUNITY SCHOOLS  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2012

	General	Debt Service	Capital Projects	School Transportation	School Bus Replacement	Rainy Day	School Lunch	Textbook Rental
Cash and investments - beginning	\$ 526,303	\$ 483,867	\$ 297,183	\$ 588,281	\$ 114	\$ 490,080	\$ 383,800	\$ 225,508
Receipts:								
Local sources	558,830	890,157	700,309	735,487	314,792	-	288,141	93,026
Intermediate sources	1,508	-	-	-	-	-	-	-
State sources	7,311,665	-	-	-	-	-	7,036	39,972
Federal sources	-	-	-	-	-	-	294,088	-
Temporary loans	-	-	187,195	107,711	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total receipts	<u>7,872,003</u>	<u>890,157</u>	<u>887,504</u>	<u>843,198</u>	<u>314,792</u>	<u>-</u>	<u>589,265</u>	<u>132,998</u>
Disbursements:								
Current:								
Instruction	5,333,071	-	-	-	-	-	-	-
Support services	2,035,563	-	546,310	619,100	303,215	35,000	-	197,345
Noninstructional services	117,273	-	-	-	-	-	526,440	-
Facilities acquisition and construction	4,399	-	234,725	-	-	-	19,830	-
Debt services	-	827,252	236,008	147,447	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-
Total disbursements	<u>7,490,306</u>	<u>827,252</u>	<u>1,017,043</u>	<u>766,547</u>	<u>303,215</u>	<u>35,000</u>	<u>546,270</u>	<u>197,345</u>
Excess (deficiency) of receipts over disbursements	<u>381,697</u>	<u>62,905</u>	<u>(129,539)</u>	<u>76,651</u>	<u>11,577</u>	<u>(35,000)</u>	<u>42,995</u>	<u>(64,347)</u>
Other financing sources (uses):								
Transfers out	-	(5,580)	-	(9,068)	(4,224)	-	(16,207)	-
Total other financing sources (uses)	<u>-</u>	<u>(5,580)</u>	<u>-</u>	<u>(9,068)</u>	<u>(4,224)</u>	<u>-</u>	<u>(16,207)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>381,697</u>	<u>57,325</u>	<u>(129,539)</u>	<u>67,583</u>	<u>7,353</u>	<u>(35,000)</u>	<u>26,788</u>	<u>(64,347)</u>
Cash and investments - ending	<u>\$ 908,000</u>	<u>\$ 541,192</u>	<u>\$ 167,644</u>	<u>\$ 655,864</u>	<u>\$ 7,467</u>	<u>\$ 455,080</u>	<u>\$ 410,588</u>	<u>\$ 161,161</u>

MILAN COMMUNITY SCHOOLS  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2012  
 (Continued)

	Levy Excess	Educational License Plates	Alternative Education	Miscellaneous Programs	RCCF- PLTW	RCCF- MES	Career Center PLTW	Rising Sun- Grant
Cash and investments - beginning	\$ -	\$ 3,562	\$ 56,858	\$ (8,993)	\$ 182	\$ -	\$ (300)	\$ -
Receipts:								
Local sources	-	-	-	81,930	20,358	5,000	15,000	-
Intermediate sources	-	169	-	-	-	-	-	-
State sources	-	-	136,414	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total receipts	-	169	136,414	81,930	20,358	5,000	15,000	-
Disbursements:								
Current:								
Instruction	-	-	98,465	-	24,871	5,000	14,700	-
Support services	-	-	-	81,083	-	-	-	-
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	2,000	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-
Total disbursements	-	-	100,465	81,083	24,871	5,000	14,700	-
Excess (deficiency) of receipts over disbursements	-	169	35,949	847	(4,513)	-	300	-
Other financing sources (uses):								
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	169	35,949	847	(4,513)	-	300	-
Cash and investments - ending	\$ -	\$ 3,731	\$ 92,807	\$ (8,146)	\$ (4,331)	\$ -	\$ -	\$ -

MILAN COMMUNITY SCHOOLS  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2012  
 (Continued)

	College Success Coalition	Technology Loan	Non-English Speaking Programs P.L. 273-1999	School Technology	Construction Remodeling and Equipping Buildings	Rising Sun- H1N1	Rising Sun- PLATO	Title I
Cash and investments - beginning	\$ -	\$ -	\$ 309	\$ -	\$ (11,759)	\$ 7,481	\$ -	\$ (35,082)
Receipts:								
Local sources	1,000	-	-	24,700	87,389	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	182,941
Temporary loans	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total receipts	1,000	-	-	24,700	87,389	-	-	182,941
Disbursements:								
Current:								
Instruction	-	-	-	-	-	-	-	144,867
Support services	-	-	-	-	-	-	-	1,250
Noninstructional services	-	-	-	-	-	-	-	2,250
Facilities acquisition and construction	-	-	-	24,700	86,747	-	-	-
Debt services	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-
Total disbursements	-	-	-	24,700	86,747	-	-	148,367
Excess (deficiency) of receipts over disbursements	1,000	-	-	-	642	-	-	34,574
Other financing sources (uses):								
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	1,000	-	-	-	642	-	-	34,574
Cash and investments - ending	\$ 1,000	\$ -	\$ 309	\$ -	\$ (11,117)	\$ 7,481	\$ -	\$ (508)

MILAN COMMUNITY SCHOOLS  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2012  
 (Continued)

	Innovative Education Program Strategies Title V (Part A)	Drug Free Schools	Improving Teaching Quality No Child Left Title II, Part A	Title I Grants to LEAs	Special Education Part B	Education Jobs	Payroll	Totals
Cash and investments - beginning	\$ -	\$ 874	\$ -	\$ (15,295)	\$ (3,960)	\$ -	\$ 19,560	\$ 3,008,573
Receipts:								
Local sources	-	-	-	-	-	-	-	3,816,119
Intermediate sources	-	-	-	-	-	-	-	1,677
State sources	-	-	-	-	-	-	-	7,495,087
Federal sources	-	-	36,433	15,295	3,833	200,027	-	732,617
Temporary loans	-	-	-	-	-	-	-	294,906
Other	-	-	-	-	-	-	1,863,727	1,863,727
Total receipts	-	-	36,433	15,295	3,833	200,027	1,863,727	14,204,133
Disbursements:								
Current:								
Instruction	-	-	36,433	-	(127)	182,371	-	5,839,651
Support services	-	874	-	-	-	-	-	3,819,740
Noninstructional services	-	-	-	-	-	-	-	645,963
Facilities acquisition and construction	-	-	-	-	-	-	-	372,401
Debt services	-	-	-	-	-	-	-	1,210,707
Interfund loans	-	-	-	-	-	-	1,829,552	1,829,552
Total disbursements	-	874	36,433	-	(127)	182,371	1,829,552	13,718,014
Excess (deficiency) of receipts over disbursements	-	(874)	-	15,295	3,960	17,656	34,175	486,119
Other financing sources (uses):								
Transfers out	-	-	-	-	-	-	-	(35,079)
Total other financing sources (uses)	-	-	-	-	-	-	-	(35,079)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(874)	-	15,295	3,960	17,656	34,175	451,040
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,656	\$ 53,735	\$ 3,459,613

MILAN COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS

***INTERNAL CONTROLS - LACK OF SEGREGATION OF DUTIES***

Due to a small number of employees being assigned financial related duties, the School Corporation has not been able to segregate duties related to receipts, disbursements, payroll, and cash and investment balances. The lack of segregation of duties over key financial areas could enable material misstatements or irregularities to occur and remain undetected for an extended period of time.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9).

A similar comment was made in prior Report B38497.

We recommended that internal control activities continue to be reviewed to determine if risks can be reduced regarding the achievement of financial reporting objectives.

***HONORS DIPLOMA – OVERPAYMENT RECEIVED***

School Corporation records showed that 26 honors diploma students graduated in the year 2011. However, the Indiana Department of Education paid an award to the School Corporation based on 27 honors diploma students graduating in the year 2011.

School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment applicable to the School Corporation because of incorrect reporting. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE MILAN COMMUNITY SCHOOLS, RIPLEY COUNTY, INDIANA

Compliance

We have audited the Milan Community Schools' (School Corporation) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the period of July 1, 2010 to June 30, 2012. The School Corporation's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 School Corporation'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. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the period of July 1, 2010 to June 30, 2012.

Internal Control Over Compliance

Management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 School Corporation's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

A deficiency in internal control over compliance 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, 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the School Corporation's management, School Board, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 17, 2013

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#### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the School Corporation. The schedule and notes are presented as intended by the School Corporation.

MILAN COMMUNITY SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended June 30, 2011 and 2012

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-11	Total Federal Awards Expended 06-30-12
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-through Indiana Department of Education Child Nutrition Cluster School Breakfast Program	10.553	FY 11 FY 12	\$ 72,255 -	\$ - 79,373
National School Lunch Program	10.555	FY 11 FY 12	264,044 -	- 258,407
Total for federal grantor agency			<u>336,299</u>	<u>337,780</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-through Indiana Department of Education Title I, Part A Cluster Title I Grants to Local Educational Agencies FY 2011 FY 2012	84.010	11-6910 12-6910	81,176 -	53,996 128,946
Total for program			<u>81,176</u>	<u>182,942</u>
ARRA- Title I Grants to Local Educational Agencies, Recovery Act	84.389	11-6910	<u>10,322</u>	<u>15,295</u>
Total for cluster			91,498	198,237
Safe and Drug-Free Schools and Communities - State Grants	84.186	11-6910	3,184	874
Improving Teacher Quality State Grants	84.367	11-6910	42,445	-
Education Jobs Fund	84.410	FY 2011-2012	-	200,027
Total for federal grantor agency			<u>137,127</u>	<u>399,138</u>
Total federal awards expended			<u>\$ 473,426</u>	<u>\$ 736,918</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

MILAN COMMUNITY SCHOOLS  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Milan Community Schools (School Corporation) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1 et seq.), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

**Note 2. Noncash Assistance**

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2011 and 2012. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2010-2011	2011-2012
School Breakfast Program	10.553	\$ 8,050	\$ 10,267
National School Lunch Program	10.555	29,418	33,425
		<u>\$ 37,468</u>	<u>\$ 43,692</u>

MILAN COMMUNITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I – Summary of Auditor's Results**

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unqualified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no

Identification of Major Program:

Name of Federal Program or Cluster

Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	no
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MILAN COMMUNITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

***Section II – Financial Statement Findings***

***FINDING 2012-1 INTERNAL CONTROLS - LACK OF SEGREGATION OF DUTIES***

Due to a small number of employees being assigned financial related duties, the School Corporation has not been able to segregate duties related to receipts, disbursements, payroll, and cash and investment balances. The lack of segregation of duties over key financial areas could enable material misstatements or irregularities to occur and remain undetected for an extended period of time.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9).

We recommended that internal control activities continue to be reviewed to determine if risks can be reduced regarding the achievement of financial reporting objectives.

***Section III – Federal Award Findings and Questioned Costs***

No matters are reportable.

**MILAN COMMUNITY SCHOOL CORPORATION  
412E CARR STREET  
MILAN, IN 47031**

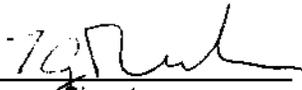
Re: Corrective Action Plan Finding 2012-1

**FINDING 2012-1, INTERNAL CONTROLS- SEGREGATION OF DUTIES**

Contact Person: Dr. Thomas Reale  
Title: Superintendent  
Phone Number: 812 654-2365  
Email: tom.reale@milan.k12.in.us

**CORRECTIVE ACTION PLAN**

Milan Community School Corporation will review and implement procedures involving current staff that would provide to some degree, segregation of duties. However, management and governance have determined that the cost associated with employing additional staff would outweigh the benefits of a Stronger internal control structure.

  
\_\_\_\_\_  
Signature

*Superintendent*  
\_\_\_\_\_  
Title

*11-26-12*  
\_\_\_\_\_  
Date

MILAN COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on January 17, 2013, with Dr. Thomas G. Reale, Superintendent of Schools; Timothy W. Tuttle, President of the School Board; and Gretchen Berger, Treasurer.