

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

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

SALEM COMMUNITY SCHOOLS  
WASHINGTON COUNTY, INDIANA

July 1, 2011 to June 30, 2013



**FILED**  
03/28/2014



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	2
Independent Auditor's Report .....	3-5
Independent Auditor's 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 .....	6-7
Financial Statement: Statement of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances - Regulatory Basis.....	11
Notes to Financial Statement.....	12-18
Supplementary Information - Unaudited: Combining Schedules of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances - Regulatory Basis.....	20-27
Schedule of Payables and Receivables .....	28
Schedule of Leases and Debt .....	29
Schedule of Capital Assets.....	31
Audit Result and Comment: Technology Line of Credit.....	32
Supplemental Audit of Federal Awards: Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance.....	34-35
Schedule of Expenditures of Federal Awards .....	38-39
Notes to Schedule of Expenditures of Federal Awards.....	40
Schedule of Findings and Questioned Costs .....	41-43
Auditee Prepared Schedule: Corrective Action Plan.....	44
Exit Conference.....	45

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Geneva Sue Collier	07-01-11 to 12-31-14
Superintendent of Schools	Dr. D. Lynn Reed	07-01-11 to 12-31-19
President of the School Board	Marie Lowery Steve Motsinger Dr. Tricia Wheeler	07-01-11 to 12-31-12 01-01-13 to 12-31-13 01-01-14 to 12-31-14



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

TO: THE OFFICIALS OF SALEM COMMUNITY SCHOOLS, WASHINGTON COUNTY, INDIANA

***Report on the Financial Statement***

We have audited the accompanying financial statement of Salem Community Schools (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2011 to June 30, 2013, and the related notes to the financial statement.

***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School Corporation's preparation and fair presentation of the financial statement in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As discussed in Note 1 of the financial statement, the School Corporation prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a 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 the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance 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, 2011 to June 30, 2013.

***Opinion on Regulatory Basis of Accounting***

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, 2011 to June 30, 2013, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated March 17, 2014, 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 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* in considering the School Corporation's internal control over financial reporting and compliance.

***Accompanying Information***

*Supplementary Information*

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 records 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.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

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, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, 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.



Paul D. Joyce, CPA  
State Examiner

March 17, 2014



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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 THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF SALEM COMMUNITY SCHOOLS, WASHINGTON COUNTY, INDIANA

We have audited, 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, the financial statement of the Salem Community Schools (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2011 to June 30, 2013, and the related notes to the financial statement, and have issued our report thereon dated March 17, 2014, wherein we noted the School Corporation followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

***Internal Control Over Financial Reporting***

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

Our consideration of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not 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 items 2013-001 and 2013-002 to be material weaknesses.

INDEPENDENT AUDITOR'S 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2013-002.

***Salem Community Schools' Response to Findings***

The School Corporation's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statement 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 School Corporation'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 School Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Paul D. Joyce, CPA  
State Examiner

March 17, 2014

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## 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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SALEM COMMUNITY SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For the Years Ended June 30, 2012 and 2013

	Cash and Investments 07-01-11	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-12	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-13
General	\$ 649,715	\$ 12,468,039	\$ 12,658,158	\$ (65,543)	\$ 394,053	\$ 12,692,795	\$ 12,279,168	\$ (86,261)	\$ 721,419
Debt Service	1,037,239	1,681,083	1,776,500	-	941,822	1,763,787	2,062,870	5,185	647,924
Retirement/Severance Bond Debt Service	92,057	198,142	200,417	-	89,782	213,395	204,082	-	99,095
Capital Projects	894,915	1,361,418	1,339,630	(285,739)	630,964	1,441,972	1,342,483	4,011	734,464
School Transportation	141,670	814,624	899,201	-	57,093	843,704	869,270	24,913	56,440
School Bus Replacement	385,395	257,141	276,004	(335,951)	30,581	147,797	(28,860)	619	207,857
Rainy Day	729	-	619,388	621,690	3,031	-	3,031	-	-
Construction	-	-	-	-	-	-	1,575,856	1,575,856	-
School Lunch	530,350	894,680	809,272	(37,234)	578,524	899,628	864,496	(36,973)	576,683
Textbook Rental	218,389	176,044	213,719	335	181,049	165,596	97,500	635	249,780
Educational License Plates	107	413	-	-	520	375	217	-	678
Alternative Education	-	3,742	112,724	108,982	-	5,034	130,039	125,005	-
Cape Grant-Prof Development Grant	2,294	-	2,294	-	-	-	-	-	-
Lowe's Toolbox For Education Grant	-	3,500	-	-	3,500	-	3,500	-	-
US Fish/Wildlife DNR Grant	-	480	-	-	480	1,600	-	-	2,080
Capt Planet Found Grant	-	-	-	-	-	700	700	-	-
MAC Grants	25	-	25	-	-	-	-	-	-
Washington County Community Foundation Grants	860	4,234	4,494	-	600	2,648	2,498	-	750
IUSE Teaching About ASIA Grant	-	300	300	-	-	300	-	-	300
Monsanto Grant	-	-	-	-	-	10,276	9,456	-	820
MAC Grant	-	-	-	-	-	468	468	-	-
High Ability Grant G/T	16,465	32,335	43,237	-	5,563	33,797	38,311	-	1,049
Tech Prep	-	-	-	-	-	17,224	17,324	-	(100)
Drug Free Communities	3,457	-	1,238	-	2,219	-	-	-	2,219
Medicaid Reimbursement	5,049	-	-	(5,049)	-	-	-	-	-
NRA Foundation Grant-SMS	400	27	400	-	27	-	27	-	-
Non-English Speaking Programs P.L. 273-1999	-	287	287	-	-	-	-	-	-
School Technology	3,782	3,781	4,059	-	3,504	4,142	6,499	-	1,147
Middle School Construction Fund	3,580	-	3,580	-	-	-	-	-	-
Indiana Youth Institute Grant	-	-	-	-	-	750	-	-	750
Cinergy Basics 0506	33	-	-	(33)	-	-	-	-	-
Senator David Ford Technology	-	-	-	-	-	1,430	1,430	-	-
Excess PTRC Distributions	-	53,447	36,016	-	17,431	17,297	-	(34,728)	-
2010-2011 Title I Basic Grant	10,948	59,902	70,850	-	-	-	-	-	-
Title I 2011-12	-	383,957	427,990	-	(44,033)	73,815	29,782	-	-
TI I 2012-13	-	-	-	-	-	349,600	412,553	-	(62,953)
(IDEA, Part B) LEA Capacity Building (Sliver) Grants	-	-	-	-	-	69,999	69,999	-	-
Drug Free Schools	-	7,469	7,469	-	-	-	-	-	-
21st Century Community Learning Grant	11,476	183,094	210,544	-	(15,974)	245,151	229,177	-	-
Improving Teaching Quality, No Child Left, Title II, Part A	-	109,348	119,856	-	(10,508)	117,090	106,582	-	-
ITQ, Enhanced Education Through Technology, Title II, Part D	700	-	-	(700)	-	-	-	-	-
Title III, Language Instruction	-	734	734	-	-	-	-	-	-
Title I - Grants to LEAs	1,071	4,041	5,112	-	-	-	-	-	-
Special Education - Part B	-	4,818	4,818	-	-	-	-	-	-
Education Jobs	-	34,174	34,174	-	-	8,195	8,195	-	-
Clearing Accounts	13,226	4,044,516	4,048,310	-	9,432	4,185,000	4,181,329	-	13,103
<b>Totals</b>	<b>\$ 4,023,932</b>	<b>\$ 22,785,770</b>	<b>\$ 23,930,800</b>	<b>\$ 758</b>	<b>\$ 2,879,660</b>	<b>\$ 23,313,565</b>	<b>\$ 24,517,982</b>	<b>\$ 1,578,262</b>	<b>\$ 3,253,505</b>

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

SALEM 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 Indiana 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. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

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.

SALEM COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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.

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.

Interfund loans which include money temporarily transferred from one fund to a depleted fund for use in paying current operating expenses. Such advancement shall not be made for a period extending beyond the budget year.

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.

SALEM COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENT  
(Continued)

Interfund loans which include money temporarily transferred from one fund to a depleted fund for use in paying current operating expenses. Such advancement shall not be made for a period extending beyond the budget year.

*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.

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 or highway use taxes are received 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

SALEM COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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.

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.

SALEM COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENT  
(Continued)

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.

*B. Teachers' Retirement Fund*

*Plan Description*

The Indiana Teachers' 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.

SALEM COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*C. Additional Pension Plans*

The School Corporation also contributes to additional pension plans unique to the School Corporation. Information regarding these plans may be obtained from the School Corporation.

**Note 7. Negative Disbursements**

The financial statement contains some disbursements which appear as negative entries. This is a result of errors made in the prior period that were corrected by reversing the original entry. Since the original entry and the correction were made in separate periods, a negative disbursement was shown in the current period.

**Note 8. Cash Balance Deficits**

The financial statement contains some funds with deficits in cash. This is a result of expenditures made by the School Corporation for reimbursable grants. The reimbursements for the expenditures were not received by June 30, 2012 or June 30, 2013.

**Note 9. Holding Corporations**

The School Corporation has entered into a capital lease with the Salem High School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease 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, 2012 and 2013, totaled \$1,038,500 and \$1,039,500, respectively.

The School Corporation has entered into capital leases with the Salem Middle School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the years ended June 30, 2012 and 2013, totaled \$727,500 and \$737,000, respectively.

The School Corporation has entered into a capital lease with the Salem Elementary School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. The original lease was paid in full in the 2010-2011 school year. The lease was reapproved on March 11, 2013, for \$1,800,000. No payments were made during the year ending June 30, 2012. Lease payments during the year ended June 30, 2013, totaled \$138,000.

**Note 10. Subsequent Events**

On October 30, 2013, the School Corporation received a \$50,000 grant from the Secured Schools Safety Grant Program. The approved expenditures included a school resource officer, threat assessment, and equipment.

SALEM COMMUNITY SCHOOLS  
 NOTES TO FINANCIAL STATEMENT  
 (Continued)

**Note 11. Other Postemployment Benefits**

The School Corporation provides the following benefits to one eligible retiree and their spouse: eligibility to remain on group health/vision/dental group plans until retiree reaches the age of eligibility for Medicare. Retirees receive a School Corporation contribution (single plan contribution amount only) towards the health insurance that was in effect at the time of their retirement. These benefits pose a liability to the School Corporation for this year and in future years. Information regarding the benefits can be obtained by contacting the School Corporation.

**Note 12. Restatements**

For the year ended June 30, 2012, a change has been made to a beginning balance of the financial statement to more appropriately reflect financial activity of the School Corporation. The following schedule presents a summary of the restated beginning balance.

Fund Name	Balance as of June 30, 2011	Prior Period Adjustment	Balance as of July 1, 2011
Clearing Accounts	\$ -	\$ 13,226	\$ 13,226

## 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.

SALEM 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	Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Rainy Day	School Lunch	Textbook Rental	Educational License Plates
Cash and investments - beginning	\$ 649,715	\$ 1,037,239	\$ 92,057	\$ 894,915	\$ 141,670	\$ 385,395	\$ 729	\$ 530,350	\$ 218,389	\$ 107
Receipts:										
Local sources	77,170	1,681,083	198,142	1,361,418	814,124	257,141	-	334,625	95,244	-
Intermediate sources	44	-	-	-	-	-	-	-	-	413
State sources	12,373,754	-	-	-	-	-	-	8,760	80,800	-
Federal sources	-	-	-	-	-	-	-	551,295	-	-
Interfund loans	17,071	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	500	-	-	-	-	-
Total receipts	<u>12,468,039</u>	<u>1,681,083</u>	<u>198,142</u>	<u>1,361,418</u>	<u>814,624</u>	<u>257,141</u>	<u>-</u>	<u>894,680</u>	<u>176,044</u>	<u>413</u>
Disbursements:										
Current:										
Instruction	9,061,426	-	-	-	-	-	226,682	-	-	-
Support services	3,587,109	-	-	750,994	899,201	276,004	342,706	-	213,719	-
Noninstructional services	-	-	-	-	-	-	-	809,272	-	-
Facilities acquisition and construction	-	-	-	588,636	-	-	50,000	-	-	-
Debt services	4,623	1,776,500	200,417	-	-	-	-	-	-	-
Nonprogrammed charges	5,000	-	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-	-	-
Total disbursements	<u>12,658,158</u>	<u>1,776,500</u>	<u>200,417</u>	<u>1,339,630</u>	<u>899,201</u>	<u>276,004</u>	<u>619,388</u>	<u>809,272</u>	<u>213,719</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(190,119)</u>	<u>(95,417)</u>	<u>(2,275)</u>	<u>21,788</u>	<u>(84,577)</u>	<u>(18,863)</u>	<u>(619,388)</u>	<u>85,408</u>	<u>(37,675)</u>	<u>413</u>
Other financing sources (uses):										
Sale of capital assets	423	-	-	-	-	-	-	-	335	-
Transfers in	185,382	-	-	-	-	84,049	705,739	-	-	-
Transfers out	<u>(251,348)</u>	<u>-</u>	<u>-</u>	<u>(285,739)</u>	<u>-</u>	<u>(420,000)</u>	<u>(84,049)</u>	<u>(37,234)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(65,543)</u>	<u>-</u>	<u>-</u>	<u>(285,739)</u>	<u>-</u>	<u>(335,951)</u>	<u>621,690</u>	<u>(37,234)</u>	<u>335</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(255,662)</u>	<u>(95,417)</u>	<u>(2,275)</u>	<u>(263,951)</u>	<u>(84,577)</u>	<u>(354,814)</u>	<u>2,302</u>	<u>48,174</u>	<u>(37,340)</u>	<u>413</u>
Cash and investments - ending	<u>\$ 394,053</u>	<u>\$ 941,822</u>	<u>\$ 89,782</u>	<u>\$ 630,964</u>	<u>\$ 57,093</u>	<u>\$ 30,581</u>	<u>\$ 3,031</u>	<u>\$ 578,524</u>	<u>\$ 181,049</u>	<u>\$ 520</u>

SALEM 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)

	Alternative Education	Cape Grant-Prof Development Grant	Lowe's Toolbox For Education Grant	US Fish/Wildlife DNR Grant	MAC Grants	Washington County Community Foundation Grants	IUSE Teaching About ASIA Grant	High Ability Grant G/T	Drug Free Communities	Medicaid Reimbursement
Cash and investments - beginning	\$ -	\$ 2,294	\$ -	\$ -	\$ 25	\$ 860	\$ -	\$ 16,465	\$ 3,457	\$ 5,049
Receipts:										
Local sources	-	-	-	-	-	4,234	300	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-	-
State sources	3,742	-	3,500	480	-	-	-	32,335	-	-
Federal sources	-	-	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Total receipts	3,742	-	3,500	480	-	4,234	300	32,335	-	-
Disbursements:										
Current:										
Instruction	112,071	-	-	-	25	4,463	300	43,237	1,238	-
Support services	653	2,294	-	-	-	31	-	-	-	-
Noninstructional services	-	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-	-	-
Total disbursements	112,724	2,294	-	-	25	4,494	300	43,237	1,238	-
Excess (deficiency) of receipts over disbursements	(108,982)	(2,294)	3,500	480	(25)	(260)	-	(10,902)	(1,238)	-
Other financing sources (uses):										
Sale of capital assets	-	-	-	-	-	-	-	-	-	-
Transfers in	108,982	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-	(5,049)
Total other financing sources (uses)	108,982	-	-	-	-	-	-	-	-	(5,049)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(2,294)	3,500	480	(25)	(260)	-	(10,902)	(1,238)	(5,049)
Cash and investments - ending	\$ -	\$ -	\$ 3,500	\$ 480	\$ -	\$ 600	\$ -	\$ 5,563	\$ 2,219	\$ -

SALEM 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)

	NRA Foundation Grant-SMS	Non-English Speaking Programs P.L. 273-1999	School Technology	Middle School Construction Fund	Cinergy Basics 0506	Excess PTRC Distributions	2010-2011 Title I Basic Grant	Title I 2011-12	Drug Free Schools
Cash and investments - beginning	\$ 400	\$ -	\$ 3,782	\$ 3,580	\$ 33	\$ -	\$ 10,948	\$ -	\$ -
Receipts:									
Local sources	-	-	-	-	-	53,447	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	27	287	3,781	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	59,902	383,957	7,469
Interfund loans	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total receipts	27	287	3,781	-	-	53,447	59,902	383,957	7,469
Disbursements:									
Current:									
Instruction	400	287	-	-	-	-	70,850	405,265	-
Support services	-	-	4,059	3,580	-	-	-	22,725	7,469
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	36,016	-	-	-
Interfund loans	-	-	-	-	-	-	-	-	-
Total disbursements	400	287	4,059	3,580	-	36,016	70,850	427,990	7,469
Excess (deficiency) of receipts over disbursements	(373)	-	(278)	(3,580)	-	17,431	(10,948)	(44,033)	-
Other financing sources (uses):									
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	(33)	-	-	-	-
Total other financing sources (uses)	-	-	-	-	(33)	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(373)	-	(278)	(3,580)	(33)	17,431	(10,948)	(44,033)	-
Cash and investments - ending	\$ 27	\$ -	\$ 3,504	\$ -	\$ -	\$ 17,431	\$ -	\$ (44,033)	\$ -

SALEM 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)

	21st Century Community Learning Grant	Improving Teaching Quality No Child Left Title II, Part A	ITQ Enhanced Education Through Technology Title II, Part D	Title III Language Instruction	Title I Grants to LEAs	Special Education Part B	Education Jobs	Clearing Accounts	Totals
Cash and investments - beginning	\$ 11,476	\$ -	\$ 700	\$ -	\$ 1,071	\$ -	\$ -	\$ 13,226	\$ 4,023,932
Receipts:									
Local sources	745	-	-	-	-	-	-	-	4,877,673
Intermediate sources	-	-	-	-	-	-	-	-	457
State sources	-	-	-	-	-	-	-	-	12,507,466
Federal sources	182,349	109,348	-	734	4,041	4,818	34,174	-	1,338,087
Interfund loans	-	-	-	-	-	-	-	-	17,071
Other	-	-	-	-	-	-	-	4,044,516	4,045,016
Total receipts	183,094	109,348	-	734	4,041	4,818	34,174	4,044,516	22,785,770
Disbursements:									
Current:									
Instruction	207,479	119,531	-	-	5,080	4,818	11,586	-	10,274,738
Support services	3,065	-	-	734	-	-	5,842	-	6,120,185
Noninstructional services	-	-	-	-	32	-	-	-	809,304
Facilities acquisition and construction	-	-	-	-	-	-	-	-	638,636
Debt services	-	-	-	-	-	-	-	-	1,981,540
Nonprogrammed charges	-	-	-	-	-	-	-	4,048,310	4,089,326
Interfund loans	-	325	-	-	-	-	16,746	-	17,071
Total disbursements	210,544	119,856	-	734	5,112	4,818	34,174	4,048,310	23,930,800
Excess (deficiency) of receipts over disbursements	(27,450)	(10,508)	-	-	(1,071)	-	-	(3,794)	(1,145,030)
Other financing sources (uses):									
Sale of capital assets	-	-	-	-	-	-	-	-	758
Transfers in	-	-	-	-	-	-	-	-	1,084,152
Transfers out	-	-	(700)	-	-	-	-	-	(1,084,152)
Total other financing sources (uses)	-	-	(700)	-	-	-	-	-	758
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(27,450)	(10,508)	(700)	-	(1,071)	-	-	(3,794)	(1,144,272)
Cash and investments - ending	\$ (15,974)	\$ (10,508)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,432	\$ 2,879,660

SALEM COMMUNITY SCHOOLS  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013

	General	Debt Service	Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Rainy Day	Construction	School Lunch
Cash and investments - beginning	\$ 394,053	\$ 941,822	\$ 89,782	\$ 630,964	\$ 57,093	\$ 30,581	\$ 3,031	\$ -	\$ 578,524
Receipts:									
Local sources	73,033	1,763,787	213,395	1,394,299	843,704	147,797	-	-	316,828
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	12,619,762	-	-	-	-	-	-	-	8,352
Federal sources	-	-	-	-	-	-	-	-	574,448
Temporary loans	-	-	-	43,075	-	-	-	-	-
Other	-	-	-	4,598	-	-	-	-	-
Total receipts	<u>12,692,795</u>	<u>1,763,787</u>	<u>213,395</u>	<u>1,441,972</u>	<u>843,704</u>	<u>147,797</u>	<u>-</u>	<u>-</u>	<u>899,628</u>
Disbursements:									
Current:									
Instruction	8,830,148	-	-	-	-	-	-	-	-
Support services	3,437,508	-	-	904,633	869,270	(28,860)	3,031	-	-
Noninstructional services	-	-	-	-	-	-	-	-	864,496
Facilities acquisition and construction	-	137,330	-	437,850	-	-	-	1,575,856	-
Debt services	5,681	1,925,540	204,082	-	-	-	-	-	-
Nonprogrammed charges	5,831	-	-	-	-	-	-	-	-
Total disbursements	<u>12,279,168</u>	<u>2,062,870</u>	<u>204,082</u>	<u>1,342,483</u>	<u>869,270</u>	<u>(28,860)</u>	<u>3,031</u>	<u>1,575,856</u>	<u>864,496</u>
Excess (deficiency) of receipts over disbursements	<u>413,627</u>	<u>(299,083)</u>	<u>9,313</u>	<u>99,489</u>	<u>(25,566)</u>	<u>176,657</u>	<u>(3,031)</u>	<u>(1,575,856)</u>	<u>35,132</u>
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	1,575,856	-
Sale of capital assets	-	-	-	-	-	-	-	-	1,771
Transfers in	38,744	5,185	-	4,011	24,913	619	-	-	-
Transfers out	(125,005)	-	-	-	-	-	-	-	(38,744)
Total other financing sources (uses)	<u>(86,261)</u>	<u>5,185</u>	<u>-</u>	<u>4,011</u>	<u>24,913</u>	<u>619</u>	<u>-</u>	<u>1,575,856</u>	<u>(36,973)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>327,366</u>	<u>(293,898)</u>	<u>9,313</u>	<u>103,500</u>	<u>(653)</u>	<u>177,276</u>	<u>(3,031)</u>	<u>-</u>	<u>(1,841)</u>
Cash and investments - ending	<u>\$ 721,419</u>	<u>\$ 647,924</u>	<u>\$ 99,095</u>	<u>\$ 734,464</u>	<u>\$ 56,440</u>	<u>\$ 207,857</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 576,683</u>

SALEM COMMUNITY SCHOOLS  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

	Textbook Rental	Educational License Plates	Alternative Education	Lowe's Toolbox For Education Grant	US Fish/Wildlife DNR Grant	Capt Planet Found Grant	Washington County Community Foundation Grants	IUSE Teaching About ASIA Grant	Monsanto Grant
Cash and investments - beginning	\$ 181,049	\$ 520	\$ -	\$ 3,500	\$ 480	\$ -	\$ 600	\$ -	\$ -
Receipts:									
Local sources	90,426	-	-	-	-	-	2,648	300	10,276
Intermediate sources	-	375	-	-	-	-	-	-	-
State sources	75,170	-	5,034	-	1,600	700	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total receipts	165,596	375	5,034	-	1,600	700	2,648	300	10,276
Disbursements:									
Current:									
Instruction	-	-	129,343	3,500	-	700	2,498	-	9,456
Support services	97,500	217	696	-	-	-	-	-	-
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	97,500	217	130,039	3,500	-	700	2,498	-	9,456
Excess (deficiency) of receipts over disbursements	68,096	158	(125,005)	(3,500)	1,600	-	150	300	820
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Sale of capital assets	635	-	-	-	-	-	-	-	-
Transfers in	-	-	125,005	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	635	-	125,005	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	68,731	158	-	(3,500)	1,600	-	150	300	820
Cash and investments - ending	\$ 249,780	\$ 678	\$ -	\$ -	\$ 2,080	\$ -	\$ 750	\$ 300	\$ 820

SALEM COMMUNITY SCHOOLS  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

	MAC Grant	High Ability Grant G/T	Tech Prep	Drug Free Communities	NRA Foundation Grant-SMS	School Technology	Indiana Youth Institute Grant	Senator David Ford Technology	Excess PTRC Distributions
Cash and investments - beginning	\$ -	\$ 5,563	\$ -	\$ 2,219	\$ 27	\$ 3,504	\$ -	\$ -	\$ 17,431
Receipts:									
Local sources	468	620	-	-	-	-	-	-	17,297
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	-	33,177	17,224	-	-	4,142	750	1,430	-
Federal sources	-	-	-	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total receipts	468	33,797	17,224	-	-	4,142	750	1,430	17,297
Disbursements:									
Current:									
Instruction	468	38,311	17,324	-	27	-	-	1,430	-
Support services	-	-	-	-	-	6,499	-	-	-
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	468	38,311	17,324	-	27	6,499	-	1,430	-
Excess (deficiency) of receipts over disbursements	-	(4,514)	(100)	-	(27)	(2,357)	750	-	17,297
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	(34,728)
Total other financing sources (uses)	-	-	-	-	-	-	-	-	(34,728)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(4,514)	(100)	-	(27)	(2,357)	750	-	(17,431)
Cash and investments - ending	\$ -	\$ 1,049	\$ (100)	\$ 2,219	\$ -	\$ 1,147	\$ 750	\$ -	\$ -

SALEM COMMUNITY SCHOOLS  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2013  
 (Continued)

	Title I 2011-12	TII 2012-13	(IDEA, Part B) LEA Capacity Building (Sliver) Grants	21st Century Community Learning Grant	Improving Teaching Quality No Child Left Title II, Part A	Education Jobs	Clearing Accounts	Totals
Cash and investments - beginning	\$ (44,033)	\$ -	\$ -	\$ (15,974)	\$ (10,508)	\$ -	\$ 9,432	\$ 2,879,660
Receipts:								
Local sources	-	-	-	-	-	-	-	4,874,878
Intermediate sources	-	-	-	-	-	-	-	375
State sources	-	-	-	-	-	-	-	12,767,341
Federal sources	73,815	349,600	69,999	245,151	117,090	8,195	-	1,438,298
Temporary loans	-	-	-	-	-	-	-	43,075
Other	-	-	-	-	-	-	4,185,000	4,189,598
Total receipts	<u>73,815</u>	<u>349,600</u>	<u>69,999</u>	<u>245,151</u>	<u>117,090</u>	<u>8,195</u>	<u>4,185,000</u>	<u>23,313,565</u>
Disbursements:								
Current:								
Instruction	28,866	384,266	-	221,053	106,582	8,195	-	9,782,167
Support services	916	23,024	69,999	8,124	-	-	-	5,392,557
Noninstructional services	-	5,263	-	-	-	-	-	869,759
Facilities acquisition and construction	-	-	-	-	-	-	-	2,151,036
Debt services	-	-	-	-	-	-	-	2,135,303
Nonprogrammed charges	-	-	-	-	-	-	4,181,329	4,187,160
Total disbursements	<u>29,782</u>	<u>412,553</u>	<u>69,999</u>	<u>229,177</u>	<u>106,582</u>	<u>8,195</u>	<u>4,181,329</u>	<u>24,517,982</u>
Excess (deficiency) of receipts over disbursements	<u>44,033</u>	<u>(62,953)</u>	<u>-</u>	<u>15,974</u>	<u>10,508</u>	<u>-</u>	<u>3,671</u>	<u>(1,204,417)</u>
Other financing sources (uses):								
Proceeds of long-term debt	-	-	-	-	-	-	-	1,575,856
Sale of capital assets	-	-	-	-	-	-	-	2,406
Transfers in	-	-	-	-	-	-	-	198,477
Transfers out	-	-	-	-	-	-	-	(198,477)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,578,262</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>44,033</u>	<u>(62,953)</u>	<u>-</u>	<u>15,974</u>	<u>10,508</u>	<u>-</u>	<u>3,671</u>	<u>373,845</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ (62,953)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,103</u>	<u>\$ 3,253,505</u>

SALEM COMMUNITY SCHOOLS  
SCHEDULE OF PAYABLES AND RECEIVABLES  
June 30, 2013

<u>School Corporation</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental activities	<u>\$ -</u>	<u>\$ 63,053</u>

SALEM COMMUNITY SCHOOLS  
SCHEDULE OF LEASES AND DEBT  
June 30, 2013

Lessor	Purpose	2013 Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
Salem Middle School Building Corporation	SMS Renovation	\$ 717,000	12-31-12	12-31-24
Salem Elementary School Building Corporation	Elementary School HVAC Renovation	270,000	06-30-13	12-31-19
Salem High School Building Corporation	SHS Renovation	1,036,000	06-30-06	12-31-20
CNH Capital	New Holland Tractor	<u>5,425</u>	04-25-13	04-15-17
Total of annual lease payments		<u>\$ 2,028,425</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
Notes and loans payable	Land Payment - Trent Nichols	\$ 383,325	\$ 45,462
General obligation bonds	Pension Bonds Refi - Indiana Bond Bank	1,095,000	202,166
State loan	Operations	21,539	21,539
Lines of credit	CPF Technology Loan - First Savings Bank	293,488	77,296
Other debt	CPF Ford F350 Truck - First Savings Bank	<u>15,938</u>	<u>5,434</u>
Totals		<u>\$ 1,809,290</u>	<u>\$ 351,897</u>

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SALEM COMMUNITY SCHOOLS  
SCHEDULE OF CAPITAL ASSETS  
June 30, 2013

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	<u>Ending Balance</u>
Governmental activities:	
Land	\$ 643,161
Buildings	21,606,556
Improvements other than buildings	3,573,547
Machinery, equipment, and vehicles	<u>3,616,855</u>
Total capital assets	<u>\$ 29,440,119</u>

SALEM COMMUNITY SCHOOLS  
AUDIT RESULT AND COMMENT

***TECHNOLOGY LINE OF CREDIT***

On March 3, 2012, the School Corporation agreed to open a line of credit with First Savings Bank, F.S.B to be used for the purchase of computers and other technology equipment. The original line of credit was for \$250,000. On May 13, 2013, the School Board approved a \$70,000 increase in the line of credit. Each time the School Corporation purchased technology equipment, they would submit vendor invoices to the financial institution, which then paid the vendors directly from the line of credit. Claims for the vendor invoices were presented to the School Board for approval, but the payments made by the financial institution were not accounted for in the financial records of the School Corporation. On June 13, 2013, the School Corporation signed a loan agreement with First Savings Bank, F. S.B. for the balance of the line of credit \$293,487.91.

Indiana Code 20-26-4-1(d) states in part: "The treasurer is the official custodian of all funds of the school corporation and is responsible for the proper safeguarding and accounting for the funds."

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF SALEM COMMUNITY SCHOOLS, WASHINGTON COUNTY, INDIANA

***Report on Compliance for Each Major Federal Program***

We have audited Salem 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 each of its major federal programs for the period of July 1, 2011 to June 30, 2013. The School Corporation'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

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

***Opinion on Each Major Federal Program***

In our opinion, the School Corporation 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 period of July 1, 2011 to June 30, 2013.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
(Continued)

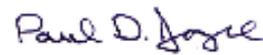
***Report on Internal Control Over Compliance***

Management of the School Corporation 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 School Corporation'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 our opinion on compliance for each major federal program 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.

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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

  
Paul D. Joyce, CPA  
State Examiner

March 17, 2014

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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.

SALEM COMMUNITY SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Years Ended June 30, 2012 and 2013

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-12	Total Federal Awards Expended 06-30-13
<u>Department of Agriculture</u>					
Child Nutrition Cluster					
School Breakfast Program	Indiana Department of Education	10.553	FY 2012 FY 2013	\$ 107,473 -	\$ - 115,186
Total - School Breakfast Program				<u>107,473</u>	<u>115,186</u>
National School Lunch Program	Indiana Department of Education	10.555	FY 2012 FY 2013	487,191 -	- 503,529
Total - National School Lunch Program				<u>487,191</u>	<u>503,529</u>
Summer Food Service Program for Children	Indiana Department of Education	10.559	FY 2012	5,730	-
Total - Child Nutrition Cluster				<u>600,394</u>	<u>618,715</u>
Total - Department of Agriculture				<u>600,394</u>	<u>618,715</u>
<u>Department of Education</u>					
Title I, Part A Cluster					
Title I Grants to Local Educational Agencies	Indiana Department of Education	84.010	2010/2011 2011/2012 2012/2013	59,902 383,957 -	- 73,817 349,601
Total - Title I Grants to Local Educational Agencies				<u>443,859</u>	<u>423,418</u>
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	Indiana Department of Education	84.389	Part D 2011/2012	4,041	-
Total - Title I, Part A Cluster				<u>447,900</u>	<u>423,418</u>

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

SALEM COMMUNITY SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Years Ended June 30, 2012 and 2013  
(Continued)

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-12	Total Federal Awards Expended 06-30-13
<u>Department of Education (continued)</u>					
Special Education Cluster					
Special Education - Grants to States	South Central Area Special Education Cooperative	84.027	EDS#A58-3-13DL-0118	-	69,999
ARRA - Special Education - Grants to States, Recovery Act	South Central Area Special Education Cooperative	84.391	11-8205	4,818	-
Total - Special Education Cluster				4,818	69,999
Safe and Drug-Free Schools and Communities - State Grants	Indiana Department of Education	84.186	09-8205	7,468	-
Twenty-First Century Community Learning Centers	Indiana Department of Education	84.287	FY11-12 FY12-13	182,348 -	27,652 217,500
Total - Twenty-First Century Community Learning Centers				182,348	245,152
English Language Acquisition State Grants	Wilson Education Center	84.365		734	-
Improving Teacher Quality State Grants	Indiana Department of Education	84.367	FY2009 FY2010 FY2011	15,499 93,850 -	- 19,642 97,448
Total - Improving Teacher Quality State Grants				109,349	117,090
Education Jobs Fund	Indiana Department of Education	84.410	11-5769	34,174	8,195
Total - Department of Education				786,791	863,854
Total federal awards expended				<u>\$ 1,387,185</u>	<u>\$ 1,482,569</u>

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

SALEM 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 Salem 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, 2012 and 2013. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2012	2013
Child Nutrition Cluster:			
Food Commodities:			
School Breakfast Program	10.553	\$ 12,366	\$ 12,400
National School Lunch Program	10.555	53,887	51,406

SALEM 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; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiencies identified?	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 section 510(a) of OMB Circular A-133?	no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.287	Child Nutrition Cluster Twenty-First Century Community Learning Centers

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

Auditee qualified as low-risk auditee? no

**Section II – Financial Statement Findings**

**FINDING 2013-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

We noted a deficiency in the internal control system of the School Corporation related to financial transactions and reporting. We believe the following deficiency constitutes a material weakness:

Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the School Corporation to reduce risks to the achievement of financial reporting objectives. The School Corporation has not separated incompatible activities related to receipts. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

SALEM COMMUNITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The Treasurer prepares the bank deposit and takes the deposit to the bank. She is also responsible for issuing, recording, reconciling, and reporting of receipts. There is no segregation of duties, including no oversight, review, or approval process.

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)

***FINDING 2013-002 - INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The School Corporation Treasurer prepares the SEFA, but no other review or approval is performed to verify the accuracy of the information and the amounts. The School Corporation should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: five federal grants were not listed and the expenditures for seven federal grants were not correct. Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

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 objective, 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 record, and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

SALEM COMMUNITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

OMB Circular A-133, Subpart C, section. 310(b) states:

"Schedule of expenditures of Federal awards: The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision I the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide the total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

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

No matters are reportable.



March 17, 2014

**Superintendent**  
Dr. D. Lynn Reed

**Assistant Superintendent**  
Dr. Kim Thurston

**Director of Assessment/Program Improvement**  
Dr. Jackie Arnold

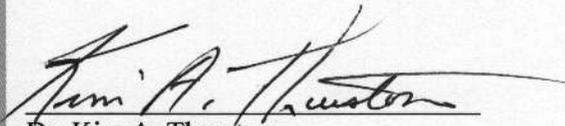
**Board of School Trustees**  
Mark Abbott  
Diana Armstrong  
Todd Ewen  
Erika Garloch  
Steven R. Motsinger  
Jason Pepmeier  
Dr. Tricia Wheeler

FINDING 2013-001 INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

The Assistant Superintendent is now reviewing and signing off on the receipts and bank deposit tickets generated by the Corporation Treasurer.

FINDING 2013-002 INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Assistant Superintendent will review for accuracy the financial reports (circular A133 files) and sign off on those reports generated by the Corporation Treasurer by April , 2014.

  
Dr. Kim A. Thurston  
Assistant Superintendent

SALEM COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on March 17, 2014, with Dr. Tricia Wheeler, President of the School Board; Dr. D. Lynn Reed, Superintendent of Schools; Dr. Kim A. Thurston, Assistant Superintendent of Schools; and Geneva Sue Collier, Treasurer.