

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

SOUTH HENRY SCHOOL CORPORATION
HENRY COUNTY, INDIANA

July 1, 2014 to June 30, 2015



FILED
06/16/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Amy Milner	07-01-15 to 06-30-16
Superintendent of Schools	Wesley Hammond	07-01-15 to 06-30-16
President of the School Board	Amy Miller Casey Carmichael	01-01-15 to 12-31-15 01-01-16 to 12-31-16



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE SOUTH HENRY SCHOOL CORPORATION, HENRY COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the South Henry School Corporation (School Corporation), which comprises the financial position and results of operations for the year ended June 30, 2015, and the related notes to the financial statement as listed in the Table of Contents.

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 year ended June 30, 2015.

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 year ended June 30, 2015, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Matters

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.


Other Information

Our audit was conducted for the purpose of forming an opinion on the School Corporation's financial statement. The Combining Schedule of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances - Regulatory Basis, 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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated April 7, 2016, 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.


Paul D. Joyce, CPA
State Examiner

April 7, 2016



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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 THE SOUTH HENRY SCHOOL CORPORATION, HENRY 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 South Henry School Corporation (School Corporation), which comprises the financial position and results of operations for the year ended June 30, 2015, and the related notes to the financial statement, and have issued our report thereon dated April 7, 2016, 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 2015-001 and 2015-002 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

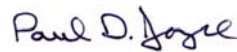
As part of obtaining reasonable assurance about whether the School Corporation's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 2015-002.

South Henry School Corporation's 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

April 7, 2016

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FINANCIAL STATEMENT AND ACCOMPANYING NOTES

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.

SOUTH HENRY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Year Ended June 30, 2015

Fund	Cash and Investments 06-30-14	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-15
General	\$ 322,855	\$ 5,064,176	\$ 5,067,733	\$ -	\$ 319,298
Debt Service	402,666	633,125	613,501	(13,688)	408,602
Retirement/Severance Bond Debt Service	48,504	76,715	79,194	-	46,025
Capital Projects	200,311	765,847	678,837	-	287,321
School Transportation	413,801	541,533	423,132	(150,000)	382,202
School Bus Replacement	87,811	30,443	82,413	-	35,841
Rainy Day	942,886	-	35,956	150,000	1,056,930
School Lunch	74,169	389,365	410,108	-	53,426
Textbook Rental	34,556	56,338	38,933	13,688	65,649
Levy Excess	-	1,099	-	-	1,099
Playground	-	11,641	-	(113)	11,528
Educational License Plates	75	94	131	-	38
Safe Haven 2014/15	-	7,509	7,509	-	-
Miscellaneous Programs	-	750	750	-	-
School Wellness Program	-	1,888	1,888	-	-
Athletic Fund	106	13,362	13,390	-	78
Commission For Higher Ed.	5,769	-	5,769	-	-
Secured Schools Safety Grant	(4,608)	10,714	10,382	-	(4,276)
School Technology	442	37,682	34,295	-	3,829
High Abil. Grant 2013/14	2,729	-	2,729	-	-
High Abil. Grant 2014/15	-	26,970	22,938	-	4,032
Title I 2014/15	-	88,096	88,096	-	-
Improving Teaching Quality, No Child Left, Title II, Part A	(299)	5,028	4,729	-	-
Title IIA 2013/14	-	26,464	27,592	-	(1,128)
Payroll Withholdings	36,418	1,161,091	1,163,594	-	33,915
Totals	<u>\$ 2,568,191</u>	<u>\$ 8,949,930</u>	<u>\$ 8,813,599</u>	<u>\$ (113)</u>	<u>\$ 2,704,409</u>

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

SOUTH HENRY SCHOOL CORPORATION
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 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.

SOUTH HENRY SCHOOL CORPORATION
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.

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.

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 include the following:

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.

SOUTH HENRY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENT
(Continued)

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 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.

SOUTH HENRY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENT
(Continued)

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 a cost-sharing 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
One North Capitol, 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.

SOUTH HENRY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENT
(Continued)

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
One North Capitol, 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. Negative Receipts and Disbursements

The financial statement contains some receipts and/or disbursements that appear as negative entries. This is a result of correcting errors after the reporting period.

Note 8. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of the funds being set up for reimbursable grants and the reimbursement for expenditures made by the School Corporation not being received by June 30, 2015.

SOUTH HENRY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 9. *Holding Corporation*

The School Corporation has entered into capital leases with South Henry 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 fiscal year 2015 totaled \$345,930.

Note 10. *Other Postemployment Benefits*

The School Corporation provides to eligible retirees and their spouses the following benefits: health, vision, and dental insurance. 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.

OTHER INFORMATION - UNAUDITED

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. Additionally, some financial information of the School Corporation can be found on the Gateway website: <https://gateway.ifionline.org/>.

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

SOUTH HENRY SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2015

	General	Debt Service	Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Rainy Day
Cash and investments - beginning	\$ 322,855	\$ 402,666	\$ 48,504	\$ 200,311	\$ 413,801	\$ 87,811	\$ 942,886
Receipts:							
Local sources	18,904	633,125	76,715	527,675	539,483	30,443	-
Intermediate sources	176	-	-	-	-	-	-
State sources	5,045,096	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-
Temporary loans	-	-	-	238,172	-	-	-
Other	-	-	-	-	2,050	-	-
Total receipts	5,064,176	633,125	76,715	765,847	541,533	30,443	-
Disbursements:							
Current:							
Instruction	3,366,227	-	-	-	-	-	-
Support services	1,515,516	-	-	377,612	423,132	82,413	16,268
Noninstructional services	185,990	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	84,107	-	-	19,688
Debt services	-	613,501	79,194	217,118	-	-	-
Total disbursements	5,067,733	613,501	79,194	678,837	423,132	82,413	35,956
Excess (deficiency) of receipts over disbursements	(3,557)	19,624	(2,479)	87,010	118,401	(51,970)	(35,956)
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	150,000
Transfers out	-	(13,688)	-	-	(150,000)	-	-
Total other financing sources (uses)	-	(13,688)	-	-	(150,000)	-	150,000
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(3,557)	5,936	(2,479)	87,010	(31,599)	(51,970)	114,044
Cash and investments - ending	\$ 319,298	\$ 408,602	\$ 46,025	\$ 287,321	\$ 382,202	\$ 35,841	\$ 1,056,930

SOUTH HENRY SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2015
 (Continued)

	School Lunch	Textbook Rental	Levy Excess	Playground	Educational License Plates	Safe Haven 2014/15	Miscellaneous Programs
Cash and investments - beginning	\$ 74,169	\$ 34,556	\$ -	\$ -	\$ 75	\$ -	\$ -
Receipts:							
Local sources	177,271	27,908	1,099	11,641	-	-	750
Intermediate sources	-	-	-	-	94	-	-
State sources	2,704	28,430	-	-	-	7,509	-
Federal sources	209,390	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total receipts	389,365	56,338	1,099	11,641	94	7,509	750
Disbursements:							
Current:							
Instruction	18,098	-	-	-	131	7,509	-
Support services	22,709	38,933	-	-	-	-	750
Noninstructional services	346,149	-	-	-	-	-	-
Facilities acquisition and construction	23,152	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-
Total disbursements	410,108	38,933	-	-	131	7,509	750
Excess (deficiency) of receipts over disbursements	(20,743)	17,405	1,099	11,641	(37)	-	-
Other financing sources (uses):							
Transfers in	-	13,688	-	-	-	-	-
Transfers out	-	-	-	(113)	-	-	-
Total other financing sources (uses)	-	13,688	-	(113)	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(20,743)	31,093	1,099	11,528	(37)	-	-
Cash and investments - ending	\$ 53,426	\$ 65,649	\$ 1,099	\$ 11,528	\$ 38	\$ -	\$ -

SOUTH HENRY SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2015
 (Continued)

	School Wellness Program	Athletic Fund	Commission for Higher Ed.	Secured Schools Safety Grant	School Technology	High Abil. Grant 2013/14
Cash and investments - beginning	\$ -	\$ 106	\$ 5,769	\$ (4,608)	\$ 442	\$ 2,729
Receipts:						
Local sources	1,888	13,362	-	-	-	-
Intermediate sources	-	-	-	-	-	-
State sources	-	-	-	10,714	37,682	-
Federal sources	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total receipts	1,888	13,362	-	10,714	37,682	-
Disbursements:						
Current:						
Instruction	-	13,390	5,769	6,106	-	2,729
Support services	-	-	-	4,276	34,295	-
Noninstructional services	-	-	-	-	-	-
Facilities acquisition and construction	1,888	-	-	-	-	-
Debt services	-	-	-	-	-	-
Total disbursements	1,888	13,390	5,769	10,382	34,295	2,729
Excess (deficiency) of receipts over disbursements	-	(28)	(5,769)	332	3,387	(2,729)
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	-	(28)	(5,769)	332	3,387	(2,729)
Cash and investments - ending	\$ -	\$ 78	\$ -	\$ (4,276)	\$ 3,829	\$ -

SOUTH HENRY SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2015
 (Continued)

	High Abil. Grant 2014/15	Title I 2014/15	Improving Teaching Quality, No Child Left, Title II, Part A	Title IIA 2013/14	Payroll Withholdings	Totals
Cash and investments - beginning	\$ -	\$ -	\$ (299)	\$ -	\$ 36,418	\$ 2,568,191
Receipts:						
Local sources	-	-	-	-	1,161,091	3,221,355
Intermediate sources	-	-	-	-	-	270
State sources	26,970	-	-	-	-	5,159,105
Federal sources	-	88,096	5,028	26,464	-	328,978
Temporary loans	-	-	-	-	-	238,172
Other	-	-	-	-	-	2,050
Total receipts	26,970	88,096	5,028	26,464	1,161,091	8,949,930
Disbursements:						
Current:						
Instruction	22,938	88,096	4,729	27,592	1,163,594	4,726,908
Support services	-	-	-	-	-	2,515,904
Noninstructional services	-	-	-	-	-	532,139
Facilities acquisition and construction	-	-	-	-	-	128,835
Debt services	-	-	-	-	-	909,813
Total disbursements	22,938	88,096	4,729	27,592	1,163,594	8,813,599
Excess (deficiency) of receipts over disbursements	4,032	-	299	(1,128)	(2,503)	136,331
Other financing sources (uses):						
Transfers in	-	-	-	-	-	163,688
Transfers out	-	-	-	-	-	(163,801)
Total other financing sources (uses)	-	-	-	-	-	(113)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	4,032	-	299	(1,128)	(2,503)	136,218
Cash and investments - ending	\$ 4,032	\$ -	\$ -	\$ (1,128)	\$ 33,915	\$ 2,704,409

SOUTH HENRY SCHOOL CORPORATION
SCHEDULE OF LEASES AND DEBT
June 30, 2015

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
South Henry Building Corporation	Renovation of school building	\$ 91,796	1/15/2009	1/15/2023
South Henry Building Corporation	Roof and HVAC	159,890	7/15/2009	1/15/2029
South Henry Building Corporation	QSCB Lease	<u>126,744</u>	1/15/2011	1/15/2029
Total of Annual Lease Payments		<u><u>\$ 378,430</u></u>		

Description of Debt	Ending Principal	Principal and Interest Due Within One
Governmental activities:		
Tax anticipation warrants	\$ 186,532	\$ 1,462
Notes and loans payable	1,962,171	264,502
Notes and loans payable	<u>455,000</u>	<u>76,338</u>
Total governmental activities	<u>2,603,703</u>	<u>342,302</u>
Totals	<u><u>\$ 2,603,703</u></u>	<u><u>\$ 342,302</u></u>

SOUTH HENRY SCHOOL CORPORATION
SCHEDULE OF CAPITAL ASSETS
June 30, 2015

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.

	Ending Balance
Governmental activities:	
Land	\$ 24,000
Buildings	4,146,245
Improvements other than buildings	2,711,738
Machinery, equipment, and vehicles	<u>1,417,272</u>
Total governmental activities	<u>8,299,255</u>
Total capital assets	<u>\$ 8,299,255</u>

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE SOUTH HENRY SCHOOL CORPORATION, HENRY COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the South Henry School Corporation's (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 year ended June 30, 2015. 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.

Basis for Qualified Opinion on the Child Nutrition Cluster

As described in items 2015-004 and 2015-005 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding Eligibility and Reporting that are applicable to the Child Nutrition Cluster. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.

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

Qualified Opinion on the Child Nutrition Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on the Child Nutrition Cluster* paragraph, 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 the Child Nutrition Cluster for the year ended June 30, 2015.

Unmodified Opinion on the Other 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 its other major federal program identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2015.

Other Matters

The School Corporation's response to the noncompliance 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 compliance and, accordingly, we express no opinion on the response.

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.

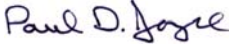
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2015-003, 2015-004, 2015-005, and 2015-006 to be material weaknesses.

The School Corporation's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

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

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

April 7, 2016

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

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.

SOUTH HENRY SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

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
<u>Department of Agriculture</u>				
Child Nutrition Cluster				
School Breakfast Program	Indiana Department of Education	10.553	FY 2014-15	\$ 41,065
Total - School Breakfast Program				41,065
National School Lunch Program	Indiana Department of Education	10.555	FY 2014-15 After School Snack	182,329 700
Total - National School Lunch Program				183,029
Summer Food Service Program for Children	Indiana Department of Education	10.559	Summer 2014	7,214
Total - Summer Food Service Program for Children				7,214
Total - Child Nutrition Cluster				231,308
Total - Department of Agriculture				231,308
<u>Department of Education</u>				
Title I, Part A Cluster				
Title I Grants to Local Educational Agencies	Indiana Department of Education	84.010	14-3415 15-3415	237 87,859
Total - Title I, Part A Cluster				88,096
Special Education Cluster				
Special Education_Grants to States	Indiana Department of Education	84.027	14213-044-PN01 14214-044-PN01 99914-044-PN01 14215-044-PN01	34 45,087 2,187 124,056
Total - Special Education_Grants to States				171,364
Special Education_Preschool Grants	Indiana Department of Education	84.173	45714-044-PN01 45715-044-PN01	2,236 4,787
Total - Special Education_Preschool Grants				7,023
Total - Special Education Cluster				178,387
Improving Teacher Quality State Grants	Indiana Department of Education	84.367	12-3415 13-3415	5,028 26,464
Total - Improving Teacher Quality State Grants				31,492
Total - Department of Education				297,975
Total federal awards expended				\$ 529,283

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

SOUTH HENRY SCHOOL CORPORATION
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 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.

Note 2. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the year ending June 30, 2015. This noncash assistance is also included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>2015</u>
National School Lunch Program	10.555	<u>\$ 21,918</u>

SOUTH HENRY SCHOOL CORPORATION
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?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unmodified for the Special Education Cluster; Qualified for the Child Nutrition Cluster
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	yes

Identification of Major Programs:

Name of Federal Program or Cluster

Child Nutrition Cluster
Special Education Cluster

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 2015-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

There were several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting.

1. Lack of Segregation of Duties: The School Corporation has not separated incompatible activities related to receipts. There was no segregation of duties over receipts; the School Corporation Treasurer issued receipts, made deposits, and posted transactions to the records.

SOUTH HENRY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2. Monitoring of Controls: An evaluation of the School Corporation's system of internal control has not been conducted. The failure to monitor the internal control system places the School Corporation at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, misstatements in a timely manner. Additionally, the School Corporation has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the School Corporation to monitor and assess the quality of the system of internal control.

The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

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 2015-002 - PREPARATION OF 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 SEFA reports were reviewed by the Superintendent of Schools, but errors were not discovered.

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:

Commodities for 2015 totaling \$21,918, the 2012 Improving Teacher Quality State Grant (\$5,028), and the Special Education Cluster (\$178,386) were omitted from the SEFA. Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in this report.

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.

SOUTH HENRY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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)

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."

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 in 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 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."

SOUTH HENRY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III - Federal Award Findings and Questioned Costs

FINDING 2015-003 - CASH MANAGEMENT AND SPECIAL TESTS AND PROVISIONS - VERIFICATION OF FREE AND REDUCED PRICE APPLICATIONS

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Number): FY 2014-15, After School Snack

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Cash Management and Special Tests and Provisions - Verification of Free and Reduced Price Applications.

The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

Cash Management

Reimbursement claims were prepared and submitted by the Cafeteria Manager without an oversight, review, or approval process.

Special Tests and Provisions - Verification of Free and Reduced Price Applications

Verification determinations were performed by the Cafeteria Manager without an oversight, review, or approval process.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the programs. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

SOUTH HENRY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

FINDING 2015-004 - ELIGIBILITY

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Number): FY 2014-15, After School Snack

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system related to the grant agreement and the Eligibility compliance requirement.

The School Corporation made eligibility determinations by inputting applicant data into eligibility software at the Food Service Office without an oversight, review, or approval process. The eligibility determinations were then manually entered into the cafeteria's point-of-sale systems without an oversight, review, or approval process.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the programs. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

Testing of 120 students revealed the following errors:

- Two students who qualified for reduced meals were charged paid meal prices.
- One student who qualified for reduced meals received free meals.
- One student who did not qualify for free/reduced meals received free meals.
- All applications tested did not include eligibility notification letters to the household.
- All direct certifications did not include eligibility notification letters to the household.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

SOUTH HENRY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

7 CFR 245.6(c)(1) states in part:

"Duration of eligibility. Except as otherwise specified in paragraph (c)(3) of this section, eligibility, as determined through an approved application or by direct certification for free or reduced price meals, must remain in effect for the entire school year and for up to 30 operating days into the subsequent school year. The local educational agency must determine household eligibility, for free or reduced price meals, either through direct certification or the application process at or about the beginning of the school year. The local educational agency must determine eligibility for free or reduced price meals when a household submits an application or, if feasible, through direct certification, at any time during the school year."

7 CFR 245.6(c)(6) states in part:

- "(i) *Income applications.* The local educational agency must promptly notify the household of the children's eligibility and provide the eligible children the benefits to which they are entitled.
- (ii) *Direct Certification.* Households approved for benefits based on information provided by the appropriate State or local agency responsible for the administration of the SNAP, FDPIR or TANF must be notified, in writing, that their children are eligible for free meals or free milk, that no application for free and reduced price school meals or free milk is required. . . ."

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls to ensure compliance and comply with the Eligibility compliance requirement of the programs.

FINDING 2015-005 - REPORTING

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Number): FY 2014-15, After School Snack

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Reporting compliance requirement. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirement and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

SOUTH HENRY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Monthly reimbursement claims, annual verification reports, and annual reports were prepared and submitted by the Cafeteria Manager without an oversight, review, or approval process.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the programs. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

Annual Financial Report

The Annual Financial Report filed by the School Corporation with the Indiana Department of Education, for the fiscal year ending June 30, 2015, did not agree with the School Corporation's financial records. The beginning balance was overstated by \$11,750, receipts were understated by \$72,809, and disbursements were understated by \$61,059.

Monthly Claims for Reimbursement

There were multiple months, during the audit period, where the number of meals for which the School Corporation requested reimbursement did not match the number of meals shown within the School Corporation's Comalex software. Seven of the ten monthly reimbursement requests tested contained instances of incorrect reporting. The August 2014, October 2014, January 2015, February 2015, March 2015, April 2015, and May 2015 reimbursement requests all overstated the number of meals served compared to the reports generated by the School Corporation's Comalex software.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

7 CFR 3016.20(b) states in part:

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. . . .
- (6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. . . ."

SOUTH HENRY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

7 CFR 210.7(c) states in part:

- "(iii) Base Claims for Reimbursement on lunch counts, taken daily at the point of service, which correctly identify the number of free, reduced price and paid lunches served to eligible children;
- (iv) Correctly record, consolidate and report those lunch and supplement counts on the Claim for Reimbursement; and
- (v) Ensure that Claims for Reimbursement do not request payment for any excess lunches produced, as prohibited in §210.10(a)(2), or non-Program lunches (i.e., a la carte or adult lunches) or for more than one meal supplement per child per day."

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the Reporting compliance requirement could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and ensure that all required reports are prepared on an accurate basis in accordance with the Reporting requirement.

***FINDING 2015-006 - ACTIVITIES ALLOWED OR UNALLOWED
AND ALLOWABLE COSTS/COST PRINCIPLES***

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Number): 14213-044-PN01, 14214-044-PN01,
14215-044-PN01, 45714-044-PN01,
45715-044-PN01, 99914-044-PN01

Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed and Allowable Costs/Cost Principles. The School Corporation is a member of the New Castle Area Special Services Cooperative (Co-Op), and they provide oversight of the Co-Op through the School Corporation Superintendent who serves as a member of the Co-Op Board. However, the Co-Op has not established an effective internal control system in relation to the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

The failure to establish an effective internal control system places the school corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

SOUTH HENRY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Activities Allowed or Unallowed

For fiscal year 2015, there was no documentation of reviews of payroll to verify that all employees paid from Special Education program were allowed. This could lead to ineligible employees getting paid from the Special Education program.

Allowable Costs/Cost Principles

For fiscal year 2015, at the Co-Op there was no oversight, review, or approval process over the personnel activity logs or Semi-Annual Certifications. This could cause an employee to be paid an improper amount from Special Education programs.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the programs. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements listed above.

AUDITEE PREPARED DOCUMENTS

The subsequent documents were provided by management of the School Corporation. The documents are presented as intended by the School Corporation.

SOUTH HENRY SCHOOL CORPORATION

6972 S. St. Rd. 103
Straughn, IN 47387
(765) 987-7882
FAX: (765) 987-7589

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS


FINDING 2014-003, 2014-004, 2015-005, 2014-006

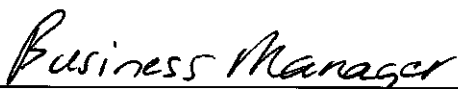
Fiscal year in which the finding initially occurred: 2015

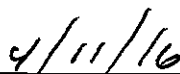
Contact Person: Amy Milner, Business Manager

Status of Audit Finding:

South Henry School Corporation management has not yet corrected the findings noted because both audits were completed simultaneously and we have just been made aware of the findings.


Signature


Title


Date



SOUTH HENRY SCHOOL CORPORATION

6972 S. St. Rd. 103
Straughn, IN 47387
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FAX: (765) 987-7589

CORRECTIVE ACTION PLAN

FINDING 2015-001

Contact Person: Amy Milner, Business Manager
Contact Person Number: (765) 987-7882 ext. 152

View: We concur with the finding

Description of Corrective Action Plan:

1. South Henry School Corporation is aware of the risks associated with a limited staff and has determined the benefits of hiring additional staff, in order that all accounting functions are performed by different individuals, are not sufficient to justify the increase in personnel cost to the taxpayers of South Henry School Corporation. Control activities will be in place to reduce the risks of errors in financial reporting.
2. South Henry School Corporation will adopt the *Uniform Internal Control Standards for Indiana Political Subdivisions* by resolution. After June 30, 2016, management will document in writing the specific internal control policies, monitoring policies, and procedures required for use in each department of the unit. This will include segregation of duties. South Henry School Corporation will process to identify and communicate corrective actions to improve controls. The implementation of controls over the receipting, disbursing, recording and accounting for the financial activities will be regularly evaluated and adapted for changes affecting the monitoring of controls.



FINDING 2015-002

View: We concur with the finding

Description of Corrective Action Plan:

Adjustments proposed for the errors found during the audit of the SEFA were accepted and made to the SEFA presented in this report. South Henry School Corporation will adopt the *Uniform Internal Control Standards for Indiana Political Subdivisions* by resolution. After June 30, 2016, management will document in writing the specific internal control policies, monitoring policies, and procedures required for use in each department of the unit. This will include segregation of duties. South Henry School Corporation will process to identify and communicate corrective actions to improve controls. The implementation of controls over the receipting, disbursing, recording and accounting for the financial activities will be regularly evaluated and adapted for changes affecting the monitoring of controls.

FINDING 2015-003

View: We concur with the finding

Description of Corrective Action Plan:

Management of the School Corporation will establish an effective internal control system, which will include segregation of duties, related to the grant agreement, Cash management, Special Test and Provisions and Provisions Verifications. South Henry School Corporation will adopt the *Uniform Internal Control Standards for Indiana Political Subdivisions* by resolution. After June 30, 2016, management will document in writing the specific internal control policies, monitoring policies, and procedures required for use in each department of the unit. This will include segregation of duties. South Henry School Corporation will process to identify and communicate corrective actions to improve controls. The implementation of controls over the receipting, disbursing, recording and accounting for the financial activities will be

regularly evaluated and adapted for changes affecting the monitoring of controls.

FINDING 2015-004

View: We concur with the finding

Description of Corrective Action Plan:

Management of the School Corporation will establish an effective internal control system related to the grant agreement and Eligibility compliance requirements. South Henry School Corporation will adopt the *Uniform Internal Control Standards for Indiana Political Subdivisions* by resolution. After June 30, 2016, management will document in writing the specific internal control policies, monitoring policies, and procedures required for use in each department of the unit. This will include segregation of duties. South Henry School Corporation will process to identify and communicate corrective actions to improve controls. The implementation of controls over the receipting, disbursing, recording and accounting for the financial activities will be regularly evaluated and adapted for changes affecting the monitoring of controls.

FINDING 2015-005

View: We concur with the finding

Description of Corrective Action Plan:

Management of the School Corporation will establish an effective internal control system related to the grant agreement and Reporting compliance requirements. South Henry School Corporation will adopt the *Uniform Internal Control Standards for Indiana Political Subdivisions* by resolution. After June 30, 2016, management will document in writing the specific internal control policies, monitoring policies, and procedures required for use in each department of the unit. This will include segregation of duties. South Henry School Corporation will process to identify and communicate corrective actions to improve controls. The implementation of controls over the receipting, disbursing, recording and accounting for the financial activities will be

regularly evaluated and adapted for changes affecting the monitoring of controls.

FINDING 2015-006

View: We concur with the finding

Description of Corrective Action Plan:

Management of the School Corporation will establish an effective internal control system, which will include segregation of duties, related to the grant agreement and the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Availability, and Reporting. As part of the New Castle Area Special Services, we will work with the compliance requirements. South Henry School Corporation will adopt the *Uniform Internal Control Standards for Indiana Political Subdivisions* by resolution. After June 30, 2016, management will document in writing the specific internal control policies, monitoring policies, and procedures required for use in each department of the unit. This will include segregation of duties. South Henry School Corporation will process to identify and communicate corrective actions to improve controls. The implementation of controls over the receipting, disbursing, recording and accounting for the financial activities will be regularly evaluated and adapted for changes affecting the monitoring of controls.

Anticipated Completion Date: 07/01/2016



Signature

Business Manager

Title

04/11/16

Date

OTHER REPORTS

In addition to this report, other reports may have been issued for the School Corporation. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.