

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

NORTH KNOX SCHOOL CORPORATION
KNOX COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
10/23/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Peggy E. Smith	07-01-12 to 08-28-12
	(Vacant)	08-29-12 to 09-09-12
	Terri Roesler (Interim)	09-10-12 to 11-18-12
	Terri Roesler	11-19-12 to 06-30-16
Superintendent of Schools	Dr. Darrel L. Bobe	07-01-10 to 06-30-16
President of the School Board	James Dotson	07-01-12 to 04-01-13
	(Vacant)	04-02-13 to 04-16-13
	Elaine Pepmeier	04-17-13 to 12-31-16



INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE NORTH KNOX SCHOOL CORPORATION, KNOX COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the North Knox School Corporation (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2012 to June 30, 2014, 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 period of July 1, 2012 to June 30, 2014.

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, 2012 to June 30, 2014, 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 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.

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 September 15, 2015, 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

September 15, 2015



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

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 NORTH KNOX SCHOOL CORPORATION, KNOX 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 North Knox School Corporation (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2012 to June 30, 2014, and the related notes to the financial statement, and have issued our report thereon dated September 15, 2015, 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 2014-001 and 2014-002 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 2014-001.

North Knox 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

September 15, 2015

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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.

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NORTH KNOX SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Years Ended June 30, 2013 and 2014

	Cash and Investments 07-01-12	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-13	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-14
General	\$ 1,571,995	\$ 9,020,501	\$ 8,881,270	\$ 30,339	\$ 1,741,565	\$ 8,919,922	\$ 8,591,862	\$ 8,184	\$ 2,077,809
Debt Service	527,505	582,111	457,241	-	652,375	698,444	801,629	(140,872)	408,318
Retirement/Severance Bond Debt Service	243,004	272,459	440,878	-	74,585	269,001	419,101	140,872	65,357
Capital Projects	734,208	1,126,149	878,297	4,262	986,322	1,120,146	1,078,510	-	1,027,958
School Transportation	1,202,746	1,266,703	1,110,362	-	1,359,087	1,261,868	1,061,775	-	1,559,180
School Bus Replacement	265,729	699	90,729	-	175,699	533	-	-	176,232
Rainy Day	1,745,202	-	202,287	-	1,542,915	-	169,735	-	1,373,180
Post-Retirement/Severance Future Benefits	445,061	-	-	-	445,061	-	-	-	445,061
School Lunch	209,034	621,101	561,766	-	268,369	665,224	641,833	-	291,760
Textbook Rental	78,517	136,605	98,364	-	116,758	133,613	130,404	-	119,967
Self-Insurance	1,526,371	419,385	137,000	-	1,808,756	1,151,428	185,413	-	2,774,771
Educational License Plates	10,438	300	-	-	10,738	244	-	-	10,982
Alternative Education	3,196	11,636	12,405	-	2,427	3,510	5,937	-	-
Early Intervention Grant	3,500	-	-	-	3,500	-	-	-	3,500
ASAI Grant 11-12	1,395	3,040	2,800	-	1,635	-	1,064	-	571
United Way Kdg Jumpstart 2014	-	-	-	-	-	3,000	-	-	3,000
Adult Education Reimb 2013-2014	-	14,190	8,647	-	5,543	41,628	42,631	-	4,540
Construction, Remodeling, and Equipping Buildings	1,500	-	-	-	1,500	-	-	-	1,500
Miscellaneous Programs	10,353	800	-	-	11,153	42,500	40,459	-	13,194
Duke Energy Foundation Grant	1,850	-	-	-	1,850	-	-	-	1,850
Books for Kids Donation	5	-	-	-	5	70	-	-	75
Trabant Foundation - Warrior Bus	-	-	-	-	-	17,909	-	-	17,909
High Ability Grant FY 11-12	10,694	-	10,694	-	-	-	-	-	-
High Ability Grant FY 13-14	-	-	-	-	-	29,596	29,440	-	156
High Ability Grant FY 12-13	-	29,914	28,952	-	962	-	962	-	-
Secured School Safety Grant	-	-	-	-	-	-	16,800	-	(16,800)
School Technology	5,568	4,839	3,622	-	6,785	4,488	-	-	11,273
Miscellaneous Programs	6,675	10,365	7,703	-	9,337	12,546	-	-	21,883
Title I - FY 12-13	-	299,939	309,018	-	(9,079)	25,123	16,044	-	-
Title I - FY 11-12	10,889	138,438	149,327	-	-	-	-	-	-
Title I - FY 13-14	-	-	-	-	-	238,114	271,555	-	(33,441)
Special Education Grant FY 12-13	-	127,744	149,438	-	(21,694)	124,403	102,709	-	-
PL 94-142 Special Education 09-10	8,830	-	-	-	8,830	-	8,830	-	-
PL 101-476 IDEA 11-12	13,891	84,736	96,226	-	2,401	-	2,401	-	-
Special Education Grant FY 13-14	-	-	-	-	-	106,569	145,396	-	(38,827)
Technical Assistance, Special Education	-	-	-	-	-	5,826	5,985	-	(159)
Title II, Part A, FY 12	-	23,728	28,950	-	(5,222)	39,524	34,302	-	-
Title V, Part A	204	-	204	-	-	-	-	-	-
Title II, Part A, FY 09	16,319	408	16,727	-	-	-	-	-	-
Title II, Part A, FY 10	5,645	50,116	55,761	-	-	-	-	-	-
Title II, Part A, FY 11	4,965	34,158	39,123	-	-	-	-	-	-
Title II, Part A, FY 13	-	-	-	-	-	28,307	33,928	-	(5,621)
Rural and Low Income Schools FY 12	-	-	-	-	-	31,119	31,119	-	-
Rural and Low Income Schools FY 10	-	27,403	2,800	-	24,603	-	8,270	-	16,333
Rural and Low Income Schools FY 12-14	-	-	-	-	-	1,659	4,141	-	(2,482)
Education Jobs	-	307,767	307,767	-	-	-	-	-	-
Prepaid Food	5,108	1,203	-	-	6,311	-	-	-	6,311
Payroll Clearing	11,803	1,983,804	2,000,534	-	(4,927)	2,104,454	2,083,264	-	16,263
Totals	\$ 8,682,200	\$ 16,600,241	\$ 16,088,892	\$ 34,601	\$ 9,228,150	\$ 17,080,768	\$ 15,965,499	\$ 8,184	\$ 10,351,603

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

NORTH KNOX 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.

NORTH KNOX 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.

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 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, and self-insurance payments.

F. Other Financing Sources and Uses

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

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.

NORTH KNOX 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.

NORTH KNOX 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.

NORTH KNOX 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. Cash Balance Deficits

The financial statement contains several funds with deficits in cash.

The School Corporation participates in numerous reimbursable grant programs that require the expenditure of funds prior to the grant distribution. The reimbursements for these grant fund expenditures were not received by June 30, 2013 and 2014.

The Payroll Clearing fund was overdrawn at June 30, 2013, by \$4,927.

NORTH KNOX SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENT
 (Continued)

Note 8. Holding Corporation

The School Corporation has entered into several capital leases with North Knox 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 2013 and 2014 totaled \$726,664 and \$883,814, respectively.

Note 9. Other Postemployment Benefits

The School Corporation provides health insurance and other voluntary insurance products to eligible retirees and their spouses. 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 10. Restatements

For the year ended June 30, 2013, certain changes have been made to some of the beginning balances of the financial statement in order to more appropriately reflect financial activity of the School Corporation. The following schedule presents a summary of restated beginning balances.

Fund Name	Balance as of 06-30-12	Prior Period Adjustment	Balance as of 07-01-12
School Lunch	\$ 214,144	\$ (5,110)	\$ 209,034
Textbook Rental	(9,799)	88,316	78,517
Prepaid Food	-	5,108	5,108
Payroll Clearing	-	11,803	11,803

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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.

NORTH KNOX SCHOOL CORPORATION
 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	Post- Retirement/ Severance Future Benefits	School Lunch
Cash and investments - beginning	\$ 1,571,995	\$ 527,505	\$ 243,004	\$ 734,208	\$ 1,202,746	\$ 265,729	\$ 1,745,202	\$ 445,061	\$ 209,034
Receipts:									
Local sources	69,933	582,111	272,459	1,111,419	1,266,703	699	-	-	246,490
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	8,937,219	-	-	-	-	-	-	-	6,260
Federal sources	1,000	-	-	-	-	-	-	-	368,351
Other	12,349	-	-	14,730	-	-	-	-	-
Total receipts	9,020,501	582,111	272,459	1,126,149	1,266,703	699	-	-	621,101
Disbursements:									
Current:									
Instruction	6,039,259	-	-	-	-	-	-	-	-
Support services	2,545,226	-	-	390,519	1,110,362	90,729	202,287	-	97
Noninstructional services	296,785	-	-	-	-	-	-	-	561,669
Facilities acquisition and construction	-	-	-	487,778	-	-	-	-	-
Debt services	-	457,241	440,878	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	8,881,270	457,241	440,878	878,297	1,110,362	90,729	202,287	-	561,766
Excess (deficiency) of receipts over disbursements	139,231	124,870	(168,419)	247,852	156,341	(90,030)	(202,287)	-	59,335
Other financing sources:									
Proceeds of long-term debt	30,339	-	-	4,262	-	-	-	-	-
Total other financing sources	30,339	-	-	4,262	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	169,570	124,870	(168,419)	252,114	156,341	(90,030)	(202,287)	-	59,335
Cash and investments - ending	\$ 1,741,565	\$ 652,375	\$ 74,585	\$ 986,322	\$ 1,359,087	\$ 175,699	\$ 1,542,915	\$ 445,061	\$ 268,369

NORTH KNOX SCHOOL CORPORATION
 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	Self- Insurance	Educational License Plates	Alternative Education	Early Intervention Grant	ASAI Grant 11-12	United Way Kdg Jumpstart 2014	Adult Education Reimb 2013-2014	Construction, Remodeling, and Equipping Buildings
Cash and investments - beginning	\$ 78,517	\$ 1,526,371	\$ 10,438	\$ 3,196	\$ 3,500	\$ 1,395	\$ -	\$ -	\$ 1,500
Receipts:									
Local sources	136,605	419,385	-	-	-	3,040	-	14,190	-
Intermediate sources	-	-	300	-	-	-	-	-	-
State sources	-	-	-	11,636	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total receipts	136,605	419,385	300	11,636	-	3,040	-	14,190	-
Disbursements:									
Current:									
Instruction	-	-	-	11,972	-	2,395	-	8,647	-
Support services	98,364	137,000	-	433	-	405	-	-	-
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	98,364	137,000	-	12,405	-	2,800	-	8,647	-
Excess (deficiency) of receipts over disbursements	38,241	282,385	300	(769)	-	240	-	5,543	-
Other financing sources:									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Total other financing sources	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	38,241	282,385	300	(769)	-	240	-	5,543	-
Cash and investments - ending	\$ 116,758	\$ 1,808,756	\$ 10,738	\$ 2,427	\$ 3,500	\$ 1,635	\$ -	\$ 5,543	\$ 1,500

NORTH KNOX SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES),
 AND CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2013
 (Continued)

	Miscellaneous Programs	Duke Energy Foundation Grant	Books for Kids Donation	Trabant Foundation - Warrior Bus	High Ability Grant FY 11-12	High Ability Grant FY 13-14	High Ability Grant FY 12-13	Secured School Safety Grant	School Technology
Cash and investments - beginning	\$ 10,353	\$ 1,850	\$ 5	\$ -	\$ 10,694	\$ -	\$ -	\$ -	\$ 5,568
Receipts:									
Local sources	800	-	-	-	-	-	-	-	4,839
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	29,914	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total receipts	800	-	-	-	-	-	29,914	-	4,839
Disbursements:									
Current:									
Instruction	-	-	-	-	10,694	-	28,952	-	-
Support services	-	-	-	-	-	-	-	-	-
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	3,622
Debt services	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	-	-	-	-	10,694	-	28,952	-	3,622
Excess (deficiency) of receipts over disbursements	800	-	-	-	(10,694)	-	962	-	1,217
Other financing sources:									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Total other financing sources	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	800	-	-	-	(10,694)	-	962	-	1,217
Cash and investments - ending	\$ 11,153	\$ 1,850	\$ 5	\$ -	\$ -	\$ -	\$ 962	\$ -	\$ 6,785

NORTH KNOX SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES),
 AND CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2013
 (Continued)

	Miscellaneous Programs	Title I - FY 12-13	Title I - FY 11-12	Title I - FY 13-14	Special Education Grant Fy 12-13	PL 94-142 Special Education 09-10	PL 101-476 IDEA 11-12	Special Education Grant FY 13-14
Cash and investments - beginning	\$ 6,675	\$ -	\$ 10,889	\$ -	\$ -	\$ 8,830	\$ 13,891	\$ -
Receipts:								
Local sources	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	10,365	-	-	-	-	-	-	-
Federal sources	-	299,940	138,438	-	127,744	-	84,736	-
Other	-	-	-	-	-	-	-	-
Total receipts	10,365	299,940	138,438	-	127,744	-	84,736	-
Disbursements:								
Current:								
Instruction	-	224,566	94,502	-	148,663	-	96,226	-
Support services	7,703	38,805	36,553	-	775	-	-	-
Noninstructional services	-	45,648	18,272	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	7,703	309,019	149,327	-	149,438	-	96,226	-
Excess (deficiency) of receipts over disbursements	2,662	(9,079)	(10,889)	-	(21,694)	-	(11,490)	-
Other financing sources:								
Proceeds of long-term debt	-	-	-	-	-	-	-	-
Total other financing sources	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	2,662	(9,079)	(10,889)	-	(21,694)	-	(11,490)	-
Cash and investments - ending	\$ 9,337	\$ (9,079)	\$ -	\$ -	\$ (21,694)	\$ 8,830	\$ 2,401	\$ -

NORTH KNOX SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES),
 AND CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2013
 (Continued)

	Technical Assistance, Special Education	Title II, Part A, FY 12	Title V, Part A	Title II, Part A, FY 09	Title II, Part A, FY 10	Title II, Part A, FY 11	Title II, Part A, FY 13	Rural and Low Income Schools FY 12
Cash and investments - beginning	\$ -	\$ -	\$ 204	\$ 16,319	\$ 5,645	\$ 4,965	\$ -	\$ -
Receipts:								
Local sources	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Federal sources	-	23,728	-	408	50,116	34,158	-	-
Other	-	-	-	-	-	-	-	-
Total receipts	-	23,728	-	408	50,116	34,158	-	-
Disbursements:								
Current:								
Instruction	-	27,160	204	16,727	55,761	39,123	-	-
Support services	-	1,790	-	-	-	-	-	-
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	-	28,950	204	16,727	55,761	39,123	-	-
Excess (deficiency) of receipts over disbursements	-	(5,222)	(204)	(16,319)	(5,645)	(4,965)	-	-
Other financing sources:								
Proceeds of long-term debt	-	-	-	-	-	-	-	-
Total other financing sources	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(5,222)	(204)	(16,319)	(5,645)	(4,965)	-	-
Cash and investments - ending	\$ -	\$ (5,222)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

NORTH KNOX SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES),
 AND CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2013

	Rural and Low Income Schools FY 10	Rural and Low Income Schools FY 12-14	Education Jobs	Prepaid Food	Payroll Clearing	Totals
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ 5,108	\$ 11,803	\$ 8,682,200
Receipts:						
Local sources	-	-	-	-	-	4,128,673
Intermediate sources	-	-	-	-	-	300
State sources	-	-	-	-	-	8,995,394
Federal sources	27,403	-	307,767	-	-	1,463,789
Other	-	-	-	1,203	1,983,804	2,012,086
Total receipts	<u>27,403</u>	<u>-</u>	<u>307,767</u>	<u>1,203</u>	<u>1,983,804</u>	<u>16,600,242</u>
Disbursements:						
Current:						
Instruction	-	-	307,767	-	-	7,112,618
Support services	-	-	-	-	-	4,661,048
Noninstructional services	-	-	-	-	-	922,374
Facilities acquisition and construction	2,800	-	-	-	-	494,200
Debt services	-	-	-	-	-	898,119
Nonprogrammed charges	-	-	-	-	2,000,534	2,000,534
Total disbursements	<u>2,800</u>	<u>-</u>	<u>307,767</u>	<u>-</u>	<u>2,000,534</u>	<u>16,088,893</u>
Excess (deficiency) of receipts over disbursements	<u>24,603</u>	<u>-</u>	<u>-</u>	<u>1,203</u>	<u>(16,730)</u>	<u>511,349</u>
Other financing sources:						
Proceeds of long-term debt	-	-	-	-	-	34,601
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,601</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>24,603</u>	<u>-</u>	<u>-</u>	<u>1,203</u>	<u>(16,730)</u>	<u>545,950</u>
Cash and investments - ending	<u>\$ 24,603</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,311</u>	<u>\$ (4,927)</u>	<u>\$ 9,228,150</u>

NORTH KNOX SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES),
 AND CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2014

	General	Debt Service	Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Rainy Day	Post- Retirement/ Severance Future Benefits	School Lunch
Cash and investments - beginning	\$ 1,741,565	\$ 652,375	\$ 74,585	\$ 986,322	\$ 1,359,087	\$ 175,699	\$ 1,542,915	\$ 445,061	\$ 268,369
Receipts:									
Local sources	54,463	698,444	269,001	1,119,688	1,261,658	533	-	-	243,128
Intermediate sources	1,065	-	-	-	-	-	-	-	-
State sources	8,863,682	-	-	-	-	-	-	-	5,575
Federal sources	-	-	-	-	-	-	-	-	416,521
Other	712	-	-	458	210	-	-	-	-
Total receipts	<u>8,919,922</u>	<u>698,444</u>	<u>269,001</u>	<u>1,120,146</u>	<u>1,261,868</u>	<u>533</u>	<u>-</u>	<u>-</u>	<u>665,224</u>
Disbursements:									
Current:									
Instruction	6,162,292	-	-	-	-	-	-	-	-
Support services	2,167,326	-	-	854,040	1,058,480	-	59,085	-	-
Noninstructional services	262,244	-	-	-	-	-	-	-	581,833
Facilities acquisition and construction	-	-	-	224,470	3,295	-	110,650	-	-
Debt services	-	801,629	419,101	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	60,000
Total disbursements	<u>8,591,862</u>	<u>801,629</u>	<u>419,101</u>	<u>1,078,510</u>	<u>1,061,775</u>	<u>-</u>	<u>169,735</u>	<u>-</u>	<u>641,833</u>
Excess (deficiency) of receipts over disbursements	<u>328,060</u>	<u>(103,185)</u>	<u>(150,100)</u>	<u>41,636</u>	<u>200,093</u>	<u>533</u>	<u>(169,735)</u>	<u>-</u>	<u>23,391</u>
Other financing sources (uses):									
Proceeds of long-term debt	8,184	-	-	-	-	-	-	-	-
Transfers in	-	-	140,872	-	-	-	-	-	-
Transfers out	-	(140,872)	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>8,184</u>	<u>(140,872)</u>	<u>140,872</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>336,244</u>	<u>(244,057)</u>	<u>(9,228)</u>	<u>41,636</u>	<u>200,093</u>	<u>533</u>	<u>(169,735)</u>	<u>-</u>	<u>23,391</u>
Cash and investments - ending	<u>\$ 2,077,809</u>	<u>\$ 408,318</u>	<u>\$ 65,357</u>	<u>\$ 1,027,958</u>	<u>\$ 1,559,180</u>	<u>\$ 176,232</u>	<u>\$ 1,373,180</u>	<u>\$ 445,061</u>	<u>\$ 291,760</u>

NORTH KNOX SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES),
 AND CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2014
 (Continued)

	Textbook Rental	Self- Insurance	Educational License Plates	Alternative Education	Early Intervention Grant	ASAI Grant 11-12	United Way Kdg Jumpstart 2014	Adult Education Reimb 2013-2014	Construction, Remodeling, and Equipping Buildings
Cash and investments - beginning	\$ 116,758	\$ 1,808,756	\$ 10,738	\$ 2,427	\$ 3,500	\$ 1,635	\$ -	\$ 5,543	\$ 1,500
Receipts:									
Local sources	133,613	1,151,428	-	-	-	-	3,000	41,628	-
Intermediate sources	-	-	244	-	-	-	-	-	-
State sources	-	-	-	3,510	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total receipts	133,613	1,151,428	244	3,510	-	-	3,000	41,628	-
Disbursements:									
Current:									
Instruction	-	-	-	5,478	-	-	-	38,881	-
Support services	130,404	185,139	-	459	-	1,064	-	3,750	-
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	274	-	-	-	-	-	-	-
Total disbursements	130,404	185,413	-	5,937	-	1,064	-	42,631	-
Excess (deficiency) of receipts over disbursements	3,209	966,015	244	(2,427)	-	(1,064)	3,000	(1,003)	-
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	3,209	966,015	244	(2,427)	-	(1,064)	3,000	(1,003)	-
Cash and investments - ending	\$ 119,967	\$ 2,774,771	\$ 10,982	\$ -	\$ 3,500	\$ 571	\$ 3,000	\$ 4,540	\$ 1,500

NORTH KNOX SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES),
 AND CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2014
 (Continued)

	Miscellaneous Programs	Duke Energy Foundation Grant	Books for Kids Donation	Trabant Foundation - Warrior Bus	High Ability Grant FY 11-12	High Ability Grant FY 13-14	High Ability Grant FY 12-13	Secured School Safety Grant	School Technology
Cash and investments - beginning	\$ 11,153	\$ 1,850	\$ 5	\$ -	\$ -	\$ -	\$ 962	\$ -	\$ 6,785
Receipts:									
Local sources	41,500	-	70	17,909	-	-	-	-	4,488
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	29,596	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Other	1,000	-	-	-	-	-	-	-	-
Total receipts	42,500	-	70	17,909	-	29,596	-	-	4,488
Disbursements:									
Current:									
Instruction	-	-	-	-	-	7,380	962	-	-
Support services	40,459	-	-	-	-	22,060	-	16,800	-
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	40,459	-	-	-	-	29,440	962	16,800	-
Excess (deficiency) of receipts over disbursements	2,041	-	70	17,909	-	156	(962)	(16,800)	4,488
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	2,041	-	70	17,909	-	156	(962)	(16,800)	4,488
Cash and investments - ending	\$ 13,194	\$ 1,850	\$ 75	\$ 17,909	\$ -	\$ 156	\$ -	\$ (16,800)	\$ 11,273

NORTH KNOX SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES),
 AND CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2014
 (Continued)

	Miscellaneous Programs	Title I - FY 12-13	Title I - FY 11-12	Title I - FY 13-14	Special Education Grant Fy 12-13	PL 94-142 Special Education 09-10	PL 101-476 IDEA 11-12	Special Education Grant FY 13-14
Cash and investments - beginning	\$ 9,337	\$ (9,079)	\$ -	\$ -	\$ (21,694)	\$ 8,830	\$ 2,401	\$ -
Receipts:								
Local sources	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	12,546	-	-	-	-	-	-	-
Federal sources	-	25,123	-	238,114	124,403	-	-	106,569
Other	-	-	-	-	-	-	-	-
Total receipts	12,546	25,123	-	238,114	124,403	-	-	106,569
Disbursements:								
Current:								
Instruction	-	14,486	-	227,695	100,335	8,830	2,401	145,396
Support services	-	-	-	1,000	2,374	-	-	-
Noninstructional services	-	1,558	-	42,860	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	-	16,044	-	271,555	102,709	8,830	2,401	145,396
Excess (deficiency) of receipts over disbursements	12,546	9,079	-	(33,441)	21,694	(8,830)	(2,401)	(38,827)
Other financing sources (uses):								
Proceeds of long-term debt	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	12,546	9,079	-	(33,441)	21,694	(8,830)	(2,401)	(38,827)
Cash and investments - ending	\$ 21,883	\$ -	\$ -	\$ (33,441)	\$ -	\$ -	\$ -	\$ (38,827)

NORTH KNOX SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES),
 AND CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2014
 (Continued)

	Technical Assistance, Special Education	Title II, Part A, FY 12	Title V, Part A	Title II, Part A, FY 09	Title II, Part A, FY 10	Title II, Part A, FY 11	Title II, Part A, FY 13	Rural and Low Income Schools FY 12
Cash and investments - beginning	\$ -	\$ (5,222)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:								
Local sources	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-
Federal sources	5,826	39,524	-	-	-	-	28,307	31,119
Other	-	-	-	-	-	-	-	-
Total receipts	5,826	39,524	-	-	-	-	28,307	31,119
Disbursements:								
Current:								
Instruction	5,135	31,092	-	-	-	-	33,928	-
Support services	850	3,210	-	-	-	-	-	31,119
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	5,985	34,302	-	-	-	-	33,928	31,119
Excess (deficiency) of receipts over disbursements	(159)	5,222	-	-	-	-	(5,621)	-
Other financing sources (uses):								
Proceeds of long-term debt	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(159)	5,222	-	-	-	-	(5,621)	-
Cash and investments - ending	\$ (159)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,621)	\$ -

NORTH KNOX SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES),
 AND CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2014
 (Continued)

	Rural and Low Income Schools FY 10	Rural and Low Income Schools FY 12-14	Education Jobs	Prepaid Food	Payroll Clearing	Totals
Cash and investments - beginning	\$ 24,603	\$ -	\$ -	\$ 6,311	\$ (4,927)	\$ 9,228,150
Receipts:						
Local sources	-	-	-	-	-	5,040,551
Intermediate sources	-	-	-	-	-	1,309
State sources	-	-	-	-	-	8,914,909
Federal sources	-	1,659	-	-	-	1,017,165
Other	-	-	-	-	2,104,454	2,106,834
Total receipts	-	1,659	-	-	2,104,454	17,080,768
Disbursements:						
Current:						
Instruction	-	-	-	-	-	6,784,291
Support services	-	4,141	-	-	-	4,581,760
Noninstructional services	-	-	-	-	-	888,495
Facilities acquisition and construction	8,270	-	-	-	-	346,685
Debt services	-	-	-	-	-	1,220,730
Nonprogrammed charges	-	-	-	-	2,083,264	2,143,538
Total disbursements	8,270	4,141	-	-	2,083,264	15,965,499
Excess (deficiency) of receipts over disbursements	(8,270)	(2,482)	-	-	21,190	1,115,269
Other financing sources (uses):						
Proceeds of long-term debt	-	-	-	-	-	8,184
Transfers in	-	-	-	-	-	140,872
Transfers out	-	-	-	-	-	(140,872)
Total other financing sources (uses)	-	-	-	-	-	8,184
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(8,270)	(2,482)	-	-	21,190	1,123,453
Cash and investments - ending	\$ 16,333	\$ (2,482)	\$ -	\$ 6,311	\$ 16,263	\$ 10,351,603

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NORTH KNOX SCHOOL CORPORATION
SCHEDULE OF PAYABLES AND RECEIVABLES
June 30, 2014

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental activities	<u>\$ 102,218</u>	<u>\$ 35,995</u>

NORTH KNOX SCHOOL CORPORATION
SCHEDULE OF LEASES AND DEBT
June 30, 2014

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
North Knox School Building Corporation	QZAB 2-School Renovations	\$ 114,403	12/20/03	06/30/20
North Knox School Building Corporation	QZAB 3-School Renovations	119,080	06/30/07	06/30/21
North Knox School Building Corporation	QZAB 4-Renovations and Equipping Projects	133,226	07/15/08	07/15/22
North Knox School Building Corporation	QZAB 5-School Renovations	213,000	06/30/13	12/31/26
North Knox School Building Corporation	QZAB 1-Rehabilitating/Repairing Public School Facility	143,700	06/30/02	12/30/15
North Knox School Building Corporation	Construction of Gym and Renovations to NK Jr. Sr. HS	<u>79,500</u>	06/17/13	12/31/28
Total governmental activities		<u>802,909</u>		
Total of annual lease payments		<u>\$ 802,909</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
General obligation bonds	School Pension Debt	\$ 1,310,000	\$ 278,229
Totals		<u>\$ 1,310,000</u>	<u>\$ 278,229</u>

NORTH KNOX SCHOOL CORPORATION
 SCHEDULE OF CAPITAL ASSETS
 June 30, 2014

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	\$ 337,729
Infrastructure	1,500,000
Buildings	10,141,714
Improvements other than buildings	324,561
Machinery, equipment, and vehicles	2,007,965
Construction in progress	4,800,000
Books and other	180,000
Total governmental activities	19,291,969
Total capital assets	\$ 19,291,969

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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
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: 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 THE NORTH KNOX SCHOOL CORPORATION, KNOX COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the North Knox 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 period of July 1, 2012 to June 30, 2014. 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 of the Major Federal Programs

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, 2012 to June 30, 2014.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-003 and 2014-005. Our opinion on each major federal program is not modified with respect to these 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 2014-003, 2014-004, 2014-005, 2014-006, and 2014-007 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

September 15, 2015

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.

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NORTH KNOX SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Years Ended June 30, 2013 and 2014

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 06-30-13	Total Federal Awards Expended 06-30-14
U.S. DEPARTMENT OF AGRICULTURE					
Child Nutrition Cluster	Indiana Department of Education				
School Breakfast Program		10.553	SY12-13 and SY13-14	\$ 98,686	\$ 99,605
National School Lunch Program		10.555	SY12-13 and SY13-14	342,929	359,810
Total for federal grantor agency				441,615	459,415
U.S. DEPARTMENT OF EDUCATION					
Title I, Part A Cluster					
Title I Grants to Local Educational Agencies	Indiana Department of Education	84.010			
FY 11-12 Basic Concentration Funds			S010A	138,438	-
FY 12-13 Basic Concentration Funds			S010A	299,940	25,123
FY 13-14 Basic Concentration Funds			S010A	-	238,114
Total - Title I, Part A Cluster				438,378	263,237
Special Education Cluster (IDEA)					
Special Education - Grants to States	Indiana Department of Education	84.027	14213-034-PN01 99914-34-TA01	212,480	230,972
Total - Special Education - Grants to States				212,480	236,798
Special Education - Preschool Grants	Indiana Department of Education	84.173	45711-034-PN01 45712-034-PN01 45713-034-PN01	8,331 10,479 -	- 7,999 10,944
Total - Special Education Preschool Grants				18,810	18,943
Total - Special Education Cluster (IDEA)				231,290	255,741
Rural Education	Indiana Department of Education	84.358	S358B	27,403	32,778
Improving Teacher Quality State Grants	Indiana Department of Education	84.367			
FY 10-11			S367A	12,403	-
FY 11-12			S367A	60,933	-
FY 12-13			S367A	23,728	38,650
FY 13-14			S367A	-	29,181
Total - Improving Teacher Quality Grant				97,064	67,831
Education Jobs Fund	Indiana Department of Education	84.410	2010 843410A	307,767	-
Total for federal grantor agency				1,101,902	619,587
Total federal awards expended				\$ 1,543,517	\$ 1,079,002

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

NORTH KNOX 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.

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 5-11-1-25), 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, 2013 and 2014. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2013	2014
National School Lunch Program	10.555	\$ 34,891	\$ 42,894

Note 3. Knox County Special Education Cooperative

The School Corporation is a member of a Special Education Cooperative. The Special Education Cooperative operates the Special Education Preschool Program for the School Corporation. As a result, some activity for the Special Education Cluster that is presented on the Schedule of Expenditures of Federal Awards is not presented as receipts and disbursements in the financial statement.

NORTH KNOX 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
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:

CFDA Number	Name of Federal Program or Cluster
84.410	Title I, Part A Cluster Special Education Cluster (IDEA) Education Jobs Fund

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 2014-001 - 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 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.

NORTH KNOX SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

During the audit of the SEFA, we noted the following errors: Child Nutrition Cluster expenditures of \$416,521 were omitted for the school year 2013-2014. 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.

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."

NORTH KNOX SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2014-002 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

The School Corporation has not separated incompatible activities related to receipts and payroll disbursements. The Treasurer issues all receipts, posts the receipts to the ledger, prepares the deposit slips, and takes the deposits to the bank. The Deputy Treasurer performs all payroll duties for the Corporation. The failure to establish controls in these areas could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

Control activities should be selected and developed at various levels of the School Corporation to reduce risks of error and/or fraud of 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 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)

Section III - Federal Award Findings and Questioned Costs

FINDING 2014-003 - ALLOWABLE COSTS

Federal Agency: U.S. Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Number and Year (or Other Identifying Number): S010A
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 over payroll, and time and effort reporting, related to the grant agreement and the Allowable Costs 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 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 program.

Approximately 98 percent of the funds disbursed from the Title I program were for compensation or personal services. One employee was solely responsible for preparing and generating the payroll. The School Corporation also has not established controls to ensure that personnel activity reports were prepared monthly and retained for audit.

The School Corporation has several employees who work on multiple activities or cost objectives, including Title I duties. When employees work on multiple activities, the grantee is required to support the salaries paid with personnel activity reports for the grant personnel. Inquiry of the Grant Coordinator, along with a review of grant files, determined that the personnel activity reports required to support compensation under OMB Circular A-87 were not available for audit.

NORTH KNOX SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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 program. 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."

OMB Circular A-87 Attachment B, Section 8(h), Compensation for personal services, states in part:

"Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation. . . .

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) . . .

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after the fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee."

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance of 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, to ensure compliance and comply with the grant agreement and compliance requirements listed above.

NORTH KNOX SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2014-004 - REPORTING

Federal Agency: U.S. Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Number and Year (or Other Identifying Number): S010A
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 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 program.

One employee was solely responsible for the preparation and submission of the Annual Expenditure Reports. There was no control in place to ensure that the submitted reports were accurate.

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 program. 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 of 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 compliance requirements listed above.

***FINDING 2014-005 - SPECIAL TESTS AND PROVISIONS -
PARTICIPATION OF PRIVATE SCHOOL CHILDREN***

Federal Agency: U.S. Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Number and Year (or Other Identifying Number): S010A
Pass-Through Entity: Indiana Department of Education

NORTH KNOX SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Management of the School Corporation has not established an effective internal control system over compliance with the Special Test and Provision - Participation of Private School Children. 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.

The School Corporation did not conduct consultations with private school officials to determine the kind of educational services to provide to eligible private school children regarding Title I Local Educational Grants requirements.

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."

20 USC 7881(c)(1) states in part:

"To ensure timely and meaningful consultation, a State educational agency, local educational agency, educational service agency, consortium of those agencies, or entity shall consult with appropriate private school officials during the design and development of the programs under this chapter, on issues such as—

- (A) how the children's needs will be identified;
- (B) what services will be offered;
- (C) how, where, and by whom the services will be provided;
- (D) how the services will be assessed and how the results of the assessment will be used to improve those services;
- (E) the size and scope of the equitable services to be provided to the eligible private school children, teachers, and other educational personnel and the amount of funds available for those services; and
- (F) how and when the agency, consortium, or entity will make decisions about the delivery of services, including a thorough consideration and analysis of the views of the private school officials on the provision of contract services through potential third-party providers."

The failure to establish internal controls enabled 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, to ensure compliance and comply with the grant agreement and compliance requirements listed above.

NORTH KNOX SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2014-006 - INTERNAL CONTROLS OVER THE SPECIAL EDUCATION CLUSTER

Federal Agency: U.S. Department of Education
Federal Program: Special Education - Grants to States
CFDA Numbers: 84.027
Federal Award Number and Year (or Other Identifying Number): 14213-034-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: Allowable Costs, Cash Management, Period of Availability, and Reporting. 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 program.

Approximately 95 percent of the funds disbursed from the Special Education program were for compensation or personal services. One employee was solely responsible for preparing and generating payroll. There was no control in place to ensure that the payrolls processed were accurate and all costs were allowable.

The School Corporation Treasurer was solely responsible for preparing and submitting the monthly reimbursement requests; ensuring that obligations for expenditures made with program funds were within the period of availability; and preparing and submitting the final reports for the Special Education program. There were no controls in place to ensure the reimbursement requests and reports were accurate and the period of availability requirements were met.

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 program. 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 of 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 related to the compliance requirements listed above.

NORTH KNOX SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2014-007 - INTERNAL CONTROLS OVER THE EDUCATION JOBS FUND

Federal Agency: U.S. Department of Education
Federal Program: Education Jobs Fund
CFDA Number: 84.410
Federal Award Number and Year (or Other Identifying Number): 2010 843410A
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 Allowable Costs 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 program.

The funds disbursed from the Education Jobs Fund program were entirely for compensation of certified personnel. One employee was solely responsible for preparing and generating payroll. There was no control in place to ensure that the payrolls processed were accurate and all costs were allowable.

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 program.

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 program. 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 of 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 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.

NORTH KNOX SCHOOL CORPORATION

Board of School Trustees

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President

V. Max Nickless
Vice-President

James E. Franklin
Secretary

Jarrod M. Chattin
Member

L. Vaughn Huey
Member

11110 N. STATE ROAD 159
BICKNELL, IN 47512

(812) 735-4434 • (812) 882-7538
FAX: (812) 328-6262

Dr. Darrel L. Bobe
Superintendent

Tricia Hall
Curriculum Director

Terri L. Roesler
Business Manager / Treasurer

Debbie Utt
Payroll/Personnel

Rhonda Priest
Secretary / Transportation Director

Ethan Singleton
Technology Coordinator

Kevin Curtis
Director of Buildings & Grounds

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2012-3 – PERIOD OF AVAILABILITY AND REPORTING

Original Assigned SBA Audit Report Number:	B41971
Report Period:	July 1, 2010 to June 30, 2012
Pass-Through Entity or Federal Grantor Agency:	Indiana Department of Education
Contact Person Responsible for Corrective Action:	Terri Roesler
Contact Phone Number:	812-735-4434

Status of Audit Finding:

The Treasurer and Payroll Clerk have strived to form a stronger line of communication and check and balance system to make sure expenditures are paid correctly from all grants and to stay within the obligated period of time for each grant.

In addition to cross checking reports, the Treasurer and Payroll Clerk (and Superintendent when necessary) are initialing reports to confirm that those documents have been proofed/reviewed by another individual.

Title I reports are also shared with the Title I Coordinator/Principal. The Title I Coordinator/Principal and Treasurer are also working closely together to maintain accurate recordkeeping. Because the Title I Coordinator/Principal is located several miles from the Administration Office, he is not initialing reports such as reimbursement requests. The Superintendent now initials all reimbursement requests before they are submitted.

Terri Roesler

Signature

Treasurer

Title

7/13/15

Date

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Director of Buildings & Grounds

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2012-4 –INTERNAL CONTROLS OVER TITLE I

Original Assigned SBA Audit Report Number:	B41971
Report Period:	July 1, 2010 to June 30, 2012
Pass-Through Entity or Federal Grantor Agency:	Indiana Department of Education
Contact Person Responsible for Corrective Action:	Terri Roesler
Contact Phone Number:	812-735-4434

Status of Audit Finding:

Because the Administration Office is small in size, there is limited capability of segregating work responsibilities. The Treasurer, Title I Coordinator and Superintendent work closely together when planning and submitting each year's Title I application and budget. The Treasurer and Title I Coordinator communicate more directly in an effort to maintain better record keeping of Title I materials.

The Treasurer, Payroll Clerk and Superintendent now initial reports to confirm another individual within the office has reviewed the reports prior to checks being written, receipts processed and grant reimbursement requests being submitted.

Terri Roesler

Signature

Treasurer

Title

7/13/15

Date

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Technology Coordinator

Kevin Curtis
Director of Buildings & Grounds

July 27, 2015

CORRECTIVE ACTION PLAN

Section II – Financial Statement Findings

FINDING 2014-001

Contact Person Responsible for Corrective Action: Terri Roesler, Treasurer
Contact Phone Number: 812-735-4434

Description of Corrective Action:

The ability to segregate duties is limited based on the number of individuals employed within the Central Office. Therefore, we have implemented procedures to cross check work. The Child Nutrition Cluster was omitted from the SEFA in error on the part of the Treasurer not realizing this program was considered a part of the Federal Grants.

Procedures have been put into place whereby the Superintendent signs/initials all reports prior to their submission.

Anticipated Completion Date:

The Child Nutrition Cluster will be included in future SEFA reports presently due the end of August, 2015 and will be presented to the Superintendent for his review and signature prior to submission.

FINDING 2014-002

Contact Person Responsible for Corrective Action: Terri Roesler, Treasurer
Contact Phone Number: 812-735-4434

Description of Corrective Action:

The ability to segregate duties is limited based on the number of individuals employed within the Central Office. Therefore, we have implemented procedures to cross check work. The Treasurer and/or Deputy Treasurer/Payroll Clerk may physically take checks to the bank. The Treasurer posts receipts to the bank only after the information has been reviewed and signed by the Payroll Clerk (or Superintendent in her absence) to verify accuracy.

The Payroll Clerk presents her Trial Journal to the Treasurer (or Superintendent in her absence) to review for accuracy and/or abnormalities. The Trial Journal is signed to verify it has been reviewed before the Payroll Clerk prints payroll checks.

Anticipated Completion Date:

Procedures were implemented May 2015 whereby the Treasurer and Payroll Clerk have receipt reports and payroll Trial Journals reviewed for accuracy and signed prior to posting and printing of checks.

All checks received by the Deputy Treasurer/Payroll Clerk are physically taken to the bank by the Treasurer. Checks submitted directly to the Treasurer are taken to the bank by the Deputy Treasurer/Payroll Clerk.

Section III Federal Award Findings and Questioned Costs

FINDING 2014-003

Contact Person Responsible for Corrective Action: Terri Roesler, Treasurer
Contact Phone Number: 812-735-4434

Description of Corrective Action:

The ability to segregate duties is limited based on the number of individuals employed within the Central Office. Therefore, we have implemented procedures to cross check work. Prior to running payroll checks and submitting tax information, the Payroll Clerk will have either the Treasurer or Superintendent review edit reports to check for any abnormalities and sign or initial the form.

The Treasurer and Title I Coordinator will have staff members paid from Title I Funds sign DOE Semi-Annual Certification Activity Report for Employees forms. Copies of the forms will be kept on file for audit purposes.

Anticipated Completion Date:

The Payroll Clerk began the procedure of having payroll edit forms reviewed and signed/initialed by the Treasurer or Superintendent May 2015.

DOE Semi Annual Certification Activity Report forms will be completed with the start of the 2015-16 school year.

FINDING 2014-004

Contact Person Responsible for Corrective Action: Terri Roesler, Treasurer
Contact Phone Number: 812-735-4434

Description of Corrective Action:

The ability to segregate duties is limited based on the number of individuals employed within the Central Office. Therefore, we have implemented procedures to cross check work. Prior to submitting expenditures reports, the Treasurer will have the Superintendent review the request for reimbursement form to check for any abnormalities and sign or initial the form.

Anticipated Completion Date:

The Treasurer began the procedure of having the Superintendent review and sign/initial reimbursement request forms prior to submission in May 2015.

FINDING 2014-005

Contact Person Responsible for Corrective Action: Terri Roesler, Treasurer
Contact Phone Number: 812-735-4434

Description of Corrective Action:

The Treasurer and/or Title I Coordinator will submit a letter to the private school located in the our county prior to submitting the Title I budget for the incoming school year requesting they indicate whether they would like to participate in the grant. A request will also be made to the private school for a roster of their free and reduced students to determine if there are any students attending from the North Knox School Corporation district who may be eligible for Title I services.

Anticipated Completion Date:

The Treasurer and/or Title I Coordinator will obtain a roster of free and reduced students attending the private school in our county after the start of the 2015-16 school year to gather information for the 2016-17 budget application.

A letter of request will be sent to the private school asking if they would like to participate in our Title I program in May 2016 prior to applying for the next year Title I budget.

FINDING 2014-006

Contact Person Responsible for Corrective Action: Terri Roesler, Treasurer
Contact Phone Number: 812-735-4434

Description of Corrective Action:

The ability to segregate duties is limited based on the number of individuals employed within the Central Office. Therefore, we have implemented procedures to cross check work. Prior to running payroll checks and submitting tax information, the Payroll Clerk will have either the Treasurer or Superintendent review edit reports to check for any abnormalities and sign or initial the form.

Prior to submitting the budget application, expenditure requests and final reports, the Treasurer will have the Superintendent review the reports to check for any abnormalities or discrepancies and sign the forms prior to submission.

Anticipated Completion Date:

The Payroll Clerk began the procedure of having payroll edit forms reviewed and signed/initialed by the Treasurer or Superintendent May 2015.

The Treasurer will have the Superintendent sign or initial the budget application and final report forms with the start of the 2015-16 school year. Expenditure requests have been signed by the Superintendent since the 2014-15 school year.

FINDING 2014-007

Contact Person Responsible for Corrective Action: Terri Roesler, Treasurer
Contact Phone Number: 812-735-4434

Description of Corrective Action:


The ability to segregate duties is limited based on the number of individuals employed within the Central Office. Therefore, we have implemented procedures to cross check work. Prior to running payroll checks and submitting tax information, the Payroll Clerk will have either the Treasurer or Superintendent will review edit reports to check for any abnormalities and sign or initial the form.

Prior to submitting the budget application, expenditure requests and final reports, the Treasurer will have the Superintendent review the reports to check for any abnormalities or discrepancies and sign the forms prior to submission.

Anticipated Completion Date:

The Payroll Clerk began the procedure of having payroll edit forms reviewed and signed/initialed by the Treasurer or Superintendent May 2015.

The Treasurer will have the Superintendent review and approve by signing/initialing the budget, expenditure requests and final reports for all future grants with the start of the 2015-16 school year.



Dr. Darrel Bobe, Superintendent



Terri Roesler, Treasurer

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/>.