

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

MANCHESTER COMMUNITY SCHOOLS
WABASH COUNTY, INDIANA

July 1, 2012 to June 30, 2014



FILED
03/29/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Kendra J. Miller	07-01-12 to 06-30-16
Superintendent of Schools	Dr. William C. Reichhart	07-01-12 to 06-30-16
President of the School Board	Brian Schilling Sally Krouse Steve Flack	07-01-12 to 12-31-12 01-01-13 to 12-31-14 01-01-15 to 12-31-16



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE MANCHESTER COMMUNITY SCHOOLS, WABASH COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Manchester Community Schools (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.

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 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 January 26, 2016, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Corporation's internal control over financial reporting and compliance.


Paul D. Joyce, CPA
State Examiner

January 26, 2016



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

TO: THE OFFICIALS OF THE MANCHESTER COMMUNITY SCHOOLS, WABASH 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 Manchester Community Schools (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 January 26, 2016, wherein we noted the School Corporation followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 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.

Manchester Community Schools' Response to Findings

The School Corporation's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

January 26, 2016

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FINANCIAL STATEMENT AND ACCOMPANYING NOTES

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

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MANCHESTER COMMUNITY SCHOOLS
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		Other Financing Sources (Uses)		Cash and Investments 06-30-13		Other Financing Sources (Uses)		Cash and Investments 06-30-14	
	Receipts	Disbursements			Receipts	Disbursements			Receipts	Disbursements
General	\$ 616,129	\$ 10,438,194	\$ 10,286,100	\$ -	\$ 768,223	\$ 10,733,964	\$ 10,769,903	\$ -	\$ 732,284	
Debt Service	599,522	1,135,421	1,132,954	25	602,014	1,262,187	1,221,072	(20,778)	622,351	
Retirement/Severance Bond Debt Service	121,338	218,093	217,617	-	121,814	220,389	218,231	-	123,972	
Capital Projects	558,647	1,830,749	1,892,867	26	496,555	1,721,436	1,777,486	9,556	450,061	
School Transportation	294,052	827,917	890,583	52,201	283,587	848,297	831,244	-	300,640	
School Bus Replacement	82,314	177,065	226,917	25	32,487	125,498	3,399	-	154,586	
Retirement/Severance Bond	1,341	-	-	-	1,341	-	-	-	1,341	
School Lunch	136,217	1,246,877	1,299,221	-	83,873	1,196,314	1,310,316	-	(30,129)	
Textbook Rental	(56,811)	131,805	37,245	-	37,749	224,532	287,950	20,778	(4,891)	
Levy Excess	39,769	12,508	-	(52,277)	-	-	-	-	-	
Educational License Plates	7,491	225	4,572	-	3,144	206	2,572	-	778	
Alternative Education	2,222	-	-	-	2,222	-	-	-	2,222	
Early Intervention Grant	-	9,812	9,812	-	-	-	-	-	-	
Donations/PEPSI	(16)	430	332	-	82	368	273	-	177	
Strauss Family Professional Development	18,216	10,000	-	-	28,216	-	7,082	-	21,134	
Monsanto Grant	-	-	-	-	-	25,000	24,122	-	878	
Auction	2,596	-	-	-	2,596	6,960	9,556	-	-	
Miscellaneous Programs/Ford Grant	9,248	15,000	22,248	-	2,000	15,000	16,137	-	863	
Miscellaneous Programs/Latchkey	430	-	-	-	430	-	-	-	430	
Community Foundation/Tri Kappa	1,976	1,092	1,214	-	1,854	479	1,565	-	768	
MES Playground Equipment	5,420	-	-	-	5,420	-	-	-	5,420	
MES Supplies/MC Donation	444	-	-	-	444	-	-	-	444	
Community Foundation Begindergarten FY12-13	-	5,000	5,000	-	-	-	-	-	-	
Community Foundation Begindergarten FY13-14	-	-	824	-	(824)	17,738	16,914	-	-	
Community Foundation Begindergarten FY14-15	-	-	-	-	-	10,000	-	-	10,000	
MIS/Student Financial Needs	1,074	-	25	-	1,049	-	158	-	891	
Academic Excellence	-	3,390	3,054	-	336	3,000	3,039	-	297	
Academic Teams	-	2,700	2,700	-	-	-	-	-	-	
Gifted and Talented FY11-12	773	-	773	-	-	-	-	-	-	
Gifted and Talented FY12-13	-	30,322	29,557	-	765	-	765	-	-	
Gifted and Talented FY13-14	-	-	-	-	-	30,261	30,261	-	-	
Secured School Safety Grant	-	-	-	-	-	12,932	18,936	-	(6,004)	
School Technology	(7,400)	58,448	27,023	-	24,025	87,100	60,985	-	50,140	
Title I FY 11-12	(18,442)	50,442	32,000	-	-	-	-	-	-	
Title I FY12-13	-	195,012	222,763	-	(27,751)	61,399	33,648	-	-	
Title I FY13-14	-	-	-	-	-	196,138	223,539	-	(27,401)	
Title II, Part A FY 11-12	(6,694)	16,646	9,952	-	-	-	-	-	-	
Title II, Part A FY12-13	-	49,216	50,073	-	(857)	2,970	2,113	-	-	
Title II, Part A FY13-14	-	-	-	-	-	26,394	28,394	-	(2,000)	
Title III - Language Instruction	646	-	411	-	235	-	235	-	-	
Non-English Speaking FY12-13	-	3,299	3,111	-	188	-	188	-	-	
Clearing	41,512	3,620,190	3,588,850	-	72,852	2,854,983	2,952,852	-	(25,017)	
Education Jobs	(11,747)	41,767	30,020	-	-	-	-	-	-	
Totals	\$ 2,440,267	\$ 20,131,620	\$ 20,027,818	\$ -	\$ 2,544,069	\$ 19,683,545	\$ 19,852,935	\$ 9,556	\$ 2,384,235	

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

MANCHESTER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

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

C. Cash and Investments

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

D. Receipts

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

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

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

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

MANCHESTER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

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

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

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

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements 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:

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

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

MANCHESTER COMMUNITY SCHOOLS
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.

MANCHESTER COMMUNITY SCHOOLS
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.

MANCHESTER COMMUNITY SCHOOLS
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 some funds with deficits in cash. This is a result of the funds being set up for reimbursable grants or from the under estimation of current requirements. The reimbursement for expenditures made by the School Corporation were not received by June 30.

MANCHESTER COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 8. *Holding Corporations*

The School Corporation has entered into a capital lease with Manchester Elementary School Building Corporation, and Manchester High School Building Corporation (the lessors). The lessors were organized as not-for-profit corporations pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessors have been determined to be a related party of the School Corporation. Lease payments during the fiscal years ended June 30, 2013 and 2014, totaled \$595,338 and \$706,000, respectively.

Note 9. *Subsequent Events*

On January 12, 2016, the School Corporation awarded a bid for unit ventilators in the amount of \$569,200.

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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.

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

	General	Debt Service	Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Retirement/ Severance Bond	School Lunch	Textbook Rental	Levy Excess	Educational License Plates
Cash and investments - beginning	\$ 616,129	\$ 599,522	\$ 121,338	\$ 558,647	\$ 294,052	\$ 82,314	\$ 1,341	\$ 136,217	\$ (56,811)	\$ 39,769	\$ 7,491
Receipts:											
Local sources	116,293	1,135,421	218,093	1,229,264	625,670	177,065	-	740,177	71,791	12,508	-
Intermediate sources	15	-	-	-	-	-	-	-	-	-	225
State sources	9,814,313	-	-	-	-	-	-	8,588	60,014	-	-
Federal sources	-	-	-	-	-	-	-	495,879	-	-	-
Temporary loans	500,000	-	-	600,000	200,000	-	-	-	-	-	-
Other	7,573	-	-	1,485	2,247	-	-	2,233	-	-	-
Total receipts	10,438,194	1,135,421	218,093	1,830,749	827,917	177,065	-	1,246,877	131,805	12,508	225
Disbursements:											
Current:											
Instruction	6,364,872	-	-	-	-	-	-	-	-	-	-
Support services	3,117,811	-	-	558,306	690,583	126,917	-	1,689	37,245	-	4,572
Noninstructional services	178,927	-	-	-	-	-	-	1,297,532	-	-	-
Facilities acquisition and construction	24,490	-	-	734,561	-	-	-	-	-	-	-
Debt services	600,000	1,132,954	217,617	600,000	200,000	100,000	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-	-	-
Total disbursements	10,286,100	1,132,954	217,617	1,892,867	890,583	226,917	-	1,299,221	37,245	-	4,572
Excess (deficiency) of receipts over disbursements	152,094	2,467	476	(62,118)	(62,666)	(49,852)	-	(52,344)	94,560	12,508	(4,347)
Other financing sources (uses):											
Transfers in	-	25	-	26	52,201	25	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-	(52,277)	-
Total other financing sources (uses)	-	25	-	26	52,201	25	-	-	-	(52,277)	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	152,094	2,492	476	(62,092)	(10,465)	(49,827)	-	(52,344)	94,560	(39,769)	(4,347)
Cash and investments - ending	\$ 768,223	\$ 602,014	\$ 121,814	\$ 496,555	\$ 283,587	\$ 32,487	\$ 1,341	\$ 83,873	\$ 37,749	\$ -	\$ 3,144

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

	Alternative Education	Early Intervention Grant	Donations/ PEPSI	Strauss Family Professional Development	Monsanto Grant	Auction	Miscellaneous Programs/ Ford Grant	Miscellaneous Programs/ Latchkey	Community Foundation/ Tri Kappa	MES Playground Equipment	MES Supplies/ MC Donation
Cash and investments - beginning	\$ 2,222	\$ -	\$ (16)	\$ 18,216	\$ -	\$ 2,596	\$ 9,248	\$ 430	\$ 1,976	\$ 5,420	\$ 444
Receipts:											
Local sources	-	-	430	10,000	-	-	15,000	-	1,092	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-	-	-
State sources	-	9,812	-	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Total receipts	-	9,812	430	10,000	-	-	15,000	-	1,092	-	-
Disbursements:											
Current:											
Instruction	-	9,812	-	-	-	-	-	-	-	-	-
Support services	-	-	332	-	-	-	-	-	-	-	-
Noninstructional services	-	-	-	-	-	-	22,248	-	1,214	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-	-	-
Total disbursements	-	9,812	332	-	-	-	22,248	-	1,214	-	-
Excess (deficiency) of receipts over disbursements	-	-	98	10,000	-	-	(7,248)	-	(122)	-	-
Other financing sources (uses):											
Transfers in	-	-	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	98	10,000	-	-	(7,248)	-	(122)	-	-
Cash and investments - ending	\$ 2,222	\$ -	\$ 82	\$ 28,216	\$ -	\$ 2,596	\$ 2,000	\$ 430	\$ 1,854	\$ 5,420	\$ 444

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

	Community Foundation Beginnergarten FY12-13	Community Foundation Beginnergarten FY13-14	Community Foundation Beginnergarten FY14-15	MIS/ Student Financial Needs	Academic Excellence	Academic Teams	Gifted and Talented FY11-12	Gifted and Talented FY12-13	Gifted and Talented FY13-14	Secured School Safety Grant	School Technology
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ 1,074	\$ -	\$ -	\$ 773	\$ -	\$ -	\$ -	\$ (7,400)
Receipts:											
Local sources	5,000	-	-	-	-	2,700	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	30,322	-	-	58,448
Federal sources	-	-	-	-	3,390	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Total receipts	5,000	-	-	-	3,390	2,700	-	30,322	-	-	58,448
Disbursements:											
Current:											
Instruction	5,000	824	-	-	-	-	773	29,557	-	-	-
Support services	-	-	-	-	3,054	-	-	-	-	-	27,023
Noninstructional services	-	-	-	25	-	2,700	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-	-	-
Total disbursements	5,000	824	-	25	3,054	2,700	773	29,557	-	-	27,023
Excess (deficiency) of receipts over disbursements	-	(824)	-	(25)	336	-	(773)	765	-	-	31,425
Other financing sources (uses):											
Transfers in	-	-	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(824)	-	(25)	336	-	(773)	765	-	-	31,425
Cash and investments - ending	\$ -	\$ (824)	\$ -	\$ 1,049	\$ 336	\$ -	\$ -	\$ 765	\$ -	\$ -	\$ 24,025

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

	Title I FY 11-12	Title I FY12-13	Title I FY13-14	Title II, Part A FY 11-12	Title II, Part A FY12-13	Title II, Part A FY13-14	Title III - Language Instruction	Non-English Speaking FY12-13	Clearing	Education Jobs	Totals
Cash and investments - beginning	\$ (18,442)	\$ -	\$ -	\$ (6,694)	\$ -	\$ -	\$ 646	\$ -	\$ 41,512	\$ (11,747)	\$ 2,440,267
Receipts:											
Local sources	-	-	-	-	-	-	-	-	-	-	4,360,504
Intermediate sources	-	-	-	-	-	-	-	-	-	-	240
State sources	-	-	-	-	-	-	-	3,299	-	-	9,984,796
Federal sources	50,442	195,012	-	16,646	49,216	-	-	-	-	41,767	852,352
Temporary loans	-	-	-	-	-	-	-	-	-	-	1,300,000
Other	-	-	-	-	-	-	-	-	3,620,190	-	3,633,728
Total receipts	50,442	195,012	-	16,646	49,216	-	-	3,299	3,620,190	41,767	20,131,620
Disbursements:											
Current:											
Instruction	26,907	217,252	-	9,952	50,073	-	411	3,111	-	21,492	6,740,036
Support services	5,093	5,157	-	-	-	-	-	-	-	8,528	4,586,310
Noninstructional services	-	354	-	-	-	-	-	-	-	-	1,503,000
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-	-	759,051
Debt services	-	-	-	-	-	-	-	-	-	-	2,850,571
Nonprogrammed charges	-	-	-	-	-	-	-	-	3,588,850	-	3,588,850
Total disbursements	32,000	222,763	-	9,952	50,073	-	411	3,111	3,588,850	30,020	20,027,818
Excess (deficiency) of receipts over disbursements	18,442	(27,751)	-	6,694	(857)	-	(411)	188	31,340	11,747	103,802
Other financing sources (uses):											
Transfers in	-	-	-	-	-	-	-	-	-	-	52,277
Transfers out	-	-	-	-	-	-	-	-	-	-	(52,277)
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	18,442	(27,751)	-	6,694	(857)	-	(411)	188	31,340	11,747	103,802
Cash and investments - ending	\$ -	\$ (27,751)	\$ -	\$ -	\$ (857)	\$ -	\$ 235	\$ 188	\$ 72,852	\$ -	\$ 2,544,069

MANCHESTER COMMUNITY SCHOOLS
 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	Retirement/ Severance Bond	School Lunch	Textbook Rental	Levy Excess	Educational License Plates
Cash and investments - beginning	\$ 768,223	\$ 602,014	\$ 121,814	\$ 496,555	\$ 283,587	\$ 32,487	\$ 1,341	\$ 83,873	\$ 37,749	\$ -	\$ 3,144
Receipts:											
Local sources	83,189	1,262,187	220,389	1,221,436	648,297	125,498	-	720,306	161,011	-	-
Intermediate sources	33	-	-	-	-	-	-	-	-	-	206
State sources	10,347,301	-	-	-	-	-	-	9,432	63,227	-	-
Federal sources	-	-	-	-	-	-	-	448,671	-	-	-
Temporary loans	300,000	-	-	500,000	200,000	-	-	-	-	-	-
Other	3,441	-	-	-	-	-	-	17,905	294	-	-
Total receipts	10,733,964	1,262,187	220,389	1,721,436	848,297	125,498	-	1,196,314	224,532	-	206
Disbursements:											
Current:											
Instruction	6,607,062	-	-	-	-	-	-	-	-	-	-
Support services	3,450,873	-	-	600,593	631,244	3,399	-	1,790	287,950	-	2,572
Noninstructional services	196,724	-	-	-	-	-	-	1,308,526	-	-	-
Facilities acquisition and construction	15,244	-	-	576,893	-	-	-	-	-	-	-
Debt services	500,000	1,221,072	218,231	600,000	200,000	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-	-	-
Total disbursements	10,769,903	1,221,072	218,231	1,777,486	831,244	3,399	-	1,310,316	287,950	-	2,572
Excess (deficiency) of receipts over disbursements	(35,939)	41,115	2,158	(56,050)	17,053	122,099	-	(114,002)	(63,418)	-	(2,366)
Other financing sources (uses):											
Sale of capital assets	-	-	-	9,556	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	20,778	-	-
Transfers out	-	(20,778)	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	(20,778)	-	9,556	-	-	-	-	20,778	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(35,939)	20,337	2,158	(46,494)	17,053	122,099	-	(114,002)	(42,640)	-	(2,366)
Cash and investments - ending	\$ 732,284	\$ 622,351	\$ 123,972	\$ 450,061	\$ 300,640	\$ 154,586	\$ 1,341	\$ (30,129)	\$ (4,891)	\$ -	\$ 778

MANCHESTER COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2014
 (Continued)

	Alternative Education	Early Intervention Grant	Donations/ PEPSI	Strauss Family Professional Development	Monsanto Grant	Auction	Miscellaneous Programs/ Ford Grant	Miscellaneous Programs/ Latchkey	Community Foundation/ Tri Kappa	MES Playground Equipment	MES Supplies/ MC Donation
Cash and investments - beginning	\$ 2,222	\$ -	\$ 82	\$ 28,216	\$ -	\$ 2,596	\$ 2,000	\$ 430	\$ 1,854	\$ 5,420	\$ 444
Receipts:											
Local sources	-	-	368	-	25,000	6,960	15,000	-	479	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Total receipts	-	-	368	-	25,000	6,960	15,000	-	479	-	-
Disbursements:											
Current:											
Instruction	-	-	-	-	24,122	-	-	-	-	-	-
Support services	-	-	273	7,082	-	9,556	-	-	-	-	-
Noninstructional services	-	-	-	-	-	-	16,137	-	1,565	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-	-	-
Total disbursements	-	-	273	7,082	24,122	9,556	16,137	-	1,565	-	-
Excess (deficiency) of receipts over disbursements	-	-	95	(7,082)	878	(2,596)	(1,137)	-	(1,086)	-	-
Other financing sources (uses):											
Sale of capital assets	-	-	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	95	(7,082)	878	(2,596)	(1,137)	-	(1,086)	-	-
Cash and investments - ending	\$ 2,222	\$ -	\$ 177	\$ 21,134	\$ 878	\$ -	\$ 863	\$ 430	\$ 768	\$ 5,420	\$ 444

MANCHESTER COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2014
 (Continued)

	Community Foundation Beginnergarten FY12-13	Community Foundation Beginnergarten FY13-14	Community Foundation Beginnergarten FY14-15	MIS/ Student Financial Needs	Academic Excellence	Academic Teams	Gifted and Talented FY11-12	Gifted and Talented FY12-13	Gifted and Talented FY13-14	Secured School Safety Grant	School Technology
Cash and investments - beginning	\$ -	\$ (824)	\$ -	\$ 1,049	\$ 336	\$ -	\$ -	\$ 765	\$ -	\$ -	\$ 24,025
Receipts:											
Local sources	-	17,738	10,000	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	30,261	12,932	87,100	-
Federal sources	-	-	-	-	3,000	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Total receipts	-	17,738	10,000	-	3,000	-	-	30,261	12,932	87,100	-
Disbursements:											
Current:											
Instruction	-	10,914	-	-	-	-	-	765	30,261	-	-
Support services	-	6,000	-	-	3,039	-	-	-	18,936	60,985	-
Noninstructional services	-	-	-	158	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-	-	-
Total disbursements	-	16,914	-	158	3,039	-	-	765	30,261	18,936	60,985
Excess (deficiency) of receipts over disbursements	-	824	10,000	(158)	(39)	-	-	(765)	-	(6,004)	26,115
Other financing sources (uses):											
Sale of capital assets	-	-	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	824	10,000	(158)	(39)	-	-	(765)	-	(6,004)	26,115
Cash and investments - ending	\$ -	\$ -	\$ 10,000	\$ 891	\$ 297	\$ -	\$ -	\$ -	\$ -	\$ (6,004)	\$ 50,140

MANCHESTER COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2014
 (Continued)

	Title I FY 11-12	Title I FY12-13	Title I FY13-14	Title II, Part A FY 11-12	Title II, Part A FY12-13	Title II, Part A FY13-14	Title III - Language Instruction	Non-English Speaking FY12-13	Clearing	Education Jobs	Totals
Cash and investments - beginning	\$ -	\$ (27,751)	\$ -	\$ -	\$ (857)	\$ -	\$ 235	\$ 188	\$ 72,852	\$ -	\$ 2,544,069
Receipts:											
Local sources	-	-	-	-	-	-	-	-	-	-	4,517,858
Intermediate sources	-	-	-	-	-	-	-	-	-	-	239
State sources	-	-	-	-	-	-	-	-	-	-	10,550,253
Federal sources	-	61,399	196,138	-	2,970	26,394	-	-	-	-	738,572
Temporary loans	-	-	-	-	-	-	-	-	-	-	1,000,000
Other	-	-	-	-	-	-	-	-	2,854,983	-	2,876,623
Total receipts	-	61,399	196,138	-	2,970	26,394	-	-	2,854,983	-	19,683,545
Disbursements:											
Current:											
Instruction	-	33,648	220,990	-	2,113	28,394	235	188	-	-	6,958,692
Support services	-	-	2,211	-	-	-	-	-	-	-	5,086,503
Noninstructional services	-	-	338	-	-	-	-	-	-	-	1,523,448
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-	-	592,137
Debt services	-	-	-	-	-	-	-	-	-	-	2,739,303
Nonprogrammed charges	-	-	-	-	-	-	-	-	2,952,852	-	2,952,852
Total disbursements	-	33,648	223,539	-	2,113	28,394	235	188	2,952,852	-	19,852,935
Excess (deficiency) of receipts over disbursements	-	27,751	(27,401)	-	857	(2,000)	(235)	(188)	(97,869)	-	(169,390)
Other financing sources (uses):											
Sale of capital assets	-	-	-	-	-	-	-	-	-	-	9,556
Transfers in	-	-	-	-	-	-	-	-	-	-	20,778
Transfers out	-	-	-	-	-	-	-	-	-	-	(20,778)
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	-	9,556
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	27,751	(27,401)	-	857	(2,000)	(235)	(188)	(97,869)	-	(159,834)
Cash and investments - ending	\$ -	\$ -	\$ (27,401)	\$ -	\$ -	\$ (2,000)	\$ -	\$ -	\$ (25,017)	\$ -	\$ 2,384,235

MANCHESTER COMMUNITY SCHOOLS
SCHEDULE OF LEASES AND DEBT
June 30, 2014

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
Apple Computer Company	IPAD Lease	\$ 157,812	4/20/2013	3/10/2017
Manchester High School Building Corporation	High School Building Corporation	514,000	7/1/1998	7/15/2019
Manchester Elementary School Building Corporation	Elementary School Building Corporation	<u>222,000</u>	7/15/2013	1/15/2025
Total governmental activities		<u>893,812</u>		
Total of annual lease payments		<u>\$ 893,812</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
Loans payable	Common School Loan	\$ 2,993,770	\$ 475,690
	Energy Savings	136,731	\$ 95,240
General obligation bonds	Pension Retirement	<u>1,110,000</u>	<u>213,131</u>
Total governmental activities		<u>4,240,501</u>	<u>784,061</u>
Totals		<u>\$ 4,240,501</u>	<u>\$ 784,061</u>

MANCHESTER COMMUNITY SCHOOLS
 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	\$ 29,879
Buildings	20,488,140
Improvements other than buildings	2,889,295
Machinery, equipment, and vehicles	6,396,009
Total governmental activities	29,803,323
Total capital assets	\$ 29,803,323

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE MANCHESTER COMMUNITY SCHOOLS, WABASH COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Manchester Community Schools' (School Corporation) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the period of July 1, 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 Major Federal Program

In our opinion, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the period of July 1, 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, 2014-005, and 2014-006. 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 2014-002, 2014-003, 2014-004, 2014-005, and 2014-006 to be material weaknesses.

The School Corporation's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

January 26, 2016

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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.

MANCHESTER COMMUNITY SCHOOLS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Years Ended June 30, 2013 and June 30, 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>DEPARTMENT OF AGRICULTURE</u>					
Child Nutrition Cluster					
School Breakfast Program	Indiana Department of Education	10.553	FY12-13/13-14	\$ 89,634	\$ 66,950
National School Lunch Program	Indiana Department of Education	10.555	FY12-13/13-14	426,051	410,617
Summer Food Service Program for Children	Indiana Department of Education	10.559	FY12-13/13-14	35,753	30,149
Total - Child Nutrition Cluster				551,438	507,716
Total - Department of Agriculture				551,438	507,716
<u>DEPARTMENT OF EDUCATION</u>					
Title I, Part A Cluster					
Title I Grants to Local Educational Agencies	Indiana Department of Education	84.010			
			12-8045	50,442	-
			13-8045	195,012	61,399
			14-8045	-	196,138
Total - Title I Grants to Local Educational Agencies				245,454	257,537
Total - Title I, Part A Cluster				245,454	257,537
Special Education Cluster (IDEA)					
Special Education - Grants to States	Indiana Department of Education	84.027			
			14211-058-PN01	27,462	-
			14212-058-PN01	91,352	21,791
			14213-058-PN01	275,120	97,582
			14214-058-PN01	-	260,331
Technical Assistance Grant			99914-058-TA01	-	3,439
Total - Special Education - Grants to States				393,934	383,143

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

MANCHESTER COMMUNITY SCHOOLS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Years Ended June 30, 2013 and June 30, 2014
 (Continued)

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-13	Total Federal Awards Expended 06-30-14
<u>DEPARTMENT OF EDUCATION (continued)</u>					
Special Education Cluster (IDEA) (continued)					
Special Education - Preschool Grants	Indiana Department of Education	84.173			
			45712-058-PN01	4,244	-
			45713-058-PN01	6,679	5,005
			45714-058-PN01	-	6,176
				<u>10,923</u>	<u>11,181</u>
Total - Special Education - Preschool Grants					
				<u>10,923</u>	<u>11,181</u>
Total - Special Education Cluster (IDEA)				<u>404,857</u>	<u>394,324</u>
Improving Teacher Quality State Grants	Indiana Department of Education	84.367			
			11-8045	16,646	-
			12-8045	49,216	2,970
			13-8045	-	26,394
				<u>65,862</u>	<u>29,364</u>
Total - Improving Teacher Quality State Grants					
				<u>65,862</u>	<u>29,364</u>
Education Jobs Fund	Indiana Department of Education	84.410			
			11-8045	41,767	-
				<u>41,767</u>	<u>-</u>
Total - Department of Education				<u>757,940</u>	<u>681,225</u>
Total federal awards expended				<u>\$ 1,309,378</u>	<u>\$ 1,188,941</u>

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

MANCHESTER COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the 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	For the Year Ended June 30, 2013	For the Year Ended June 30, 2014
National School Lunch Program	10.555	\$ 55,049	\$ 59,045

MANCHESTER COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	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:

_____ Name of Federal Program or Cluster _____

Child Nutrition Cluster
Title I, Part A Cluster
Special Education Cluster

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

Auditee qualified as low-risk auditee?	no
--	----

Section II - Financial Statement Findings

FINDING 2014-001 - INTERNAL CONTROLS OVER THE 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.

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

During the audit of the SEFA, we noted the following errors for the 2012-2013 school year: the Child Nutrition Cluster had under reported expenditures of \$55,560; Title I, Part A Cluster over reported expenditures by \$9,308; Improving Teacher Quality State Grants under reported expenditures by \$5,836; Education Jobs Fund under reported expenditures by \$41,767, and there were \$30,330 of non-federal expenditures reported. We noted the following errors for the 2013-2014 school year: the Child Nutrition Cluster had under reported expenditures of \$507,716; Title I, Part A Cluster under reported expenditures by \$61,399; Improving Teacher Quality State Grants under reported expenditures by \$2,970, and there were \$73,319 of non-federal expenditures reported. 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.

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

- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

Section III - Federal Award Findings and Questioned Costs

FINDING 2014-002 - INTERNAL CONTROLS OVER TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Number and Year: 12-8045, 13-8045, 14-8045
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 that have a direct and material effect to the programs. This includes the following compliance requirements: Cash Management and Reporting.

Cash Management and Reporting

The School Corporation has not designed or implemented adequate policies or procedures to ensure that required reports, Requests for Reimbursement, were accurately prepared. One employee was solely responsible for preparing and submitting all required reports, including reimbursement requests. There was no segregation of duties, such as an oversight or approval process.

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."

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

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.

FINDING 2014-003 - ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Number and Year: 12-8045, 13-8045, 14-8045
Pass-Through Entity: Indiana Department of Education

One of the Allowable Costs/Costs Principles compliance requirements for Title I Grant funding is the maintenance of Time and Effort logs to document employees that are paid from both Title I Grant funds and other funds for various functions. The School Corporation did not maintain these logs during the audit period. During the audit period, six employees were paid from both the School Corporation's General fund and Title I Grant funding. These six employees should have maintained Time and Effort logs to document the amount of their time spent on Title I activities versus their time spent on other activities. The Title I Director did not require them to maintain these logs nor did the School Corporation's internal control system detect the noncompliance of not maintaining Time and Effort logs.

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.

34 CFR 80.22 states:

"(a) *Limitation on use of funds.* Grant funds may be used only for:

- (1) The allowable costs of the grantees, subgrantees and cost-type contractors, including allowable costs in the form of payments to fixed-price contractors; and
- (2) Reasonable fees or profit to cost type contractors but not any fee or profit (or other increment above allowable costs) to the grantee or subgrantee.

(b) For each kind of organization, there is a set of Federal principles for determining allowable costs. For the costs of a State, local, or Indian tribal government, the Secretary applies the cost principles in OMB Circular A-87, as amended on June 9, 1987."

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

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

". . . (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

(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) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

(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."

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. Lack of Time and Effort logs could cause payroll to be charged to Title I programs without proper evidence of employees working on Title I projects. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the School Corporation.

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

We recommend that management of the School Corporation maintain the Time and Effort logs to document time worked on Title I activities and to establish internal controls, including segregation of duties, to ensure that all compliance requirements that have a direct and material effect to the program are complied with.

FINDING 2014-004 - INTERNAL CONTROLS OVER CHILD NUTRITION CLUSTER

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Years: FY 2012/2013, FY 2013/2014

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 that have a direct and material effect to the programs. This includes the following compliance requirements: Cash Management, Eligibility, Program Income, and Reporting.

Cash Management

The School Corporation has not designed or implemented adequate policies or procedures to ensure that cash management is monitored for compliance with program requirements. No one monitors the fund balances to ensure that the balances do not exceed the allowable limits.

Eligibility (NSLP)

The School Corporation has not designed or implemented adequate policies or procedures to ensure that students' eligibility for free and reduced price lunches is properly determined in compliance with program requirements. One person is solely responsible for inputting applications into the computer software system which determines eligibility. An oversight or review process has not been established to ensure accurate eligibility determinations.

Program Income

The School Corporation has not designed or implemented adequate policies or procedures to ensure that program income was properly determined in compliance with program requirements. The documentation supporting program income was not provided by the School Corporation officials. An oversight or review process has not been established to ensure accurate program income documentation.

Reporting

The School Corporation has not designed or implemented adequate policies or procedures to ensure that required reports were accurately prepared. One employee was solely responsible for preparing and submitting all required reports. There was no segregation of duties, such as an oversight or approval process.

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

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

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

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

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

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance 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.

***FINDING 2014-005 - SPECIAL TESTS AND PROVISIONS - ELIGIBILITY
VERIFICATION OF FREE AND REDUCE LUNCH APPLICATIONS***

Federal Agency: Department of Agriculture

Federal Program: National School Lunch Program, School Breakfast Program

CFDA Number: 10.555, 10.553

Federal Award Number and Year (or Other Identifying Number): FY 12-13, FY 13-14

Pass-Through Entity: Indiana Department of Education

The School Corporation was unable to produce evidence that the required verification of income eligibility for free and reduce lunch applications had been performed. The results of test checks are to be reported to the Indiana Department of Education in accordance with 7CFR 245.6(a).

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

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

7 CFR 245.6a Verification Requirements states in part:

"(a) *Definitions*: . . .

- (5) *Sample size*. For the purposes of this section, 'sample size' means the number of approved applications that a local educational agency is required to verify based on the number of approved applications on file as of October 1 of the current school year.
- (6) *School year*. For the purposes of this section, a school year means a period of 12 calendar months beginning July 1 of any year and ending June 30 of the following year. . . .
- (7) *Sources of information*. For the purposes of this section, sources of information for verification may include written evidence, collateral contacts, and systems of records as follows: . . .

(c) *Verification requirement-(1) General*. The local education agency must verify eligibility of children in a sample of household applications approved for free and reduced price meals benefits for that school year."

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. Failure to comply with Eligibility Verification requirements could result in sanctions from the grantor or pass-through agency.

We recommended that the School Corporation prepare and retain Eligibility Verification files for each school year.

FINDING 2014-006 - SPECIAL TESTS AND PROVISIONS - PAID LUNCH EQUITY

Federal Agency: Department of Agriculture
Federal Program: National School Lunch Program, School Breakfast Program
CFDA Number: 10.555, 10.553
Federal Award Number and Year (or Other Identifying Number): FY 12-13, FY 13-14
Pass-Through Entity: Indiana Department of Education

The School Corporation did not perform the necessary calculation for paid lunch equity during the audit period. The School Corporation did increase prices in FY12-13 and FY13-14, based on cash flow needs.

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

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

7 CFR 210.14 states in part:

"(e) *Pricing paid lunches.* For each school year beginning July 1, 2011, school food authorities shall establish prices for paid lunches in accordance with this paragraph.

(1) *Calculation procedures.* Each school food authority shall:

(i) Determine the average price of paid lunches. The average shall be determined based on the total number of paid lunches claimed for the month of October in the previous school year, at each different price charged by the school food authority.

(ii) Calculate the difference between the per meal Federal reimbursement for paid and free lunches received by the school food authority in the previous school year (*i.e.*, the reimbursement difference);

(iii) Compare the average price of a paid lunch under paragraph (e)(1)(i) of this section to the difference between reimbursement rates under paragraph (e)(1)(ii) of this section. . . .

(3) *Average lunch price is lower than the reimbursement difference.* When the average price from the prior school year is lower than the difference in reimbursement rates as determined in paragraph (e)(1)(iii) of this section, the school food authority shall establish an average price for the current school year that is not less than the average price charged in the previous school year as adjusted by a percentage equal to the sum obtained by adding:

(i) 2 percent; and

(ii) The percentage change in the Consumers Price Index for All Urban Consumers used to increase the Federal reimbursement rate under section 11 of the Act for the most recent school year for which data are available. The percentage to be used is found in the annual notice published in the FEDERAL REGISTER announcing the national average payment rates, from the prior year.

(4) *Price Adjustments.*

(i) *Maximum required price increase.* The maximum annual average price increase required under this paragraph shall not exceed ten cents.

(ii) *Rounding of paid lunch prices.* Any school food authority may round the adjusted price of the paid lunches down to the nearest five cents.

(iii) *Optional price increases.* A school food authority may increase the average price by more than ten cents. . . .

(6) *Additional considerations.*

(i) In any given year, if a school food authority with an average price lower than the reimbursement difference is not required by paragraph (e)(4)(ii) of this section to increase its average price for paid lunches, the school food authority shall use the unrounded average price as the basis for calculations to meet paragraph (e)(3) of this section for the next school year.

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

(ii) If a school food authority has an average price lower than the reimbursement difference and chooses to increase its average price for paid lunches in any school year more than is required by this section, the amount attributable to the additional voluntary increase may be carried forward to the next school year(s) to meet the requirements of this section.

(iii) For the school year beginning July 1, 2011 only, the limitations for non-Federal contributions in paragraph (e)(5)(iii) of this section do not apply.

(7) *Reporting lunch prices.* In accordance with guidelines provided by FNS:

(i) School food authorities shall report prices charged for paid lunches to the State agency; and

(ii) State agencies shall report these prices to FNS.

(f) *Revenue from nonprogram foods.* Beginning July 1, 2011, school food authorities shall ensure that the revenue generated from the sale of nonprogram foods complies with the requirements in this paragraph.

(1) *Definition of nonprogram foods.* For the purposes of this paragraph, nonprogram foods are those foods and beverages:

(i) Sold in a participating school other than reimbursable meals and meal supplements; and

(ii) Purchased using funds from the nonprofit school food service account.

(2) *Revenue from nonprogram foods.* The proportion of total revenue from the sale of nonprogram foods to total revenue of the school food service account shall be equal to or greater than:

(i) The proportion of total food costs associated with obtaining nonprogram foods to

(ii) The total costs associated with obtaining program and nonprogram foods from the account.

(3) All revenue from the sale of nonprogram foods shall accrue to the nonprofit school food service account of a participating school food authority."

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. Failure to comply with Paid-Lunch Equity requirements could result in sanctions from the grantor or pass-through agency.

We recommended that the School Corporation prepare and maintain calculations each school year and increase prices accordingly, if necessary.

AUDITEE PREPARED DOCUMENT

The subsequent document was provided by management of the School Corporation. The document is presented as intended by the School Corporation.

CORRECTIVE ACTION PLAN

FINDING 2014-001 – INTERNAL CONTROLS OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact person Responsible for Corrective Action: Scott Bumgardner
Contact Phone Number: 260-982-7518

Description of Corrective Action Plan:

1. Adjustments proposed for the errors found on the Schedule of Expenditures of Federal Awards (SEFA) were accepted, and made to the SEFA.
2. Internal controls are in place, as of June 1, 2015, for additional verification by someone other than the preparer for the SEFA reporting process.

FINDING 2014-002 – INTERNAL CONTROLS OVER TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number 84.010
Federal Award Number and Year: 12-8045, 13-8045, 14-8045
Pass-Through Entity: Indiana Department of Education

Description of Corrective Action Plan:

1. An Internal Control System, as of June 1, 2015, including the segregation of duties of cash management and reporting, are in place for additional verification by someone other than the preparer.

FINDING 2014-003 – ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number 84.010

Federal Award Number and Year: 12-8045, 13-8045, 14-8045

Pass-Through Entity: Indiana Department of Education

Description of Corrective Action Plan:

1. Maintenance of time and effort logs will be used, as of June 1, 2015, to document employees that are paid from both Title I Grant funds and other funds for various functions.
2. Internal controls are in place, as of June 1, 2015, including the segregation of duties, for additional verification by someone other than the preparer.

FINDING 2014-004 – INTERNAL CONTROLS OVER CHILD NUTRITION CLUSTER

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program, Summer Food Service Program for children

CFDA Numbers: 10.553, 10.555, 10.559

Federal Award Years: FY 2012/2013, FY 2013-2014

Pass-Through Entity: Indiana Department of Education

Description of Corrective Action Plan:

1. An Internal Control System, as of June 1, 2015, including the segregation of duties of Cash Management, Eligibility, Program Income, and Reporting are in place for additional verification by someone other than the preparer.
2. Proper oversight, reviews, and approvals will take place due to this segregation of duties.

FINDING 2014-005, SPECIAL TESTS AND PROVISIONS – ELIGIBILITY VERIFICATION

Federal Agency: Department of Agriculture

Federal Program: National School Lunch Program, School Breakfast Program

CFDA Number: 10.555, 10.553

Federal Award Number and Year (or Other Identifying Number): FY 12-13, FY 13-14

Pass-Through Entity: Indiana Department of Education

Description of Corrective Action Plan:

1. Required evidence of Income Verification will be performed.
2. Internal controls are in place, as of June 1, 2015, including the segregation of duties, for additional verification by someone other than the preparer.

FINDING 2014-006 – SPECIAL TESTS AND PROVISIONS – PAID LUNCH EQUITY

Federal Agency: Department of Agriculture

Federal Program: National School Lunch Program, School Breakfast Program

CFDA Number: 10.555, 10.553

Federal Award Number and Year (or Other Identifying Number): FY 12-13, FY 13-14

Pass-Through Entity: Indiana Department of Education

Description of Corrective Action Plan:

1. Necessary calculations for paid lunch equity will be in effect.
2. Internal controls are in place, as of June 1, 2015, including the segregation of duties, for additional verification by someone other than the preparer.



Signature

Treasurer

Title

7-1-15

Date



Signature

Business Manager

Title

7-1-15

Date

OTHER REPORT

In addition to this report, a Supplemental Compliance Report has been issued for the School Corporation. That report can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.