

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

SALEM COMMUNITY SCHOOLS
WASHINGTON COUNTY, INDIANA

July 1, 2013 to June 30, 2015



FILED
09/22/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Geneva Sue Collier Ruth D. Gilbert	07-01-13 to 04-17-16 04-18-16 to 12-31-16
Superintendent of Schools	Dr. D. Lynn Reed	07-01-13 to 12-31-19
President of the School Board	Steven R. Motsinger Dr. Tricia Wheeler Steven R. Motsinger	01-01-13 to 12-31-13 01-01-14 to 12-31-14 01-01-15 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statement

We have audited the accompanying financial statement of the Salem Community Schools (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2013 to June 30, 2015, and the related notes to the financial statement as listed in the Table of Contents.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School Corporation's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

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

As discussed in Note 1 of the financial statement, the School Corporation prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the School Corporation for the period of July 1, 2013 to June 30, 2015.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the School Corporation for the period of July 1, 2013 to June 30, 2015, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Matters

Supplementary Information

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


Other Information

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated July 25, 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

July 25, 2016



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 SALEM COMMUNITY SCHOOLS, WASHINGTON COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the Salem Community Schools (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2013 to June 30, 2015, and the related notes to the financial statement, and have issued our report thereon dated July 25, 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 a material weakness.

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 2015-001 to be a material weakness.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001.

Salem Community Schools' Response to Findings

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

Purpose of This Report

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


Paul D. Joyce, CPA
State Examiner

July 25, 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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SALEM COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Years Ended June 30, 2014 and 2015

Fund	Cash and Investments 07-01-13	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-14	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-15
General	\$ 721,419	\$ 12,557,842	\$ 12,603,049	\$ (36,565)	\$ 639,647	\$ 12,572,403	\$ 12,840,794	\$ 43,388	\$ 414,644
Debt Service	647,924	2,187,402	2,043,086	-	792,240	2,368,142	2,032,131	-	1,128,251
Retirement/Severance Bond Debt Service	99,095	207,369	202,166	-	104,298	210,701	199,694	-	115,305
Capital Projects	734,464	1,404,139	1,460,492	-	678,111	3,107,315	3,178,246	(20,000)	587,180
School Transportation	56,440	876,545	932,984	-	1	828,837	810,419	200	18,619
School Bus Replacement	207,857	199,683	247,279	-	160,261	198,603	104,279	(180,000)	74,585
Rainy Day	-	-	-	-	-	-	-	200,000	200,000
School Lunch	564,055	873,692	888,949	(36,340)	512,458	996,137	974,949	(36,984)	496,662
Textbook Rental	249,780	168,381	114,925	305	303,541	165,113	149,811	306	319,149
Levy Excess	-	-	-	-	-	567	-	-	567
Educational License Plates	678	319	400	-	597	223	-	-	820
Alternative Education	-	4,574	77,479	72,905	-	5,099	5,099	-	-
US Fish/Wildlife DNR Grant	2,080	-	2,080	-	-	-	-	-	-
Washington County Community Foundation Grants	750	3,262	2,862	-	1,150	3,309	4,046	-	413
IUSE Teaching About ASIA Grant	300	-	300	-	-	-	-	-	-
Monsanto Grant	820	10,000	10,545	-	275	-	275	-	-
SHS Counseling Department Fund	-	7,500	288	-	7,212	10,000	1,724	-	15,488
High Ability Grant G/T	1,049	32,175	22,691	-	10,533	34,673	36,039	-	9,167
Tech Prep	(100)	10,168	10,068	-	-	-	-	-	-
Drug Free Communities	2,219	-	1,215	-	1,004	-	-	-	1,004
Medicaid Reimbursement	-	68	-	-	68	-	-	-	68
Secured Schools Safety Grant	-	-	13,000	-	(13,000)	65,416	54,500	-	(2,084)
NRA Foundation Grant-SMS	-	10	10	-	-	-	-	-	-
School Technology	1,147	4,140	4,116	-	1,171	4,192	4,108	-	1,255
Performance Based Awards	-	-	-	-	-	52,886	52,886	-	-
Indiana Youth Institute Grant	750	-	750	-	-	-	-	-	-
Senator David Ford Technology	-	-	-	-	-	9,000	9,000	-	-
Title I 2012-13	(62,953)	143,776	80,823	-	-	-	-	-	-
Title I 2013-14	-	365,049	373,178	-	(8,129)	89,669	81,540	-	-
Title I 2014-15	-	-	-	-	-	388,084	420,886	-	(32,802)
(IDEA, Part B) LEA Capacity Building (Sliver) Grants	-	69,952	69,952	-	-	-	-	-	-
21st Century Community Learning Grant	-	210,000	213,584	-	(3,584)	3,750	166	-	-
Improving Teaching Quality, No Child Left, Title II, Part A	-	67,611	74,772	-	(7,161)	106,879	106,172	-	(6,454)
Prepaid Lunches	12,628	290,313	289,056	-	13,885	326,185	325,374	-	14,696
Clearing Accounts	13,103	4,306,463	4,301,075	-	18,491	4,164,338	4,169,049	-	13,780
Totals	\$ 3,253,505	\$ 24,000,433	\$ 24,041,174	\$ 305	\$ 3,213,069	\$ 25,711,521	\$ 25,561,187	\$ 6,910	\$ 3,370,313

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

SALEM COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, the following: 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.

SALEM COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

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

Federal sources, which 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.

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

Other receipts, which include amounts received from various sources including, but not limited to, the following: 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.

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

SALEM COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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.

SALEM COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 4. Deposits and Investments

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

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

Note 5. Risk Management

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

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

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is 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:

SALEM COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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.

C. Additional Pension Plans

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

SALEM COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 7. Cash Balance Deficits

The financial statement contains some funds with deficits in cash as a result of expenditures being made by the School Corporation for reimbursable grants and reimbursements for the expenditures not being received by June 30, 2014 and 2015.

Note 8. Holding Corporations

The School Corporation has entered into a capital lease with the Salem High School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related-party of the School Corporation. Lease payments during the years 2014 and 2015 totaled \$1,040,000 and \$1,042,000, respectively.

The School Corporation has entered into capital leases with the Salem Middle School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related-party of the School Corporation. Lease payments during the years 2014 and 2015 totaled \$983,000 and \$983,500, respectively.

Note 9. Subsequent Events

On July 22, 2015, the School Corporation was awarded a Pre-Disaster Mitigation grant from the Indiana Department of Homeland Security for construction of an interior safe room at Bradie Shrum Elementary School. The safe room will provide shelter for students and faculty in the event of a tornado. The total approved project was \$2,123,228. The total grant awarded for the project was \$1,592,421 with the balance of \$530,807 to be the local share.

On March 14, 2016, the School Corporation entered into a Guaranteed Savings Contract with Shambaugh & Sons, LP in the amount of \$1,586,612 for Lower Bradie Shrum ES Infrastructure Improvements.

On February 8, 2016, the School Corporation approved an addendum to the lease with the Salem High School Building Corporation. The total lease payments to be made by the School Corporation were increased from \$4,929,000 to \$7,075,000 and were extended from December 31, 2020 to December 31, 2023. The additional lease payments will be used to finance improvements to Bradie Shrum Elementary and refinanced the original bond issue of the holding corporation.

On March 16, 2016, the School Corporation received \$20,000 for a Good Faith deposit on a bond issue. On April 7, 2016, the School Corporation received \$2,016,794 from the sale of the General Obligation Bonds of 2016. From the proceeds, \$2,000,000 was receipted into the Construction Fund and \$36,794 was receipted into the Debt Service Fund. The proceeds of the bond issue are to be used for improvements at Bradie Shrum Elementary. The bonds have a maturity date of January 15, 2024.

SALEM COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 10. Other Postemployment Benefits

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

Note 11. Combined Funds

Funds related to School Lunch and Prepaid Lunches are reported individually in the current financial statement, but were combined into one fund for the prior financial statement.

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.

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

	General	Debt Service	Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Rainy Day	School Lunch	Textbook Rental
Cash and investments - beginning	\$ 721,419	\$ 647,924	\$ 99,095	\$ 734,464	\$ 56,440	\$ 207,857	\$ -	\$ 564,055	\$ 249,780
Receipts:									
Local sources	61,205	2,187,402	207,369	1,404,139	825,968	199,683	-	294,477	89,977
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	12,496,637	-	-	-	-	-	-	8,237	78,404
Federal sources	-	-	-	-	-	-	-	570,978	-
Interfund loans	-	-	-	-	36,219	-	-	-	-
Other receipts	-	-	-	-	14,358	-	-	-	-
Total receipts	<u>12,557,842</u>	<u>2,187,402</u>	<u>207,369</u>	<u>1,404,139</u>	<u>876,545</u>	<u>199,683</u>	<u>-</u>	<u>873,692</u>	<u>168,381</u>
Disbursements:									
Instruction	9,150,913	-	-	-	-	-	-	-	-
Support services	3,440,891	-	-	1,087,082	932,984	211,060	-	-	114,350
Noninstructional services	-	-	-	-	-	-	-	888,949	575
Facilities acquisition and construction	-	-	-	373,410	-	-	-	-	-
Debt services	6,888	2,043,086	202,166	-	-	-	-	-	-
Nonprogrammed charges	4,357	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	36,219	-	-	-
Total disbursements	<u>12,603,049</u>	<u>2,043,086</u>	<u>202,166</u>	<u>1,460,492</u>	<u>932,984</u>	<u>247,279</u>	<u>-</u>	<u>888,949</u>	<u>114,925</u>
Excess (deficiency) of receipts over disbursements	<u>(45,207)</u>	<u>144,316</u>	<u>5,203</u>	<u>(56,353)</u>	<u>(56,439)</u>	<u>(47,596)</u>	<u>-</u>	<u>(15,257)</u>	<u>53,456</u>
Other financing sources (uses):									
Sale of capital assets	-	-	-	-	-	-	-	-	305
Transfers in	36,340	8,088	-	-	-	-	-	-	-
Transfers out	(72,905)	(8,088)	-	-	-	-	-	(36,340)	-
Total other financing sources (uses)	<u>(36,565)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(36,340)</u>	<u>305</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(81,772)</u>	<u>144,316</u>	<u>5,203</u>	<u>(56,353)</u>	<u>(56,439)</u>	<u>(47,596)</u>	<u>-</u>	<u>(51,597)</u>	<u>53,761</u>
Cash and investments - ending	<u>\$ 639,647</u>	<u>\$ 792,240</u>	<u>\$ 104,298</u>	<u>\$ 678,111</u>	<u>\$ 1</u>	<u>\$ 160,261</u>	<u>\$ -</u>	<u>\$ 512,458</u>	<u>\$ 303,541</u>

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

	Levy Excess	Educational License Plates	Alternative Education	US Fish/ Wildlife DNR Grant	Washington County Community Foundation Grants	IUSE Teaching About ASIA Grant	Monsanto Grant	SHS Counseling Department Fund	High Ability Grant G/T
Cash and investments - beginning	\$ -	\$ 678	\$ -	\$ 2,080	\$ 750	\$ 300	\$ 820	\$ -	\$ 1,049
Receipts:									
Local sources	-	-	-	-	3,262	-	10,000	7,500	-
Intermediate sources	-	319	-	-	-	-	-	-	-
State sources	-	-	4,574	-	-	-	-	-	32,175
Federal sources	-	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	-	319	4,574	-	3,262	-	10,000	7,500	32,175
Disbursements:									
Instruction	-	-	77,191	2,080	2,862	300	10,545	-	22,071
Support services	-	400	288	-	-	-	-	-	620
Noninstructional services	-	-	-	-	-	-	-	288	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-	-
Total disbursements	-	400	77,479	2,080	2,862	300	10,545	288	22,691
Excess (deficiency) of receipts over disbursements	-	(81)	(72,905)	(2,080)	400	(300)	(545)	7,212	9,484
Other financing sources (uses):									
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	72,905	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	72,905	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(81)	-	(2,080)	400	(300)	(545)	7,212	9,484
Cash and investments - ending	\$ -	\$ 597	\$ -	\$ -	\$ 1,150	\$ -	\$ 275	\$ 7,212	\$ 10,533

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

	Tech Prep	Drug Free Communities	Medicaid Reimbursement	Secured Schools Safety Grant	NRA Foundation Grant-SMS	School Technology	Performance Based Awards	Indiana Youth Institute Grant	Senator David Ford Technology
Cash and investments - beginning	\$ (100)	\$ 2,219	\$ -	\$ -	\$ -	\$ 1,147	\$ -	\$ 750	\$ -
Receipts:									
Local sources	-	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	10,168	-	68	-	10	4,140	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	<u>10,168</u>	<u>-</u>	<u>68</u>	<u>-</u>	<u>10</u>	<u>4,140</u>	<u>-</u>	<u>-</u>	<u>-</u>
Disbursements:									
Instruction	10,068	-	-	-	10	-	-	-	-
Support services	-	1,215	-	13,000	-	4,116	-	750	-
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-	-
Total disbursements	<u>10,068</u>	<u>1,215</u>	<u>-</u>	<u>13,000</u>	<u>10</u>	<u>4,116</u>	<u>-</u>	<u>750</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>100</u>	<u>(1,215)</u>	<u>68</u>	<u>(13,000)</u>	<u>-</u>	<u>24</u>	<u>-</u>	<u>(750)</u>	<u>-</u>
Other financing sources (uses):									
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>100</u>	<u>(1,215)</u>	<u>68</u>	<u>(13,000)</u>	<u>-</u>	<u>24</u>	<u>-</u>	<u>(750)</u>	<u>-</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 1,004</u>	<u>\$ 68</u>	<u>\$ (13,000)</u>	<u>\$ -</u>	<u>\$ 1,171</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	Title I 2012-13	Title I 2013-14	Title I 2014-15	(IDEA, Part B) LEA Capacity Building (Sliver) Grants	21st Century Community Learning Grant	Improving Teaching Quality, No Child Left, Title II, Part A	Prepaid Lunches	Clearing Accounts	Totals
Cash and investments - beginning	\$ (62,953)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,628	\$ 13,103	\$ 3,253,505
Receipts:									
Local sources	-	450	-	-	-	1,095	290,313	-	5,582,840
Intermediate sources	-	-	-	-	-	-	-	-	319
State sources	-	-	-	-	-	-	-	-	12,634,413
Federal sources	143,776	364,599	-	69,952	210,000	66,516	-	-	1,425,821
Interfund loans	-	-	-	-	-	-	-	-	36,219
Other receipts	-	-	-	-	-	-	-	4,306,463	4,320,821
Total receipts	<u>143,776</u>	<u>365,049</u>	<u>-</u>	<u>69,952</u>	<u>210,000</u>	<u>67,611</u>	<u>290,313</u>	<u>4,306,463</u>	<u>24,000,433</u>
Disbursements:									
Instruction	79,806	312,034	-	-	202,584	74,772	-	-	9,945,236
Support services	976	58,884	-	69,952	11,000	-	-	-	5,947,568
Noninstructional services	41	2,260	-	-	-	-	-	-	892,113
Facilities acquisition and construction	-	-	-	-	-	-	-	-	373,410
Debt services	-	-	-	-	-	-	-	-	2,252,140
Nonprogrammed charges	-	-	-	-	-	-	289,056	4,301,075	4,594,488
Interfund loans	-	-	-	-	-	-	-	-	36,219
Total disbursements	<u>80,823</u>	<u>373,178</u>	<u>-</u>	<u>69,952</u>	<u>213,584</u>	<u>74,772</u>	<u>289,056</u>	<u>4,301,075</u>	<u>24,041,174</u>
Excess (deficiency) of receipts over disbursements	<u>62,953</u>	<u>(8,129)</u>	<u>-</u>	<u>-</u>	<u>(3,584)</u>	<u>(7,161)</u>	<u>1,257</u>	<u>5,388</u>	<u>(40,741)</u>
Other financing sources (uses):									
Sale of capital assets	-	-	-	-	-	-	-	-	305
Transfers in	-	-	-	-	-	-	-	-	117,333
Transfers out	-	-	-	-	-	-	-	-	(117,333)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>305</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>62,953</u>	<u>(8,129)</u>	<u>-</u>	<u>-</u>	<u>(3,584)</u>	<u>(7,161)</u>	<u>1,257</u>	<u>5,388</u>	<u>(40,436)</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ (8,129)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,584)</u>	<u>\$ (7,161)</u>	<u>\$ 13,885</u>	<u>\$ 18,491</u>	<u>\$ 3,213,069</u>

SALEM COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2015

	General	Debt Service	Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Rainy Day	School Lunch	Textbook Rental
Cash and investments - beginning	\$ 639,647	\$ 792,240	\$ 104,298	\$ 678,111	\$ 1	\$ 160,261	\$ -	\$ 512,458	\$ 303,541
Receipts:									
Local sources	60,025	2,368,142	210,701	1,391,025	827,394	162,384	-	333,892	81,565
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	12,512,378	-	-	-	-	-	-	7,734	83,548
Federal sources	-	-	-	-	-	-	-	654,511	-
Interfund loans	-	-	-	-	-	36,219	-	-	-
Other receipts	-	-	-	1,716,290	1,443	-	-	-	-
Total receipts	12,572,403	2,368,142	210,701	3,107,315	828,837	198,603	-	996,137	165,113
Disbursements:									
Instruction	9,039,228	-	-	-	-	-	-	-	-
Support services	3,796,132	-	-	1,105,348	774,200	104,279	-	-	149,536
Noninstructional services	-	-	-	-	-	-	-	974,949	275
Facilities acquisition and construction	-	-	-	2,072,898	-	-	-	-	-
Debt services	5,434	2,032,131	199,694	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	36,219	-	-	-	-
Total disbursements	12,840,794	2,032,131	199,694	3,178,246	810,419	104,279	-	974,949	149,811
Excess (deficiency) of receipts over disbursements	(268,391)	336,011	11,007	(70,931)	18,418	94,324	-	21,188	15,302
Other financing sources (uses):									
Sale of capital assets	6,404	-	-	-	200	-	-	-	306
Transfers in	36,984	-	-	-	-	-	200,000	-	-
Transfers out	-	-	-	(20,000)	-	(180,000)	-	(36,984)	-
Total other financing sources (uses)	43,388	-	-	(20,000)	200	(180,000)	200,000	(36,984)	306
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(225,003)	336,011	11,007	(90,931)	18,618	(85,676)	200,000	(15,796)	15,608
Cash and investments - ending	\$ 414,644	\$ 1,128,251	\$ 115,305	\$ 587,180	\$ 18,619	\$ 74,585	\$ 200,000	\$ 496,662	\$ 319,149

SALEM COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2015
 (Continued)

	Levy Excess	Educational License Plates	Alternative Education	US Fish/ Wildlife DNR Grant	Washington County Community Foundation Grants	IUSE Teaching About ASIA Grant	Monsanto Grant	SHS Counseling Department Fund	High Ability Grant G/T
Cash and investments - beginning	\$ -	\$ 597	\$ -	\$ -	\$ 1,150	\$ -	\$ 275	\$ 7,212	\$ 10,533
Receipts:									
Local sources	-	-	-	-	3,309	-	-	10,000	2,298
Intermediate sources	-	223	-	-	-	-	-	-	-
State sources	567	-	5,099	-	-	-	-	-	32,375
Federal sources	-	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	<u>567</u>	<u>223</u>	<u>5,099</u>	<u>-</u>	<u>3,309</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>34,673</u>
Disbursements:									
Instruction	-	-	5,099	-	4,046	-	275	-	36,039
Support services	-	-	-	-	-	-	-	-	-
Noninstructional services	-	-	-	-	-	-	-	1,724	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-	-
Total disbursements	<u>-</u>	<u>-</u>	<u>5,099</u>	<u>-</u>	<u>4,046</u>	<u>-</u>	<u>275</u>	<u>1,724</u>	<u>36,039</u>
Excess (deficiency) of receipts over disbursements	<u>567</u>	<u>223</u>	<u>-</u>	<u>-</u>	<u>(737)</u>	<u>-</u>	<u>(275)</u>	<u>8,276</u>	<u>(1,366)</u>
Other financing sources (uses):									
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>567</u>	<u>223</u>	<u>-</u>	<u>-</u>	<u>(737)</u>	<u>-</u>	<u>(275)</u>	<u>8,276</u>	<u>(1,366)</u>
Cash and investments - ending	<u>\$ 567</u>	<u>\$ 820</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 413</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,488</u>	<u>\$ 9,167</u>

SALEM COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2015
 (Continued)

	Tech Prep	Drug Free Communities	Medicaid Reimbursement	Secured Schools Safety Grant	NRA Foundation Grant-SMS	School Technology	Performance Based Awards	Indiana Youth Institute Grant	Senator David Ford Technology
Cash and investments - beginning	\$ -	\$ 1,004	\$ 68	\$ (13,000)	\$ -	\$ 1,171	\$ -	\$ -	\$ -
Receipts:									
Local sources	-	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	-	-	-	65,416	-	4,192	52,886	-	9,000
Federal sources	-	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	-	-	-	65,416	-	4,192	52,886	-	9,000
Disbursements:									
Instruction	-	-	-	-	-	-	-	-	-
Support services	-	-	-	54,500	-	4,108	52,886	-	9,000
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-	-
Total disbursements	-	-	-	54,500	-	4,108	52,886	-	9,000
Excess (deficiency) of receipts over disbursements	-	-	-	10,916	-	84	-	-	-
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	-	-	-	10,916	-	84	-	-	-
Cash and investments - ending	\$ -	\$ 1,004	\$ 68	\$ (2,084)	\$ -	\$ 1,255	\$ -	\$ -	\$ -

SALEM COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2015
 (Continued)

	Title I 2012-13	Title I 2013-14	Title I 2014-15	(IDEA, Part B) LEA Capacity Building (Sliver) Grants	21st Century Community Learning Grant	Improving Teaching Quality, No Child Left, Title II, Part A	Prepaid Lunches	Clearing Accounts	Totals
Cash and investments - beginning	\$ -	\$ (8,129)	\$ -	\$ -	\$ (3,584)	\$ (7,161)	\$ 13,885	\$ 18,491	\$ 3,213,069
Receipts:									
Local sources	-	-	-	-	-	-	326,185	-	5,776,920
Intermediate sources	-	-	-	-	-	-	-	-	223
State sources	-	-	-	-	-	-	-	-	12,773,195
Federal sources	-	89,669	388,084	-	3,750	106,879	-	-	1,242,893
Interfund loans	-	-	-	-	-	-	-	-	36,219
Other receipts	-	-	-	-	-	-	-	4,164,338	5,882,071
Total receipts	-	89,669	388,084	-	3,750	106,879	326,185	4,164,338	25,711,521
Disbursements:									
Instruction	-	65,153	414,261	-	166	106,172	-	-	9,670,439
Support services	-	12,117	3,070	-	-	-	-	-	6,065,176
Noninstructional services	-	4,270	3,555	-	-	-	325,374	-	1,310,147
Facilities acquisition and construction	-	-	-	-	-	-	-	-	2,072,898
Debt services	-	-	-	-	-	-	-	-	2,237,259
Nonprogrammed charges	-	-	-	-	-	-	-	4,169,049	4,169,049
Interfund loans	-	-	-	-	-	-	-	-	36,219
Total disbursements	-	81,540	420,886	-	166	106,172	325,374	4,169,049	25,561,187
Excess (deficiency) of receipts over disbursements	-	8,129	(32,802)	-	3,584	707	811	(4,711)	150,334
Other financing sources (uses):									
Sale of capital assets	-	-	-	-	-	-	-	-	6,910
Transfers in	-	-	-	-	-	-	-	-	236,984
Transfers out	-	-	-	-	-	-	-	-	(236,984)
Total other financing sources (uses)	-	-	-	-	-	-	-	-	6,910
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	8,129	(32,802)	-	3,584	707	811	(4,711)	157,244
Cash and investments - ending	\$ -	\$ -	\$ (32,802)	\$ -	\$ -	\$ (6,454)	\$ 14,696	\$ 13,780	\$ 3,370,313

SALEM COMMUNITY SCHOOLS
SCHEDULE OF PAYABLES AND RECEIVABLES
June 30, 2015

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental activities	<u>\$ 335,115</u>	<u>\$ -</u>

SALEM COMMUNITY SCHOOLS
SCHEDULE OF LEASES AND DEBT
June 30, 2015

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
Salem Middle School Building Corporation	SMS Renovation	\$ 716,500	12/31/2012	12/31/2024
Salem Middle School Building Corporation	Elementary School HVAC Renovation	267,000	6/30/2013	12/31/2019
Salem High School Building Corporation	SHS Renovation	1,042,000	6/30/2006	12/31/2020
CNH Capital	New Holland Tractor	<u>5,425</u>	4/25/2013	5/15/2017
Total of annual lease payments		<u>\$ 2,030,925</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
General obligation bonds	Pension Bonds Refinancing - Indiana Bond Bank	\$ 800,000	\$ 201,780
Notes and loans payable	Land Payment - Trent Nichols	332,708	45,462
Notes and loans payable	CPF Ford F350 Truck - First Savings Bank	6,126	5,434
Lines of Credit	CPF Technology Loan - First Savings Bank	<u>149,218</u>	<u>77,296</u>
Totals		<u>\$ 1,288,052</u>	<u>\$ 329,972</u>

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SALEM COMMUNITY SCHOOLS
SCHEDULE OF CAPITAL ASSETS
June 30, 2015

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

	<u>Ending Balance</u>
Governmental activities:	
Land	\$ 643,161
Buildings	21,612,271
Improvements other than buildings	3,561,246
Machinery, equipment, and vehicles	<u>4,288,152</u>
Total capital assets	<u><u>\$ 30,104,830</u></u>

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

Report on Compliance for Each Major Federal Program

We have audited the Salem Community Schools' (School Corporation) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the period of July 1, 2013 to June 30, 2015. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School Corporation's compliance.

Basis for Qualified Opinion on Special Education Cluster (IDEA)

As described in item 2015-005 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding Cash Management and Reporting that are applicable to its Special Education Cluster (IDEA). Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.

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

Qualified Opinion on Special Education Cluster (IDEA)

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Special Education Cluster (IDEA)* paragraph, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Special Education Cluster (IDEA) for the period of July 1, 2013 to June 30, 2015.

Unmodified Opinion on the Other Major Federal Program

In our opinion, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the period of July 1, 2013 to June 30, 2015.

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 2015-003, 2015-004, and 2015-006. 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 2015-002, 2015-005, and 2015-006 to be material weaknesses.

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

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

July 25, 2016

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

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

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SALEM COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Years Ended June 30, 2014 and 2015

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Pass-Through To Subrecipient 06-30-14	Total Federal Awards Expended 06-30-14	Pass-Through To Subrecipient 06-30-15	Total Federal Awards Expended 06-30-15
Department of Agriculture							
Child Nutrition Cluster							
School Breakfast Program	Indiana Department of Education	10.553	FY 2014	\$ -	\$ 110,782	\$ -	\$ -
			FY 2015	-	-	-	101,491
Total - School Breakfast Program				-	110,782	-	101,491
National School Lunch Program	Indiana Department of Education	10.555	FY 2014	-	522,234	-	-
			FY 2015	-	-	-	487,282
National School Lunch Program - Commodities	Indiana Department of Education	10.555	FY 2014	-	65,273	-	-
			FY 2015	-	-	-	72,224
Total - National School Lunch Program				-	587,507	-	559,506
Total - Child Nutrition Cluster				-	698,289	-	660,997
Total - Department of Agriculture				-	698,289	-	660,997
Department of Education							
Special Education Cluster (IDEA)							
Special Education_Grants to States	Indiana Department of Education	84.027	FY 2014	-	69,952	-	-
Part B 611 FY 2013			14213-056-PN01	-	82,984	-	83
Part B 611 FY 2014			14214-056-PN01	-	311,372	-	108,862
Special Education Technical Assistance			99914-056-TA01	-	4,195	-	2,192
Part B 611 FY 2015			14215-056-PN01	-	-	-	309,646
Total Special Education_Grants to States				-	468,503	-	420,783
Special Education_Preschool Grants	Indiana Department of Education	84.173	FY 2012-14	-	8,867	-	-
			FY 2013-15	-	7,722	-	6,794
			FY 2014-16	-	-	-	6,793
Total Special Education_Preschool Grants				-	16,589	-	13,587
Total - Special Education Cluster (IDEA)				-	485,092	-	434,370
Title I Grants to Local Educational Agencies	Indiana Department of Education	84.010	FY 2013	-	143,776	-	-
			FY 2014	-	364,599	-	89,669
			FY 2015	-	-	-	388,084
Total - Title I Grants to Local Educational Agencies				-	508,375	-	477,753
Twenty-First Century Community Learning Centers	Indiana Department of Education	84.287	FY 2014	-	210,000	-	3,750
Total - Twenty-First Century Community Learning Centers				-	210,000	-	3,750
Improving Teacher Quality State Grants	Indiana Department of Education	84.367	FY 2014	-	66,516	-	33,458
			FY 2015	-	-	-	73,421
Total - Improving Teacher Quality State Grants				-	66,516	-	106,879
Total - Department of Education				-	1,269,983	-	1,022,752
Total federal awards expended				\$ -	\$ 1,968,272	\$ -	\$ 1,683,749

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

SALEM COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the School Corporation under programs of the federal government for the years ended June 30, 2014 and 2015. The information in the SEFA is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the SEFA presents only a select portion of the operations of the School Corporation, it is not intended to and does not present the financial position of the School Corporation.

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. Summary of Significant Accounting Policies

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-133, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

Note 3. Special Education Cooperative

The School Corporation is a member of the South Central Area Special Education Cooperative (Cooperative), which operates the Special Education program for the School Corporation. As a result, some activity for the Special Education Cluster that is presented on the Schedule of Expenditures of Federal Awards is not presented as receipts and disbursements in the financial statement for the School Corporation. This activity is reported on the financial statement of the Cooperative.

SALEM COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

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

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	
Special Education Cluster (IDEA)	Qualified
Title I Grants to Local Educational Agencies	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies Special Education Cluster (IDEA)

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

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

Section II - Financial Statement Findings

FINDING 2015-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Condition

The School Corporation did not have a system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

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

During the audit of the SEFA, the following errors were identified: the SEFA was understated by \$980,319 for the audit period; Federal Grantor Agencies were not reported; cluster and program titles were incorrect; and Federal CFDA and other identifying numbers were incorrect. Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in this report.

Criteria

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.

SALEM 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."

Cause

Management had not established a system of internal control that would have ensured accurate and complete reporting of the federal expenditures on the SEFA.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA could have remained undetected.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

Section III - Federal Award Findings and Questioned Costs

FINDING 2015-002 - INTERNAL CONTROL 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 Numbers and Years (or Other Identifying Numbers): FY 2013, FY 2014, FY 2015

Pass-Through Entity: Indiana Department of Education

Condition

Management of the School Corporation had not established an effective internal control system, which would have included segregation of duties, to ensure compliance with the following compliance requirements: Allowable Costs/Cost Principles, Cash Management, Reporting, and Special Tests and Provisions - Schoolwide Programs.

Allowable Costs/Cost Principles

An effective internal control system was not in place to ensure that documentation was maintained to support the employees' time worked on federal programs.

Cash Management and Reporting

An effective internal control system was not in place to ensure that required reports were accurately prepared and submitted. The School Corporation Treasurer prepared the Reimbursement Requests and Final Expenditure Reports and submitted them to the Indiana Department of Education (IDOE). The School Corporation's Grant Administrator prepared the State Per Pupil Expenditures Reports and submitted them to the IDOE. There was no segregation of duties, such as an oversight, review, or approval process to ensure that the reports submitted were accurate and complete.

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

Special Tests and Provisions - Schoolwide Programs

An effective internal control system was not in place to ensure that the School Corporation conducted annual evaluations regarding the implementation of and the results achieved by the schoolwide program.

Context

This was a systemic problem. Controls were not in place during the audit period.

Criteria

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. . . ."

Cause

Management had not developed a system of internal controls.

Effect

The failure to establish an effective internal control system would have placed 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 have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

Recommendation

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

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

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

FINDING 2015-003 - ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: Department of Education
Federal Program: Title I Grants to Local Education Agencies
CFDA Number: 84.010
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2013, FY 2014, FY 2015
Pass-Through Entity: Indiana Department of Education

Condition

The School Corporation did not retain the necessary documentation to support the employees' salaries and wages charged to the federal program. For employees that were paid entirely from Title I funds, the School Corporation did not maintain periodic certification reports. For employees that were paid partially from Title I funds, there were no personnel activity reports maintained to ensure that payments were properly allocated between federal and non-federal funds.

Context

This was a systemic problem. Periodic certifications and personnel activity reports were not maintained during the audit period.

Criteria

OMB A-87, Attachment B, Item 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. . . ."

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

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation maintained and retained documentation of employees' time worked on the federal program.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the compliance requirements could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation implement policies and procedures to maintain and retain the required periodic certifications and personnel activity reports to ensure compliance with the Allowable Costs/Cost Principles compliance requirement.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2015-004 - SPECIAL TESTS AND PROVISIONS - SCHOOLWIDE PROGRAMS

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2013, FY 2014, FY 2015

Pass-Through Entity: Indiana Department of Education

Condition

The School Corporation had not conducted an annual evaluation of its schoolwide program.

Context

This was a systemic problem. Annual evaluations of the schoolwide program were not completed during the audit period.

Criteria

34 CFR 200.26(c) states:

"*Evaluation.* A school operating a schoolwide program must -

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

- (1) Annually evaluate the implementation of, and results achieved by, the schoolwide program, using data from the State's annual assessments and other indicators of academic achievement;
- (2) Determine whether the schoolwide program has been effective in increasing the achievement of students in meeting the State's academic standards, particularly for those students who had been furthest from achieving the standards; and
- (3) Revise the plan, as necessary, based on the results of the evaluation, to ensure continuous improvement of students in the schoolwide program."

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation conducted annual evaluations of its schoolwide program.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the compliance requirements could have resulted in the loss of federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls related to the Special Tests and Provisions - Schoolwide Program compliance requirement.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2015-005 - CASH MANAGEMENT AND REPORTING

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14213-056-PN01, 14214-056-PN01,
14215-056-PN01, 99914-056-TA01,
45713-056-PN01, 45714-056-PN01,
45715-056-PN01

Pass-Through Entity: Indiana Department of Education

The School Corporation is a member of the South Central Area Special Education Cooperative (Cooperative). The Cooperative operates the special education program on behalf of the School Corporation and manages the special education grant funds.

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

Condition

An effective internal control system was not in place to ensure compliance with requirements related to the grant agreement and the Cash Management and Reporting compliance requirements.

The supporting documentation attached to the Reimbursement Forms was a Detail Subtotal by Fund by Object Code Report, which was a summary listing of expenses grouped by fund and object code with no detail of the actual expenses incurred. The supporting documentation did not consistently agree with the amounts requested for reimbursement or the total expenses to date that were reported.

Context

This was a systemic problem. The Cooperative claimed and received reimbursements for expenditures that were not incurred and/or paid prior to the date of claiming the reimbursement. The amount requested for reimbursement and the reported amount of total expenses to date could not be verified to supporting documentation for 7 of the 12 Reimbursement Forms tested.

It could not be determined whether the total amount claimed for reimbursement for each grant agreed to the grant award amount during the grant periods.

Criteria

34 CFR 80.20(b) states in part:

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

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. . . ."

34 CFR 80.21(d) states in part:

". . . Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met. . . ."

31 CFR 205.12(b)(5) states:

"Reimbursable funding means that a Federal Program Agency transfers Federal funds to a State after that State has already paid out the funds for Federal assistance program purposes."

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

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. . . ."

Cause

Management had not developed a system of internal controls that would have ensured that the Cooperative complied with the Cash Management and Reporting compliance requirements.

Effect

The failure to establish an effective internal control system enabled the Cooperative to be in noncompliance with the grant agreement and the compliance requirements. A lack of internal control system could have also allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the programs.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management develop and implement procedures and establish controls to monitor the Cooperative to ensure compliance with the grant agreement and the compliance requirements listed above.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2015-006 - SUSPENSION AND DEBARMENT

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14213-056-PN01, 14214-056-PN01,
14215-056-PN01, 99914-056-TA01,
45713-056-PN01, 45714-056-PN01,
45715-056-PN01

Pass-Through Entity: Indiana Department of Education

The School Corporation is a member of the South Central Area Special Education Cooperative (Cooperative). The Cooperative operates the special education program on behalf of the School Corporation and manages the special education grant funds.

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

Condition

An effective internal control was not in place to ensure compliance with requirements related to the grant agreement and the Suspension and Debarment compliance requirement.

The Cooperative's Director signed the Application and Assurance Plan as a Condition of Federal Assistance, which states that the Cooperative will check the subcontractors to make sure that are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded by any federal agency or by any department, agency or political subdivision of the State of Indiana. However, the Cooperative did not have procedures in place to verify that the vendors were not suspended or debarred or otherwise excluded from or ineligible for participation in federal assistance programs prior to entering into a contract with them.

Context

There were two contracts during 2013-2014 and three contracts during 2014-2015 that exceeded \$25,000; however, there was no evidence that the Cooperative verified that the vendor was not suspended or debarred prior to awarding these contracts. A search of the System of Award Manager Center website resulted in no active exclusions for any of the vendors.

Criteria

34 CFR 80.35 states:

"Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, 'Debarment and Suspension.'"

2 CFR 180.300 states in part:

". . . When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

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. . . ."

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

Cause

Management had not developed a system of internal controls that would ensure that the Cooperative complied with the Suspension and Debarment compliance requirement.

Effect

The failure to establish an effective internal control system enabled the Cooperative to be in noncompliance with the compliance requirement and the grant agreement. A lack of internal control system could have also allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that School Corporation's management develop and implement procedures and establish controls to monitor the Cooperative to ensure compliance with the grant agreement and the compliance requirement listed above.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

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AUDITEE-PREPARED DOCUMENT

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

Salem Community Schools
500 N. Harrison St.
Salem, IN 47167
(812) 883-4437

CORRECTIVE ACTION PLAN

FINDING 2015-001

Contact Person Responsible for Corrective Action: Dr. Kim Thurston
Contact Phone Number: 812-883-4437

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan:

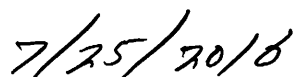
The school district has resubmitted a corrected SEFA report with all the scheduled federal expenditure programs required. This report will also be reviewed for accuracy and completeness by Dr. Thurston before being submitted.

Anticipated Completion Date:

July 11, 2016


(Signature)

Assistant
Superintendent (Title)


(Date)

FINDING 2015-002

Contact Person Responsible for Corrective Action: Dr. Kim Thurston
Contact Phone Number: 812-883-4437

Views of Responsible Official: We concur with the finding

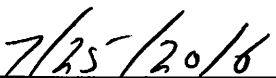
Description of Corrective Action Plan:

The school district has implemented an additional internal control procedure for review and prior approval from grant administrator of reports to ensure completeness and accuracy.

Anticipated Completion Date:
Effective immediately


(Signature)

Assistant
Superintendent
(Title)


(Date)

FINDING 2015-003

Contact Person Responsible for Corrective Action: Dr. Kim Thurston
Contact Phone Number: 812-883-4437

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan:

The school district is implementing documentation to certify the time employees spend working in the Title 1 program. Along with this documentation the school district will compile personnel activity reports.

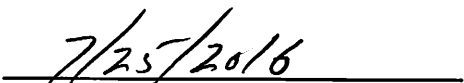
Anticipated Completion Date:

Beginning of fiscal year 2016-17



(Signature)

Assistant
Superintendent (Title)



(Date)

FINDING 2015-004

Contact Person Responsible for Corrective Action: Dr. Kim Thurston
Contact Phone Number: 812-883-4437

Views of Responsible Official: We concur the finding

Description of Corrective Action Plan:

The school district is developing an instrument to provide an annual evaluation of its school wide Title 1 program.


Anticipated Completion Date:

Beginning of Fiscal year 2016-17



(Signature)

Assistant
Superintendent
(Title)



(Date)

FINDING 2015-005

Contact Person Responsible for Corrective Action: Dr. Kim Thurston
Contact Phone Number: 812-883-4437

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan:

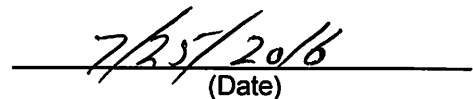
Additional internal control procedures will be implemented to ensure the Cooperative complies with requirements that reimbursement basic grant expenditures are paid prior to the date that the reimbursement is claimed and amounts claimed and reported agree to supporting documentation in accordance with federal requirements.

Anticipated Completion Date:

Effective Immediately


(Signature)

Assistant Superintendent
(Title)


(Date)

FINDING 2015-006

Contact Person Responsible for Corrective Action: Dr. Kim Thurston
Contact Phone Number: 812-883-4437

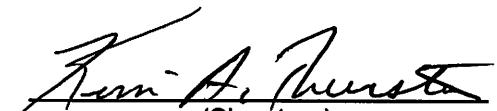
Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan:

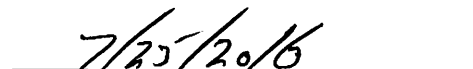
An additional internal control procedure will be implemented to ensure the Cooperative complies with all federal and state laws by searching the System of Award Manager Center website (www.sam.gov), before entering in any contract exceeding \$25000.00.

Anticipated Completion Date:

Effective Immediately


(Signature)

Assistant Superintendent
(Title)


(Date)

OTHER REPORTS

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