

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

MITCHELL COMMUNITY SCHOOLS
LAWRENCE COUNTY, INDIANA

July 1, 2013 to June 30, 2015



FILED
09/12/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Malinda Powell	07-01-13 to 12-31-17
Superintendent of Schools	Dr. Steve E. Phillips	07-01-13 to 06-30-18
President of the School Board	Christopher Shaw	07-01-13 to 12-31-17



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE MITCHELL COMMUNITY SCHOOLS, LAWRENCE COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Mitchell 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 from 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 to 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 18, 2017, 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 18, 2017



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

TO: THE OFFICIALS OF THE MITCHELL COMMUNITY SCHOOLS, LAWRENCE 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 Mitchell 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 18, 2017, wherein we noted the School Corporation followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School Corporation's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001 and 2015-002 to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Corporation's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001.

Mitchell 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 18, 2017

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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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MITCHELL 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	\$ 3,310,471	\$ 10,652,622	\$ 11,089,321	\$ 69,187	\$ 2,942,959	\$ 10,821,844	\$ 10,799,881	\$ -	\$ 2,964,922
Debt Service	1,374,496	2,704,827	2,567,000	-	1,512,323	2,797,639	2,671,000	-	1,638,962
Capital Projects	837,720	1,403,687	1,091,057	(375,000)	775,350	1,444,987	1,119,904	(300,000)	800,433
School Transportation	349,755	1,021,888	946,856	(125,000)	299,787	1,061,715	923,959	(125,000)	312,543
School Bus Replacement	104,666	142,675	-	-	247,341	146,942	165,666	-	228,617
Rainy Day	2,415,785	-	962	431,388	2,846,211	-	173,040	425,000	3,098,171
School Lunch	287,805	750,227	721,000	-	317,032	866,075	933,791	-	249,316
Textbook Rental	(44,613)	227,688	235,080	68,612	16,607	204,381	234,874	-	(13,886)
Levy Excess	42,181	-	-	-	42,181	217	-	-	42,398
Educational License Plates	863	-	-	-	863	18	-	-	881
Alternative Education	2,580	1,777	-	-	4,357	1,882	-	-	6,239
SAFE School Haven	-	5,000	1,849	-	3,151	-	2,414	-	737
Early Intervention 2012-13	8,284	-	8,284	-	-	-	-	-	-
Early Intervention 2013-14	-	9,988	906	-	9,082	-	9,082	-	-
Early Intervention 2014-15	-	-	-	-	-	10,000	312	-	9,688
School Intervention and Career Counseling	-	11,138	14,441	-	(3,303)	-	(3,303)	-	-
High Ability Grant 12-13	-	910	-	(910)	-	-	-	-	-
High Ability Grant 13-14	-	32,424	29,575	-	2,849	-	2,849	-	-
High Ability Grant 14-15	-	-	-	-	-	32,773	32,773	-	-
Secured Schools Safety Grant	-	-	-	-	-	-	8,509	-	(8,509)
PDK Cape Grant Hatfield	7,702	-	3,309	-	4,393	-	2,574	-	1,819
Excess PTRC Distributions	3,599	-	-	-	3,599	-	-	-	3,599
Title I P.L. 107-110 2010/11	71,690	-	-	(71,690)	-	-	-	-	-
Title I 2012-13	(95,665)	220,507	124,842	-	-	-	-	-	-
Title I 2013-14	-	321,957	434,447	-	(112,490)	236,915	124,425	-	-
Title I 2014-15	-	-	-	-	-	331,340	469,789	-	(138,449)
Title II Class Size Red 13-14	-	50,243	81,495	4,433	(26,819)	26,819	-	-	-
Title II Class Size Red 14-15	-	-	-	-	-	57,271	78,441	-	(21,170)
Rural Schools and Low Income Program - Pass Through State	-	27,580	32,544	-	(4,964)	9,583	4,619	-	-
Rural Education Grant 14-15	-	-	-	-	-	34,323	35,045	-	(722)
Rural Education Grant 15-16	-	-	-	-	-	-	429	-	(429)
Payroll Withholdings	61,578	2,882,531	2,870,909	-	73,200	2,670,100	2,686,746	-	56,554
Totals	\$ 8,738,897	\$ 20,467,669	\$ 20,253,877	\$ 1,020	\$ 8,953,709	\$ 20,754,824	\$ 20,476,819	\$ -	\$ 9,231,714

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

MITCHELL 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. Amounts received from taxes, revenue from local governmental units other than school corporations, transfer tuition, transportation fees, investment income, food services, School Corporation activities, revenue from community service activities, and other revenue from local sources.

Intermediate sources. Amounts received as distributions from the County for fees collected for or on behalf of the School Corporation including, but not limited to, the following: educational license plate fees, congressional interest, riverboat distributions, and other similar fees.

MITCHELL COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

State sources. Amounts received as distributions from the State of Indiana that are to be used by the School Corporation for various purposes, including, but not limited to, the following: unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

Federal sources. Amounts received as distributions from the federal government that are to be used by the School Corporation for various purposes, including, but not limited to, the following: unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

Other receipts. 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. Amounts disbursed for regular programs, special programs, adult and continuing education programs, summer school programs, enrichment programs, remediation, and payments to other governmental units.

Support services. Amounts disbursed for support services related to students, instruction, general administration, school administration, outflows for central services, operation and maintenance of plant services, and student transportation.

Noninstructional services. Amounts disbursed for food service operations and community service operations.

Facilities acquisition and construction. Amounts disbursed for the acquisition, development, construction, and improvement of new and existing facilities.

Debt service. Amounts disbursed for fixed obligations resulting from financial transactions previously entered into by the School Corporation, including: all expenditures for the reduction of the principal and interest of the School Corporation's general obligation indebtedness.

Nonprogrammed charges. Amounts disbursed for taxes, insurance, retirement contributions, and other amounts resulting from/to payroll withholdings.

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. Amounts received when land, buildings, or equipment owned by the School Corporation are sold.

Transfers in. Amounts 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.

MITCHELL COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

Transfers out. Amounts 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 amounts 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 amounts accounted for in a specific fund may only be available for use for certain, legally-restricted purposes. Additionally, some funds are used to account for assets held by the School Corporation in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and, therefore, the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the School Corporation submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the School Corporation in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

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

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

MITCHELL COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 5. Risk Management

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

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

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
One North Capitol, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

MITCHELL COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

B. Teachers' Retirement Fund

Plan Description

The Indiana Teachers' Retirement Fund (TRF) is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the TRF plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
One North Capitol, Suite 001
Indianapolis, IN 46204
Ph. (888) 286-3544

Funding Policy and Annual Pension Cost

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

C. Additional Pension Plans

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

Note 7. Negative Receipts and Disbursements

The 2014-2015 financial statement contains disbursements that appear as negative entries. This is a result of an error made in 2013-2014. The error was corrected by reversing the original entry. Since the original entry and the correction were made in separate periods, a negative disbursement was shown in 2014-2015.

MITCHELL COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 8. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of the funds being set up for reimbursable grants or state reimbursements. The reimbursement for expenditures made by the School Corporation was not received by June 30. In addition, the Textbook Rental fund had a deficit balance caused by disbursements exceeding receipts during the second year of the audit period.

Note 9. Holding Corporations

The School Corporation has entered into capital leases with Mitchell 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 \$1,681,000 and \$1,956,000, respectively.

The School Corporation has entered into a capital lease with Mitchell Elementary School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related-party of the School Corporation. Lease payments during the years 2014 and 2015 totaled \$715,000 each year.

The School Corporation has entered into a capital lease with Mitchell Multi School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related-party of the School Corporation. The final payment under this lease totaling \$171,000 was made on December 9, 2013.

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, and dental 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 the his or her retirement. These benefits pose a liability to the School Corporation for this year and in future years. Information regarding these benefits can be obtained by contacting the School Corporation.

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OTHER INFORMATION - UNAUDITED

The School Corporation's Financial Reports can be found on the Indiana Department of Education website: <http://www.doe.in.gov/finance/school-financial-reports>. 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 School Corporation's Financial Reports 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.

MITCHELL 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	Capital Projects	School Transportation	School Bus Replacement	Rainy Day	School Lunch	Textbook Rental	Levy Excess
Cash and investments - beginning	\$ 3,310,471	\$ 1,374,496	\$ 837,720	\$ 349,755	\$ 104,666	\$ 2,415,785	\$ 287,805	\$ (44,613)	\$ 42,181
Receipts:									
Local sources	122,526	2,704,827	1,403,687	1,017,898	142,675	-	286,274	154,993	-
Intermediate sources	25	-	-	-	-	-	-	-	-
State sources	10,528,441	-	-	-	-	-	4,732	72,245	-
Federal sources	-	-	-	-	-	-	458,621	-	-
Other receipts	1,630	-	-	3,990	-	-	600	450	-
Total receipts	10,652,622	2,704,827	1,403,687	1,021,888	142,675	-	750,227	227,688	-
Disbursements:									
Instruction	7,751,396	-	-	-	-	-	-	97,370	-
Support services	3,335,465	-	938,813	946,856	-	962	13,979	137,710	-
Noninstructional services	-	-	-	-	-	-	706,863	-	-
Facilities acquisition and construction	-	-	152,244	-	-	-	-	-	-
Debt services	2,460	2,567,000	-	-	-	-	158	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	11,089,321	2,567,000	1,091,057	946,856	-	962	721,000	235,080	-
Excess (deficiency) of receipts over disbursements	(436,699)	137,827	312,630	75,032	142,675	(962)	29,227	(7,392)	-
Other financing sources (uses):									
Sale of capital assets	1,020	-	-	-	-	-	-	-	-
Transfers in	72,600	-	-	-	-	500,000	-	68,612	-
Transfers out	(4,433)	-	(375,000)	(125,000)	-	(68,612)	-	-	-
Total other financing sources (uses)	69,187	-	(375,000)	(125,000)	-	431,388	-	68,612	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(367,512)	137,827	(62,370)	(49,968)	142,675	430,426	29,227	61,220	-
Cash and investments - ending	\$ 2,942,959	\$ 1,512,323	\$ 775,350	\$ 299,787	\$ 247,341	\$ 2,846,211	\$ 317,032	\$ 16,607	\$ 42,181

MITCHELL 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)

	Educational License Plates	Alternative Education	SAFE School Haven	Early Intervention 2012-13	Early Intervention 2013-14	Early Intervention 2014-15	School Intervention and Career Counseling	High Ability Grant 12-13
Cash and investments - beginning	\$ 863	\$ 2,580	\$ -	\$ 8,284	\$ -	\$ -	\$ -	\$ -
Receipts:								
Local sources	-	-	5,000	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	1,777	-	-	9,988	-	11,138	910
Federal sources	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-
Total receipts	-	1,777	5,000	-	9,988	-	11,138	910
Disbursements:								
Instruction	-	-	1,849	8,284	906	-	14,441	-
Support services	-	-	-	-	-	-	-	-
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	-	-	1,849	8,284	906	-	14,441	-
Excess (deficiency) of receipts over disbursements	-	1,777	3,151	(8,284)	9,082	-	(3,303)	910
Other financing sources (uses):								
Sale of capital assets	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	(910)
Total other financing sources (uses)	-	-	-	-	-	-	-	(910)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	1,777	3,151	(8,284)	9,082	-	(3,303)	-
Cash and investments - ending	\$ 863	\$ 4,357	\$ 3,151	\$ -	\$ 9,082	\$ -	\$ (3,303)	\$ -

MITCHELL 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)

	High Ability Grant 13-14	High Ability Grant 14-15	Secured Schools Safety Grant	PDK Cape Grant Hatfield	Excess PTRC Distributions	Title I P.L. 107-110 2010/11	Title I 2012-13	Title I 2013-14
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ 7,702	\$ 3,599	\$ 71,690	\$ (95,665)	\$ -
Receipts:								
Local sources	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	32,424	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	220,507	321,957
Other receipts	-	-	-	-	-	-	-	-
Total receipts	<u>32,424</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>220,507</u>	<u>321,957</u>
Disbursements:								
Instruction	29,575	-	-	-	-	-	112,233	364,642
Support services	-	-	-	3,309	-	-	12,609	69,805
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	<u>29,575</u>	<u>-</u>	<u>-</u>	<u>3,309</u>	<u>-</u>	<u>-</u>	<u>124,842</u>	<u>434,447</u>
Excess (deficiency) of receipts over disbursements	<u>2,849</u>	<u>-</u>	<u>-</u>	<u>(3,309)</u>	<u>-</u>	<u>-</u>	<u>95,665</u>	<u>(112,490)</u>
Other financing sources (uses):								
Sale of capital assets	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	(71,690)	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(71,690)</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>2,849</u>	<u>-</u>	<u>-</u>	<u>(3,309)</u>	<u>-</u>	<u>(71,690)</u>	<u>95,665</u>	<u>(112,490)</u>
Cash and investments - ending	<u>\$ 2,849</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,393</u>	<u>\$ 3,599</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (112,490)</u>

MITCHELL 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 2014-15	Title II Class Size Red 13-14	Title II Class Size Red 14-15	Rural Schools and Low Income Program - Pass Through State	Rural Education Grant 14-15	Rural Education Grant 15-16	Payroll Withholdings	Totals
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61,578	\$ 8,738,897
Receipts:								
Local sources	-	-	-	-	-	-	-	5,837,880
Intermediate sources	-	-	-	-	-	-	-	25
State sources	-	-	-	-	-	-	-	10,661,655
Federal sources	-	50,243	-	27,580	-	-	-	1,078,908
Other receipts	-	-	-	-	-	-	2,882,531	2,889,201
Total receipts	-	50,243	-	27,580	-	-	2,882,531	20,467,669
Disbursements:								
Instruction	-	81,495	-	32,544	-	-	-	8,494,735
Support services	-	-	-	-	-	-	-	5,459,508
Noninstructional services	-	-	-	-	-	-	-	706,863
Facilities acquisition and construction	-	-	-	-	-	-	-	152,244
Debt services	-	-	-	-	-	-	-	2,569,618
Nonprogrammed charges	-	-	-	-	-	-	2,870,909	2,870,909
Total disbursements	-	81,495	-	32,544	-	-	2,870,909	20,253,877
Excess (deficiency) of receipts over disbursements	-	(31,252)	-	(4,964)	-	-	11,622	213,792
Other financing sources (uses):								
Sale of capital assets	-	-	-	-	-	-	-	1,020
Transfers in	-	4,433	-	-	-	-	-	645,645
Transfers out	-	-	-	-	-	-	-	(645,645)
Total other financing sources (uses)	-	4,433	-	-	-	-	-	1,020
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(26,819)	-	(4,964)	-	-	11,622	214,812
Cash and investments - ending	\$ -	\$ (26,819)	\$ -	\$ (4,964)	\$ -	\$ -	\$ 73,200	\$ 8,953,709

MITCHELL 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	Capital Projects	School Transportation	School Bus Replacement	Rainy Day	School Lunch	Textbook Rental	Levy Excess
Cash and investments - beginning	\$ 2,942,959	\$ 1,512,323	\$ 775,350	\$ 299,787	\$ 247,341	\$ 2,846,211	\$ 317,032	\$ 16,607	\$ 42,181
Receipts:									
Local sources	133,094	2,797,639	1,444,987	1,061,715	146,942	-	427,023	131,458	217
Intermediate sources	18	-	-	-	-	-	-	-	-
State sources	10,687,265	-	-	-	-	-	4,625	72,078	-
Federal sources	-	-	-	-	-	-	433,827	-	-
Other receipts	1,467	-	-	-	-	-	600	845	-
Total receipts	10,821,844	2,797,639	1,444,987	1,061,715	146,942	-	866,075	204,381	217
Disbursements:									
Instruction	7,476,098	-	-	-	-	-	-	249	-
Support services	3,308,732	-	881,453	923,959	165,666	55,815	4,787	230,973	-
Noninstructional services	-	-	-	-	-	-	928,846	-	-
Facilities acquisition and construction	10,528	-	238,451	-	-	117,225	-	-	-
Debt services	4,523	2,671,000	-	-	-	-	158	3,652	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	10,799,881	2,671,000	1,119,904	923,959	165,666	173,040	933,791	234,874	-
Excess (deficiency) of receipts over disbursements	21,963	126,639	325,083	137,756	(18,724)	(173,040)	(67,716)	(30,493)	217
Other financing sources (uses):									
Transfers in	-	-	-	-	-	425,000	3,246	331	-
Transfers out	-	-	(300,000)	(125,000)	-	-	(3,246)	(331)	-
Total other financing sources (uses)	-	-	(300,000)	(125,000)	-	425,000	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	21,963	126,639	25,083	12,756	(18,724)	251,960	(67,716)	(30,493)	217
Cash and investments - ending	\$ 2,964,922	\$ 1,638,962	\$ 800,433	\$ 312,543	\$ 228,617	\$ 3,098,171	\$ 249,316	\$ (13,886)	\$ 42,398

MITCHELL 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)

	Educational License Plates	Alternative Education	SAFE School Haven	Early Intervention 2012-13	Early Intervention 2013-14	Early Intervention 2014-15	School Intervention and Career Counseling	High Ability Grant 12-13
Cash and investments - beginning	\$ 863	\$ 4,357	\$ 3,151	\$ -	\$ 9,082	\$ -	\$ (3,303)	\$ -
Receipts:								
Local sources	18	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	1,882	-	-	-	10,000	-	-
Federal sources	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-
Total receipts	18	1,882	-	-	-	10,000	-	-
Disbursements:								
Instruction	-	-	2,414	-	9,082	312	(3,303)	-
Support services	-	-	-	-	-	-	-	-
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	-	-	2,414	-	9,082	312	(3,303)	-
Excess (deficiency) of receipts over disbursements	18	1,882	(2,414)	-	(9,082)	9,688	3,303	-
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	18	1,882	(2,414)	-	(9,082)	9,688	3,303	-
Cash and investments - ending	\$ 881	\$ 6,239	\$ 737	\$ -	\$ -	\$ 9,688	\$ -	\$ -

MITCHELL 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)

	High Ability Grant 13-14	High Ability Grant 14-15	Secured Schools Safety Grant	PDK Cape Grant Hatfield	Excess PTRC Distributions	Title I P.L. 107-110 2010/11	Title I 2012-13	Title I 2013-14
Cash and investments - beginning	\$ 2,849	\$ -	\$ -	\$ 4,393	\$ 3,599	\$ -	\$ -	\$ (112,490)
Receipts:								
Local sources	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-
State sources	-	32,773	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	236,915
Other receipts	-	-	-	-	-	-	-	-
Total receipts	-	32,773	-	-	-	-	-	236,915
Disbursements:								
Instruction	2,849	32,773	-	-	-	-	-	102,843
Support services	-	-	-	2,574	-	-	-	21,582
Noninstructional services	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	8,509	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-
Total disbursements	2,849	32,773	8,509	2,574	-	-	-	124,425
Excess (deficiency) of receipts over disbursements	(2,849)	-	(8,509)	(2,574)	-	-	-	112,490
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(2,849)	-	(8,509)	(2,574)	-	-	-	112,490
Cash and investments - ending	\$ -	\$ -	\$ (8,509)	\$ 1,819	\$ 3,599	\$ -	\$ -	\$ -

MITCHELL 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 2014-15	Title II Class Size Red 13-14	Title II Class Size Red 14-15	Rural Schools and Low Income Program - Pass Through State	Rural Education Grant 14-15	Rural Education Grant 15-16	Payroll Withholdings	Totals
Cash and investments - beginning	\$ -	\$ (26,819)	\$ -	\$ (4,964)	\$ -	\$ -	\$ 73,200	\$ 8,953,709
Receipts:								
Local sources	-	-	-	-	-	-	-	6,143,093
Intermediate sources	-	-	-	-	-	-	-	18
State sources	-	-	-	-	-	-	-	10,808,623
Federal sources	331,340	26,819	57,271	9,583	34,323	-	-	1,130,078
Other receipts	-	-	-	-	-	-	2,670,100	2,673,012
Total receipts	331,340	26,819	57,271	9,583	34,323	-	2,670,100	20,754,824
Disbursements:								
Instruction	407,021	-	78,441	4,619	35,045	429	-	8,148,872
Support services	62,768	-	-	-	-	-	-	5,658,309
Noninstructional services	-	-	-	-	-	-	-	928,846
Facilities acquisition and construction	-	-	-	-	-	-	-	374,713
Debt services	-	-	-	-	-	-	-	2,679,333
Nonprogrammed charges	-	-	-	-	-	-	2,686,746	2,686,746
Total disbursements	469,789	-	78,441	4,619	35,045	429	2,686,746	20,476,819
Excess (deficiency) of receipts over disbursements	(138,449)	26,819	(21,170)	4,964	(722)	(429)	(16,646)	278,005
Other financing sources (uses):								
Transfers in	-	-	-	-	-	-	-	428,577
Transfers out	-	-	-	-	-	-	-	(428,577)
Total other financing sources (uses)	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(138,449)	26,819	(21,170)	4,964	(722)	(429)	(16,646)	278,005
Cash and investments - ending	\$ (138,449)	\$ -	\$ (21,170)	\$ -	\$ (722)	\$ (429)	\$ 56,554	\$ 9,231,714

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MITCHELL 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>\$ 385,577</u>	<u>\$ 2,224,972</u>

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

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
Mitchell Elementary School Building Corporation	Lease Elementary Building	\$ 715,000	7/15/2009	7/15/2019
Mitchell High School Building Corporation	Refinanced 2005A	546,000	7/15/2013	7/15/2027
Mitchell High School Building Corporation	Refinanced 2005B	<u>1,370,000</u>	6/30/2015	12/31/2023
Total governmental activities		<u>2,631,000</u>		
Total of annual lease payments		<u><u>\$ 2,631,000</u></u>		

MITCHELL 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.

	Ending Balance
Governmental activities:	
Land	\$ 1,989,811
Buildings	30,838,565
Improvements other than buildings	101,400
Machinery, equipment, and vehicles	2,693,892
Total governmental activities	35,623,668
Total capital assets	\$ 35,623,668

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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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 MITCHELL COMMUNITY SCHOOLS, LAWRENCE COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Mitchell 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.

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

Basis for Adverse Opinion on Child Nutrition Cluster

As described in items 2015-004, 2015-005, 2015-006, 2015-007, 2015-008, and 2015-009 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding Cash Management, Eligibility, Equipment and Real Property Management, Program Income, Reporting, and Special Tests and Provisions - Paid Lunch Equity that are applicable to its Child Nutrition Cluster. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.

Adverse Opinion on Child Nutrition Cluster

In our opinion, because of the significance of the noncompliance described in the *Basis for Adverse Opinion on Child Nutrition Cluster* paragraph, the School Corporation did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on Child Nutrition Cluster for the period of July 1, 2013 to June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs 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 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.

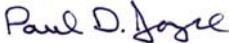
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses 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.

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

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 a 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 item 2015-003 to be material weaknesses.

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

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


Paul D. Joyce, CPA
State Examiner

July 18, 2017

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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MITCHELL 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
<u>Department of Agriculture</u>							
Child Nutrition Cluster	IN Department of Education						
School Breakfast Program		10.553	FY 2014	\$ -	\$ 94,037	\$ -	\$ -
			FY 2015	-	-	-	90,443
Total - School Breakfast Program				-	94,037	-	90,443
National School Lunch Program		10.555	FY 2014	-	354,635	-	-
			FY 2015	-	-	-	335,528
National School Lunch Program - Commodities		10.555	FY 2014	-	51,649	-	-
			FY 2015	-	-	-	49,364
Total - National School Lunch Program				-	406,284	-	384,892
Summer Food Service Program for Children		10.559	FY 2014	-	8,949	-	-
			FY 2015	-	-	-	7,856
Total - Summer Food Service Program for Children				-	8,949	-	7,856
Total - Child Nutrition Cluster				-	509,270	-	483,191
Total - Department of Agriculture				-	509,270	-	483,191
<u>Department of Education</u>							
Special Education Cluster (IDEA)	IN Department of Education	84.027					
Special Education_Grants to States			14212-049-PN01	-	50,519	-	-
			14213-049-PN01	-	83,710	-	71,087
			14214-049-PN01	-	226,654	-	96,594
			99914-049-TA01	-	-	-	9,495
			14215-049-PN01	-	-	-	211,407
Total - Special Education_Grants to States				-	360,883	-	388,583
Special Education_Preschool Grants	IN Department of Education	84.173	45712-049-PN01	-	2,441	-	-
			45713-049-PN01	-	4,866	-	937
			45714-049-PN01	-	13,199	-	4,854
			45715-049-PN01	-	-	-	10,660
Total - Special Education_Preschool Grants				-	20,506	-	16,451
Total - Special Education Cluster (IDEA)				-	381,389	-	405,034
Title I Grants to Local Educational Agencies	IN Department of Education	84.010	FY 2014	-	542,464	-	-
			FY 2015	-	-	-	568,254
Total - Title I Grants to Local Educational Agencies				-	542,464	-	568,254
Rural Education	IN Department of Education	84.358	FY 2014	-	27,579	-	-
			FY 2015	-	-	-	43,906
Total - Rural Education				-	27,579	-	43,906
Improving Teacher Quality State Grants	IN Department of Education	84.367	FY 2014	-	50,243	-	-
			FY 2015	-	-	-	84,090
Total - Improving Teacher Quality State Grants				-	50,243	-	84,090
Total - Department of Education				-	1,001,675	-	1,101,284
Total federal awards expended				\$ -	\$ 1,510,945	\$ -	\$ 1,584,475

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

MITCHELL 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-87, *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 Orange-Lawrence-Jackson-Martin-Greene Joint Services Special Education Cooperative (Cooperative) which operates the Special Education program for the School. As a result, some activity for the Special Education Cluster (IDEA) 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.

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

The School Corporation did not have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Federal expenditures were not reported for four grants totaling \$887,436. Federal expenditures were overstated \$57,542 in total for four grants and were understated \$156,735 in total for six grants. In addition, the program and project titles for several grants were incorrectly reported.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

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 §.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.

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

- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

Cause

Management had not established a system of internal control that would ensured proper reporting of federal award information on the SEFA.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Condition*.

Views of Responsible Officials

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

FINDING 2015-002

Subject: Internal Controls over Financial Transactions and Reporting
Audit Finding: Material Weakness

Condition

There was a lack of segregation of duties within the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation had not separated incompatible activities related to receipts.

Electronic fund transfers from the Auditor of State comprised a large portion of the School Corporation's receipts. The Treasurer had complete control over funds received electronically. The only receipt for these transactions was generated from the Komputrol software when the Treasurer posted the receipts to the ledger. There was no indication of a review, oversight, or approval process.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

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

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Cause

Management of the School Corporation had not established a proper system of internal control over receipts.

Effect

The failure to establish controls could have enabled material misstatements or irregularities to remain 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 2015-003

Subject: Child Nutrition Cluster - Internal Control

Federal Agency: Department of Agriculture

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

CFDA Numbers: 10.553, 10.555, 10.559

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

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Cash Management, Eligibility, Equipment and
Real Property Management, Program Income,
Reporting, Special Tests and Provisions - Paid Lunch Equity

Audit Findings: Material Weakness

Condition

An effective internal control system, which would include segregation of duties, was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Cash Management, Eligibility, Equipment and Real Property Management, Program Income, Reporting, and Special Tests and Provisions - Paid Lunch Equity.

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

Cash Management

An effective internal control system was not in place to ensure that the School Lunch fund monthly cash balances did not exceed the average expenditures for three months.

Eligibility

An effective internal control system was not in place to ensure that all records related to eligibility determination were retained and available for audit. Also, controls were not in place to ensure that the eligibility calculations were accurate and that a public announcement of the eligibility criteria was made as required.

Equipment and Real Property Management

An effective internal control system was not in place to ensure that equipment and real property was properly managed, that dispositions of equipment or real property were properly handled, and that records related to equipment and real property management were maintained.

Program Income

The School Corporation had not designed or implemented adequate policies and procedures to ensure that program income was properly recorded. An oversight, review, or approval process had not been established.

Reporting

An effective internal control system was not in place to ensure that the monthly Sponsor Claim Summary Forms (reimbursement requests), Annual Financial Reports, and School Food Authority Verification Collection Reports were accurately prepared and submitted. There was no segregation of duties such as oversight, review, or an approval process.

Special Tests and Provisions - Paid Lunch Equity

An effective internal control system was not in place to ensure that the Paid Lunch Equity calculations were retained and available for audit or to ensure that those calculations were accurate.

Context

This was a systemic problem within the School Breakfast Program, National School Lunch Program, and Summer Food Service Program for Children. Controls did not exist over the compliance requirements listed above 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. . . ."

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

Cause

Management had not developed a system of internal controls, including segregation of duties that would have ensured that the School Corporation complied with the compliance requirements listed above.

Effect

The failure to establish an effective internal control system 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 the 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.

FINDING 2015-004

Subject: Child Nutrition Cluster - Cash Management
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014, FY 2015
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Cash Management
Audit Finding: Modified Opinion

Condition

The School Corporation's cash balance (Net Cash Resources) exceeded the 3 months average expenditures by an average of \$37,638 and \$46,281, per month, in 2013-2014 and 2014-2015, respectively.

Context

This was a systemic problem as the ending cash balance of the School Lunch fund (Net Cash Resources) was greater than the 3 months average expenditures for 23 of 24 months during the audit period.

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

Criteria

7 CFR 210.14(b) states:

"*Net cash resources.* The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with § 210.19(a)."

7 CFR 220.7 states in part:

". . . (e) Each school food authority approved to participate in the program shall . . . with respect to participating schools under its jurisdiction:

- (1) . . . (iv) Limit its net cash resources to an amount that does not exceed three months average expenditure for it nonprofit school food service or such other amount as may be approved by the State agency . . ."

Cause

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

Effect

The failure to establish an effective internal control system enabled noncompliance to occur. Non-compliance with the compliance requirement 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 adequately monitor the cash balance of the School Lunch fund (Net Cash Resources) and comply with the Cash Management requirements.

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

Subject: Child Nutrition Cluster - Eligibility

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

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

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Eligibility

Audit Finding: Modified Opinion

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

Condition

The School Corporation was required to provide written notice to applicants whose applications for free/reduced meal prices were denied. The School Corporation mailed letters to those applicants notifying them that the application was denied. However, the School Corporation did not maintain copies of those letters or any other documentation indicating to whom letters were sent. Therefore, testing of this requirement could not be performed.

The eligibility determination for free/reduced meal prices was not performed correctly for two applications tested. The determination indicated that the applicant was eligible for reduced meal prices when the applicant was eligible for free meals.

The School Corporation did not publicly announce the eligibility criteria as required.

Context

The lack of documentation to support written communication to denied applicants was a systemic problem as no documentation was maintained during the audit period.

Two of sixty tested eligibility determinations were performed incorrectly.

The lack of a public announcement of eligibility criteria was a systemic problem as a proper announcement was not made at any point during the audit period.

Criteria

7 CFR 245.6(c)(7) states:

"Denied applications and the notice of denial. When the application furnished by a family is not complete or does not meet the eligibility criteria for free or reduced price benefits, the local educational agency must document and retain the reasons for ineligibility and must retain the denied application. In addition, the local educational agency must promptly provide written notice to each family denied benefits. As a minimum, this notice shall include:

- (i) The reason for the denial of benefits, e.g. income in excess of allowable limits or incomplete application;
- (ii) Notification of the right to appeal;
- (iii) Instructions on how to appeal; and
- (iv) A statement reminding parents that they may reapply for free or reduced price benefits at any time during the school year."

7 CFR 245.6(e) states:

"(e) Recordkeeping. The local educational agency must maintain documentation substantiating eligibility determinations on file for 3 years after the date of the fiscal year to which they pertain, except that if audit findings have not been resolved, the documentation must be maintained as long as required for resolution of the issues raised by the audit."

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

7 CFR 245.6(c)(4) states:

"*Calculating income.* The local educational agency must use the income information provided by the household on the application to calculate the household's total current income. When a household submits an application containing complete documentation, as defined in § 245.2, and the household's total current income is at or below the eligibility limits specified in the Income Eligibility Guidelines as defined in § 245.2, the children in that household must be approved for free or reduced price benefits, as applicable."

7 CFR 245.5(a) states in part:

"After the State agency, or FNSRO where applicable, notifies the local educational agency (as defined in § 245.2) that its criteria for determining the eligibility of children for free and reduced meals and for free milk have been approved, the local educational agency (as defined in § 245.2) shall publicly announce such criteria: *Provided however*, that no such public announcement shall be required for boarding schools, residential child care institutions (see § 210.2 of this chapter, definition of *Schools*), or a school which includes food service fees in its tuition, where all attending children are provided the same meals or milk. Such announcements shall be made at the beginning of the school year or, if notice of approval is given thereafter, within 10 days after the notice is received. The public announcement of such criteria, as a minimum, shall include the following:

- (1) Except as provided in § 245.6(b), a letter or notice and application distributed on or about the beginning of each school year, to the parents of all children in attendance at school. The letter or notice shall contain the following information:
 - (i) In schools participating in a meal service program, the eligibility criteria for *reduced price* benefits with an explanation that households with incomes less than or equal to the reduced price criteria would be eligible for either free or reduced price meals, or in schools participating in the free milk option, the eligibility criteria for *free* milk benefits;
 - (ii) How a household may make applications for free or reduced price meals or for free milk for its children;
 - (iii) An explanation that an application for free or reduced price benefits cannot be approved unless it contains complete information as described in paragraph (1)(i) of the definition of *Documentation* in § 245.2;
 - (iv) An explanation that households with children who are members of currently certified SNAP, FDPIR or TANF households may submit applications for these children with the abbreviated information described in paragraph (2)(ii) of the definition of *Documentation* in § 245.2;
 - (v) An explanation that the information on the application may be verified at any time during the school year;

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

- (vi) How a household may apply for benefits at any time during the school year as circumstances change;
- (vii) A statement to the effect that children having parents or guardians who become unemployed are eligible for free or reduced price meals or for free milk during the period of unemployment, *Provided*, that the loss of income causes the household income during the period of unemployment to be within the eligibility criteria;
- (viii) The statement: 'In the operation of child feeding programs, no child will be discriminated against because of race, sex, color, national origin, age or disability;'
- (ix) An explanation that Head Start enrollees and foster, migrant, and runaway children, as defined in § 245.2, are categorically eligible for free meals and free milk and their families should contact the school for more information;
- (x) How a household may appeal the decision of the local educational agency with respect to the application under the hearing procedure set forth in § 245.7. The letter or notice shall be accompanied by a copy of the application form required under § 245.6.
- (xi) A statement to the effect that the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) participants may be eligible for free or reduced price meals. . . ."

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Eligibility compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to occur. Noncompliance with the compliance requirement 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 procedures to ensure compliance with the Eligibility compliance requirement.

Views of Responsible Officials

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

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

FINDING 2015-006

Subject: Child Nutrition Cluster - Equipment and Real Property Management
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program,
Summer Food Service Program for Children
CFDA Numbers: 10.553, 10.555, 10.559
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014, FY 2015
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Equipment and Real Property Management
Audit Finding: Modified Opinion

Condition

The School Corporation did not properly maintain records for equipment and real property totaling \$48,701 purchased with program funds during the audit period. The additions were not recorded in the property records or labeled appropriately designating them as purchased with federal funds.

The School Corporation disposed of property during the audit period; however, the property records did not reflect the dispositions of property and no records of dispositions were presented for audit. Additionally, the School Corporation did not conduct periodic inventories of equipment and real property to reconcile to the property records.

Context

This was a systemic problem as the property records maintained by the School Corporation were not current and were not updated at any point during the audit period, no records of dispositions were presented for audit, and no periodic inventories were conducted.

Criteria

7 CFR 3016.32(d) states:

"Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

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

- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return."

34 CFR 80.32(e) states:

"Disposition. When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment will be made as follows:

- (1) Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency.
- (2) Items of equipment with a current per unit fair market value in excess of \$5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment.
- (3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions."

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Equipment and Real Property Management compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to occur. Non-compliance with the compliance requirement 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 comply with the Equipment and Real Property compliance requirement.

Views of Responsible Officials

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

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

FINDING 2015-007

Subject: Child Nutrition Cluster - Program Income
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014, FY 2015
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Program Income
Audit Finding: Modified Opinion

Condition

The School Corporation did not comply with requirements for accounting for program income generated from the operation of the food service program. All monthly receipts from sales, including prepayments, were recorded directly in the School Lunch fund as income. Prepayments are not considered program income and should not be recorded as income in the School Lunch fund.

Context

This was a systemic problem as all prepayments were recorded as revenue of the school food service program with no tracking in a separate record or fund during the entire audit period.

Criteria

7 CFR 210.14(c) states:

"Financial assurances. The school food authority shall meet the requirements of the State agency for compliance with § 210.19(a) including any separation of records of nonprofit school food service from records of any other food service which may be operated by the school food authority as provided in paragraph (a) of this section."

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Program Income compliance requirement.

Effect

The failure to establish an effective internal control system enabled noncompliance to occur. Non-compliance with the compliance requirement 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 comply with the Program Income requirements to ensure that program income is properly receipted and recorded in the School Corporation records.

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

Views of Responsible Officials

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

FINDING 2015-008

Subject: Child Nutrition Cluster - Reporting

Federal Agency: Department of Agriculture

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

CFDA Numbers: 10.553, 10.555, 10.559

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

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Finding: Modified Opinion

Condition

The School Corporation filed the required National School Lunch Program (NSLP) Annual Financial Report (AFR) for both years under audit. However, the Income Total reported was not accurate and did not agree to the income per the School Corporation's ledger for either year. Additionally, the beginning and ending cash balances reported did not agree to the fund balances shown in the ledger for either year.

Context

This was a systemic problem as two AFRs were filed during the audit period, and the reported Income Total and beginning and ending cash balances did not agree to the School Corporation's ledger for either report.

Criteria

7 CFR 3016.20(b) states in part:

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

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

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Reporting compliance requirement.

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

Effect

The failure to establish an effective internal control system enabled noncompliance to occur. Non-compliance with the compliance requirement 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 ensure that all required reports are prepared accurately, in accordance with the Reporting requirements, and that reports are supported by source documentation.

Views of Responsible Officials

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

FINDING 2015-009

Subject: National School Lunch Program - Special Tests and Provisions - Paid Lunch Equity
Federal Agency: Department of Agriculture
Federal Program: National School Lunch Program
CFDA Number: 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2014, FY 2015
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Paid Lunch Equity
Audit Finding: Modified Opinion

Condition

The Food Services Director prepared the Paid Lunch Equity calculations each year, but the School Corporation did not maintain the Paid Lunch Equity calculations for audit as required.

Context

This was a systemic problem as the School Corporation did not maintain the Paid Lunch Equity calculations for either year under audit.

Criteria

7 CFR 210.15 states in part:

". . . (b) *Recordkeeping summary*. In order to participate in the Program, a school food authority or a school, as applicable, must maintain records to demonstrate compliance with Program requirements. These records include but are not limited to . . .

(6) Records to document compliance with the requirements in § 210.14(e). . . ."

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

7 CFR 210.14 states in part: ". . . (e) *Pricing paid lunches*. For each school year beginning July 1, 2011, school food authorities shall establish prices for paid lunches in accordance with this paragraph. . . ."

Cause

Management had not developed a system of internal controls that would have ensured that the School Corporation complied with the Special Tests and Provisions - Paid Lunch Equity requirement.

Effect

The failure to establish effective internal controls that would have ensured that documentation was maintained and available for audit prevented the determination of the School Corporation's compliance with the grant agreement and the Special Test and Provision - Paid Lunch Equity requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation comply with the Special Tests and Provisions - Paid Lunch Equity requirements and retain the Paid Lunch Equity calculations.

Views of Responsible Officials

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

AUDITEE-PREPARED DOCUMENT

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

Dr. Steve E. Phillips

SUPERINTENDENT

Phillip Storm

ASSISTANT SUPERINTENDENT

Malinda Powell

TREASURER

Debbie Arthur

SECY. TO BOARD/
DEPUTY TREASURER

Sherry Burkett

BENEFITS/SECRETARY

Mitchell Community Schools

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MITCHELL COMMUNITY SCHOOLS

CORRECTIVE ACTION PLAN FOR MAY, JUNE, 2017 AUDIT

BOARD OF TRUSTEES

Cynthia L. Brooking

Steve Burton

Crystal D. Mikels

Patrick Redman

Christopher S. Shaw

FINDING 2015-001

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

The School Corporation did not have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Federal expenditures were not reported for four grants totaling \$887,436. Federal expenditures were overstated \$57,542 in total for four grants and were understated \$156,735 in total for six grants. In addition, the program and project titles for several grants were incorrectly reported.

Recommendation: None given

Corrective Action Plan: The Treasurer will have the Assistant Superintendent review and sign off on this reporting before it is submitted.

Anticipated Completion Date: Already addressed

FINDING 2015-002

Condition: There was a lack of segregation of duties within the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation had not separated incompatible activities related to receipts.

Electronic fund transfers from the Auditor of State comprise a large portion of the School Corporation's receipts. The Treasurer had complete control over funds received electronically. The only receipt for these transactions was generated from the Komputrol software when the Treasurer posted the receipts to the ledger. There was no indication of a review, oversight, or approval process.

Recommendation: None given

Corrective Action Plan: The Treasurer is now having the Superintendent sign off on the end of the month revenue reports.

Anticipated Completion Date: Already addressed

FINDING 2015-003

Condition: An effective internal control system, which would include segregation of duties, was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Cash Management, Eligibility, Equipment and

Real Property Management, Program Income, Reporting, and Special Tests and Provisions #4 – Paid Lunch Equity.

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

Corrective Action Plan: The School Corporation will comply with all of the findings noted in this document and will implement the necessary controls to assure compliance.

Anticipated Completion Date: Begin addressing immediately.

FINDING 2015-004

Condition: The School Corporation's cash balance exceeded the average expenditures for three months by an average per month of \$37,638 and \$46,281 in 2013-14 and 2014-15.

Recommendation: We recommend that the School Corporation adequately monitor the cash balance of the School Lunch fund and comply with the Cash Management requirements.

Corrective Action Plan: The Food Service Director (FSD) and the Superintendent will review cafeteria needs and purchase food service related items. As an internal control, the FSD will maintain a document indicating the target three (3) month figure and monthly totals. This report will include PPFT (Prepaid Food Trust) totals, so as to not include these funds as available for cafeteria spending. Further, this document will be reviewed/signed by the corporation treasurer monthly.

Anticipated Completion Date: Begin addressing immediately

FINDING 2015-005

Condition: The School Corporation was required to provide written notice to applicants whose applications for free/reduced meal prices were denied. The School Corporation mailed letters to those applicants notifying them that the application was denied. However, the School Corporation did not maintain copies of those letters or any other documentation indicating to whom the letters were sent. Therefore, testing of this requirement could not be performed.

The eligibility determination for free/reduced meal prices was not performed correctly for two applications tested. The determination indicated that the applicant was eligible for reduced meal prices when the applicant was eligible for free meals.

The School Corporation did not publically announce the eligibility criteria as required.

Recommendation: We recommend that the School Corporation establish a system of internal controls and implement procedures to ensure compliance with the Eligibility requirement. We recommend that the School Corporation retain copies of letters mailed and denied applicants or develop a tracking mechanism to ensure that documentation is available to audit this requirement. We also recommended that the School Corporation ensure that Eligibility determinations are made correctly. Additionally, the School Corporation should make the required public announcement regarding eligibility criteria.

Corrective Action Plan: A copy of the letter sent to applicants who were denied meal-textbook benefits will be stapled directly to the application. A document will be created by the FSD listing the applications that were denied. As an internal control, a cafeteria manager will sign this document, which will be retained and available for audit.

Annually, a random selection of 20 applications will be reviewed and documented as accurate by the FSD. An indication of such process will be marked directly on the application. Further, a list of these 20 applicants will be reviewed/signed by a school principal. This list will be retained and available for audit.

The eligibility criteria has been uploaded to the school corporation website and school officials are working to insure that the eligibility criteria is viewable within the school's Harmony database.

Anticipated Completion Date: Begin addressing immediately

FINDING 2015-006

Condition: The School Corporation did not properly maintain records for equipment and real property purchase with the program funds during the audit period. The School Corporation purchased equipment totaling \$48,701. The additions were not recorded in the property records or labeled appropriately designating them as purchased with federal funds. The School Corporation disposed of property during the audit period. The property records did not reflect the dispositions of property and no records of dispositions were presented for audit. Additionally, the School Corporation did not conduct periodic inventories of equipment and real property to reconcile the property records.

Recommendation: We recommend that the School Corporation prepare and maintain updated, accurate detailed property records, including information on dispositions of property. Inventories of equipment should be conducted and reconciled to the detailed property records at least once every two years. Significant differences should be investigated and the appropriate adjustments made to the records. Additionally, any equipment acquired with federal funds must be designate as such so that it is not disposed of improperly.

Corrective Action Plan: The School Corporation will prepare and maintain updated, accurate property records, including information on dispositions of property. Inventories of equipment will be conducted and reconciled to the records every two (2) years. Additionally, any equipment acquired with federal funds will be designated as such so that it is not disposed of improperly. As an internal control, this document will be maintained by the FSD and reviewed/signed by a principal in the respective building.

Anticipated Completion Date: Begin addressing immediately

FINDING 2015-007

Condition: The School Corporation did not comply with requirements for accounting for program income generated from the operation of the food service program. All monthly receipts from sales, as well as prepayments, were recorded directly in the School Lunch fund; prepayments were not recorded in a Prepaid Food fund.

Recommendation: We recommend that the School Corporation comply with the Program Income requirements to ensure that program income is properly receipted and recorded in the School Corporation records.

Corrective Action Plan: This issue has already been corrected. Once it was discovered how to complete document PPFT, Mrs. Powell immediately began recording the Prepaid Food Trust information as required. Online receipts and daily cafeteria receipts are now receipted into Prepaid Food Trust Fund and then transferred to the proper cafeteria accounts as reported to Treasurer at the end of the month by Food Service Director.

Anticipated Completion Date: Already addressed

FINDING 2015-008

Condition: The School Corporation filed the required National School Lunch Program (NSLP) Annual Financial Report (AFR) for both years under audit. However, the Income Total reported was not accurate and did not agree to with the income per the School Corporation's ledger for either year. Additionally, the beginning and ending cash balance reported did not agree with the fund balances shown in the ledger for either year.

Recommendation: We recommend that the School Corporation ensure that all required reports are prepared accurately, in accordance with the Reporting requirements, and that reports are supported by source documentation.

Corrective Action Plan: In order to ensure that the monthly Sponsor Claim Summary Forms, Annual Financial Reports and the Verification Collection Reports are accurately prepared and submitted, all source documentation used to create these reports will be available for review from the assistant superintendent. As an internal control system and as a segregation of duties, a document will be reviewed/signed by the assistant superintendent monthly for Sponsor Claims and annually for the AFR and Verification Reports indicating his/her review.

Anticipated Completion Date: Begin addressing immediately .

FINDING 2015-009

Condition: The Food Services Director prepared the Paid Lunch Equity calculations each year, but the School Corporation did not maintain the Paid Lunch Equity calculations for audit as required.

Recommendation: We recommend that the School Corporation comply with the Special Tests and Provisions – Paid Lunch Equity requirements and retain the Paid Lunch Equity calculations for audit.

Corrective Action Plan: This issue has already been corrected. PLE calculations have been retained for the last two (2) years and are available for review. As an internal control, this report and calculation tool will be added to the list above of documents reviewed/acknowledged by the assistant superintendent.

Anticipated Completion Date: Already addressed

Contact Person Responsible for Corrective Action: Steve E. Phillips Phone Number: 812-849-4481



7/18/17

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/>.