

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

MIDDLEBURY COMMUNITY SCHOOLS
ELKHART COUNTY, INDIANA

July 1, 2014 to June 30, 2016



FILED
05/29/2018

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Mark D. Snyder	07-01-14 to 06-30-18
Superintendent of Schools	Jane A. Allen	07-01-12 to 06-30-19
President of the School Board	David Black	01-01-14 to 12-31-18



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AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE MIDDLEBURY COMMUNITY SCHOOLS, ELKHART COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the Middlebury Community Schools (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2014 to June 30, 2016, 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, 2014 to June 30, 2016.

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, 2014 to June 30, 2016, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Matters

Supplementary Information

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

Other Information

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated April 24, 2018, 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 solely 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 effectiveness of the School Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Corporation's internal control over financial reporting and compliance.


Paul D. Joyce, CPA
State Examiner

April 24, 2018



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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF THE MIDDLEBURY COMMUNITY SCHOOLS, ELKHART 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 Middlebury Community Schools (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2014 to June 30, 2016, and the related notes to the financial statement, and have issued our report thereon dated April 24, 2018, 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 2016-001 and 2016-002 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 2016-002.

Middlebury 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

April 24, 2018

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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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MIDDLEBURY COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
OTHER FINANCING SOURCES (USES), AND CASH AND
INVESTMENT BALANCES - REGULATORY BASIS
For the Years Ended June 30, 2015 and 2016

Fund	Cash and Investments			Other Financing Sources (Uses)	Cash and Investments			Other Financing Sources (Uses)	Cash and Investments
	07-01-14	Receipts	Disbursements		06-30-15	Receipts	Disbursements		
General	\$ 4,311,439	\$ 26,862,832	\$ 27,008,780	\$ 46	\$ 4,165,537	\$ 28,059,819	\$ 27,624,872	\$ (142,561)	\$ 4,457,923
Debt Service	3,564,391	8,276,239	8,086,588	180,320	3,934,362	9,233,332	8,785,607	-	4,382,087
Capital Projects	2,300,743	3,550,162	3,824,877	(103,784)	1,922,244	3,386,868	3,520,473	30,000	1,818,639
School Transportation	1,156,684	2,250,152	1,932,632	(63,024)	1,411,180	2,299,777	1,754,966	2,827	1,958,818
School Bus Replacement	500,020	453,537	420,754	(13,512)	519,291	463,359	425,214	-	557,436
Rainy Day	4,031,750	-	-	-	4,031,750	100,398	-	-	4,132,148
Retirement/Severance Bond	462,576	541	15,120	-	447,997	495	-	-	448,492
Construction	10,449	-	-	-	10,449	-	-	-	10,449
2013 GOB Facility Improvement	153,696	-	42,868	-	110,828	-	52,936	-	57,892
2015 Refunded Construction	-	-	-	-	-	-	6,525	730,000	723,475
School Lunch	741,014	2,014,311	1,974,246	-	781,079	2,052,572	2,183,415	144,194	794,430
Textbook Rental	570,365	339,726	150,532	-	759,559	379,106	680,294	-	458,371
Self-Insurance	3,147,184	3,899,885	4,078,945	-	2,968,124	3,561,651	4,532,974	-	1,996,801
Levy Excess	-	2,827	-	-	2,827	-	-	(2,827)	-
Educational License Plates	75	300	-	-	375	263	-	-	638
Alternative Education	7,910	5,963	7,776	-	6,097	6,601	440	-	12,258
NMS O/D Learning Ctn - Lowe's	46	-	-	(46)	-	-	-	-	-
IU Health Grant Mobil Aid Stat	5	-	-	-	5	-	-	(5)	-
Frank Moriam Miller Gift	465	-	-	-	465	-	-	-	465
Bike Shed NHS Donation	7,800	-	7,800	-	-	-	-	-	-
Formative Assessment	-	-	-	-	-	37,167	25,994	-	11,173
Bikes/Henkel Grant Winner	1,602	-	280	-	1,322	-	748	-	574
2013-2014 High Ability	20,583	-	20,583	-	-	-	-	-	-
High Ability 2014-2015	-	43,709	29,174	-	14,535	-	14,535	-	-
Reading Recovery	1,015	-	-	-	1,015	-	-	(1,015)	-
Instructional Support	926	-	232	-	694	-	521	(613)	(440)
Early Childhood Intervention (First Steps)	-	-	-	-	-	18,400	-	-	18,400
Medicaid Reimbursement	69,040	68,701	28,658	77	109,160	71,252	40,242	-	140,170
Secured Schools Safety Grant	-	-	-	-	-	2,800	-	-	2,800
Non-English Speaking Programs	5,006	-	3,101	-	1,905	-	1,118	-	787
2014-2015 NESP	-	33,621	31,227	-	2,394	-	-	-	-
NESP 2015-2016	-	-	-	-	-	64,510	68,079	-	(3,569)
School Technology	4,357	8,541	6,912	-	5,986	8,724	9,999	-	4,711
H/A 2015-2016	-	-	-	-	-	44,613	19,983	-	24,630
Coordinated Sch. Health Prog	1,311	-	770	-	541	200	300	-	441
No Excuses University	500	-	-	-	500	-	-	-	500
Excess PTRC Distributions	97	-	-	-	97	-	-	-	97
Title I 2013-2014	(95,304)	144,588	49,284	-	-	-	-	-	-
Title I 2014-2015	-	382,437	473,437	-	(91,000)	172,820	81,817	-	3
Title I 2015-2016	-	-	-	-	-	424,522	526,871	-	(102,349)
Part B, TA Grant LEA Technical Asst	(562)	562	5,030	-	(5,030)	1,817	1,817	-	(5,030)
Medicaid Reimbursement - Federal	77	-	-	(77)	-	-	-	-	-
Title II-A 2012-2013	(12,242)	38,628	26,386	-	-	-	-	-	-
Title II-A FY 2014-2015	-	-	-	-	-	118,801	118,801	-	-
Title II-A FY 2013-2014	-	91,990	100,987	-	(8,997)	26,953	17,956	-	-
Title II-A 2015-2016	-	-	-	-	-	-	13,523	-	(13,523)
Title III 2015-2016	-	-	-	-	-	33,844	44,080	-	(10,236)
Title III 2013-2014	(7,691)	13,046	5,355	-	-	-	-	-	-
Title III NESP 2014-2015	-	47,148	51,025	-	(3,877)	6,664	2,787	-	-
Payroll Clearing Account	172,886	20,718,220	20,708,630	-	182,476	21,537,207	21,559,805	-	159,878
Prepaid Food	56,224	300,499	296,100	-	60,623	317,916	310,500	-	68,039
MCS Clearing Account	24,429	18,778	17,706	-	25,501	19,223	17,952	-	26,772
Clearing Account Employer	(305)	17,482	19,105	-	(1,928)	19,003	17,697	-	(622)
Totals	\$ 21,208,561	\$ 69,584,425	\$ 69,424,900	\$ -	\$ 21,368,086	\$ 72,470,677	\$ 72,465,235	\$ 760,000	\$ 22,133,528

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

MIDDLEBURY 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.

MIDDLEBURY 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 donations to foundations, securities purchased, indirect costs, scholarships, and self-insurance payments.

F. Other Financing Sources and Uses

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

Proceeds of long-term debt. Amounts received in relation to the issuance of bonds or other long-term debt issues.

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

MIDDLEBURY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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 lien date (March 1 in a year ending before January 1, 2016 and January 1 in a year beginning after December 31, 2015) 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.

MIDDLEBURY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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.

MIDDLEBURY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

B. Teachers' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

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

Note 7. Negative Receipts and Disbursements

The financial statement contains some receipts and disbursements which appear as negative entries. This is a result of corrections and adjustments.

Note 8. Cash Balance Deficits Check

The financial statement contains some funds with deficits in cash. This is a result of funds being set up for reimbursable grants/funds. The reimbursements for expenditures made by the School Corporation were not received by June 30, 2015 and 2016.

MIDDLEBURY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 9. Holding Corporations

The School Corporation has entered into a capital lease with Middlebury Schools Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related-party of the School Corporation. Lease payments during fiscal year 2014 for Series A, High School Classroom Project totaled \$4,968,000. Lease payment during fiscal year 2015, High School Classrooms Refunded totaled \$5,667,500. Lease payments during fiscal year 2014 and fiscal year 2015 for Series B, Auditorium and Pool Project totaled \$1,241,500 and \$1,244,000, respectively.

The School Corporation has entered into a capital lease with Middlebury Elementary Schools Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related-party of the School Corporation. Lease payments during fiscal year 2015 and fiscal year 2016 totaled \$1,052,913 and \$1,053,513, respectively.

Note 10. Other Postemployment Benefits

All retirees and their spouses, if eligible, may receive medical benefits under the Middlebury Community Schools Group Health Plan, which is a self-insurance plan. The retiree is responsible for paying the full cost of the benefit. A full cost premium is determined annually. The actual benefits provided under the self-insurance plan may be more or less than the premium charged. The annual premium for fiscal year 2015 was \$5,625.72 for single coverage and \$16,877.28 for family coverage, fiscal year 2016 was \$6,469.56 for single coverage and \$19,408.92 for family coverage.

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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 Indiana Gateway for Government Units 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.

MIDDLEBURY 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	Retirement/ Severance Bond	Construction	2013 GOB Facility Improvement
Cash and investments - beginning	\$ 4,311,439	\$ 3,564,391	\$ 2,300,743	\$ 1,156,684	\$ 500,020	\$ 4,031,750	\$ 462,576	\$ 10,449	\$ 153,696
Receipts:									
Local sources	583,244	8,276,239	3,550,162	2,216,201	453,537	-	541	-	-
Intermediate sources	290	-	-	-	-	-	-	-	-
State sources	25,479,355	-	-	-	-	-	-	-	-
Federal sources	799,943	-	-	33,951	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	26,862,832	8,276,239	3,550,162	2,250,152	453,537	-	541	-	-
Disbursements:									
Instruction	19,330,058	-	-	-	-	-	15,120	-	-
Support services	7,189,819	-	1,729,395	1,932,632	420,754	-	-	-	-
Noninstructional services	488,903	-	(131,186)	-	-	-	-	-	-
Facilities acquisition and construction	-	-	1,795,969	-	-	-	-	-	42,868
Debt service	-	8,086,588	430,699	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	27,008,780	8,086,588	3,824,877	1,932,632	420,754	-	15,120	-	42,868
Excess (deficiency) of receipts over disbursements	(145,948)	189,651	(274,715)	317,520	32,783	-	(14,579)	-	(42,868)
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	46	-	(103,784)	(63,024)	(13,512)	-	-	-	-
Transfers out	-	180,320	-	-	-	-	-	-	-
Total other financing sources (uses)	46	180,320	(103,784)	(63,024)	(13,512)	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(145,902)	369,971	(378,499)	254,496	19,271	-	(14,579)	-	(42,868)
Cash and investments - ending	\$ 4,165,537	\$ 3,934,362	\$ 1,922,244	\$ 1,411,180	\$ 519,291	\$ 4,031,750	\$ 447,997	\$ 10,449	\$ 110,828

MIDDLEBURY 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

	2015 Refunded Construction	School Lunch	Textbook Rental	Self- Insurance	Levy Excess	Educational License Plates	Alternative Education	NMS O/D Learning Ctn - Lowe's	IU Health Grant Mobil Aid Stat
Cash and investments - beginning	\$ -	\$ 741,014	\$ 570,365	\$ 3,147,184	\$ -	\$ 75	\$ 7,910	\$ 46	\$ 5
Receipts:									
Local sources	-	1,169,008	236,978	3,899,885	2,827	-	-	-	-
Intermediate sources	-	-	-	-	-	300	-	-	-
State sources	-	31,599	102,748	-	-	-	5,963	-	-
Federal sources	-	813,704	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	-	2,014,311	339,726	3,899,885	2,827	300	5,963	-	-
Disbursements:									
Instruction	-	(23)	-	-	-	-	7,776	-	-
Support services	-	-	150,532	-	-	-	-	-	-
Noninstructional services	-	1,830,075	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	144,194	-	4,078,945	-	-	-	-	-
Total disbursements	-	1,974,246	150,532	4,078,945	-	-	7,776	-	-
Excess (deficiency) of receipts over disbursements	-	40,065	189,194	(179,060)	2,827	300	(1,813)	-	-
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	(46)	-
Total other financing sources (uses)	-	-	-	-	-	-	-	(46)	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	40,065	189,194	(179,060)	2,827	300	(1,813)	(46)	-
Cash and investments - ending	\$ -	\$ 781,079	\$ 759,559	\$ 2,968,124	\$ 2,827	\$ 375	\$ 6,097	\$ -	\$ 5

MIDDLEBURY 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

	Frank Moriham Miller Gift	Bike Shed NHS Donation	Formative Assessment	Bikes/Henkel Grant Winner	2013-2014 High Ability	High Ability 2014-2015	Reading Recovery	Instructional Support	Early Childhood Intervention (First Steps)
Cash and investments - beginning	\$ 465	\$ 7,800	\$ -	\$ 1,602	\$ 20,583	\$ -	\$ 1,015	\$ 926	\$ -
Receipts:									
Local sources	-	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	43,709	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	-	-	-	-	-	43,709	-	-	-
Disbursements:									
Instruction	-	-	-	280	20,583	29,174	-	-	-
Support services	-	-	-	-	-	-	-	232	-
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	3,700	-	-	-	-	-	-	-
Debt service	-	4,100	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	-	7,800	-	280	20,583	29,174	-	232	-
Excess (deficiency) of receipts over disbursements	-	(7,800)	-	(280)	(20,583)	14,535	-	(232)	-
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(7,800)	-	(280)	(20,583)	14,535	-	(232)	-
Cash and investments - ending	\$ 465	\$ -	\$ -	\$ 1,322	\$ -	\$ 14,535	\$ 1,015	\$ 694	\$ -

MIDDLEBURY 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

	Medicaid Reimbursement	Secured Schools Safety Grant	Non-English Speaking Programs	2014-2015 NESP	NESP 2015-2016	School Technology	H/A 2015-2016	Coordinated Sch. Health Prog	No Excuses University
Cash and investments - beginning	\$ 69,040	\$ -	\$ 5,006	\$ -	\$ -	\$ 4,357	\$ -	\$ 1,311	\$ 500
Receipts:									
Local sources	68,701	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	-	-	-	33,621	-	8,541	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	68,701	-	-	33,621	-	8,541	-	-	-
Disbursements:									
Instruction	2,331	-	3,101	31,227	-	-	-	-	-
Support services	26,327	-	-	-	-	6,912	-	770	-
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	28,658	-	3,101	31,227	-	6,912	-	770	-
Excess (deficiency) of receipts over disbursements	40,043	-	(3,101)	2,394	-	1,629	-	(770)	-
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	77	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	77	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	40,120	-	(3,101)	2,394	-	1,629	-	(770)	-
Cash and investments - ending	\$ 109,160	\$ -	\$ 1,905	\$ 2,394	\$ -	\$ 5,986	\$ -	\$ 541	\$ 500

MIDDLEBURY 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

	Excess PTRC Distributions	Title I 2013-2014	Title I 2014-2015	Title I 2015-2016	Part B, TA Grant LEA Technical Asst	Medicaid Reimbursement - Federal	Title II-A 2012-2013	Title II-A FY 2014-2015	Title II-A FY 2013-2014
Cash and investments - beginning	\$ 97	\$ (95,304)	\$ -	\$ -	\$ (562)	\$ 77	\$ (12,242)	\$ -	\$ -
Receipts:									
Local sources	-	-	-	-	562	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-	-
Federal sources	-	144,588	382,437	-	-	-	38,628	-	91,990
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	-	144,588	382,437	-	562	-	38,628	-	91,990
Disbursements:									
Instruction	-	33,673	405,850	-	5,030	-	(765)	-	5
Support services	-	12,617	66,202	-	-	-	27,151	-	100,982
Noninstructional services	-	2,994	1,385	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	-	49,284	473,437	-	5,030	-	26,386	-	100,987
Excess (deficiency) of receipts over disbursements	-	95,304	(91,000)	-	(4,468)	-	12,242	-	(8,997)
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	(77)	-	-	-
Total other financing sources (uses)	-	-	-	-	-	(77)	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	95,304	(91,000)	-	(4,468)	(77)	12,242	-	(8,997)
Cash and investments - ending	\$ 97	\$ -	\$ (91,000)	\$ -	\$ (5,030)	\$ -	\$ -	\$ -	\$ (8,997)

MIDDLEBURY 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

	Title II-A 2015-2016	Title III 2015-2016	Title III 2013-2014	Title III NESP 2014-2015	Payroll Clearing Account	Prepaid Food	MCS Clearing Account	Clearing Account Employer	Totals
Cash and investments - beginning	\$ -	\$ -	\$ (7,691)	\$ -	\$ 172,886	\$ 56,224	\$ 24,429	\$ (305)	\$ 21,208,561
Receipts:									
Local sources	-	-	-	-	-	-	-	-	20,457,885
Intermediate sources	-	-	-	-	-	-	-	-	590
State sources	-	-	13,046	47,148	-	-	-	-	25,765,730
Federal sources	-	-	-	-	-	-	-	-	2,305,241
Other receipts	-	-	-	-	20,718,220	300,499	18,778	17,482	21,054,979
Total receipts	-	-	13,046	47,148	20,718,220	300,499	18,778	17,482	69,584,425
Disbursements:									
Instruction	-	-	5,355	51,025	-	-	-	-	19,939,800
Support services	-	-	-	-	-	-	-	-	11,664,325
Noninstructional services	-	-	-	-	-	-	-	-	2,192,171
Facilities acquisition and construction	-	-	-	-	-	-	-	-	1,842,537
Debt service	-	-	-	-	-	-	-	-	8,521,387
Nonprogrammed charges	-	-	-	-	20,708,630	296,100	17,706	19,105	25,264,680
Total disbursements	-	-	5,355	51,025	20,708,630	296,100	17,706	19,105	69,424,900
Excess (deficiency) of receipts over disbursements	-	-	7,691	(3,877)	9,590	4,399	1,072	(1,623)	159,525
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	(180,197)
Transfers out	-	-	-	-	-	-	-	-	180,197
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	7,691	(3,877)	9,590	4,399	1,072	(1,623)	159,525
Cash and investments - ending	\$ -	\$ -	\$ -	\$ (3,877)	\$ 182,476	\$ 60,623	\$ 25,501	\$ (1,928)	\$ 21,368,086

MIDDLEBURY COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS,
 OTHER FINANCING SOURCES (USES), AND CASH AND
 INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2016

	General	Debt Service	Capital Projects	School Transportation	School Bus Replacement	Rainy Day	Retirement/ Severance Bond	Construction	2013 GOB Facility Improvement
Cash and investments - beginning	\$ 4,165,537	\$ 3,934,362	\$ 1,922,244	\$ 1,411,180	\$ 519,291	\$ 4,031,750	\$ 447,997	\$ 10,449	\$ 110,828
Receipts:									
Local sources	467,042	9,233,332	3,386,868	2,258,243	463,359	100,398	495	-	-
Intermediate sources	145	-	-	-	-	-	-	-	-
State sources	26,740,160	-	-	-	-	-	-	-	-
Federal sources	852,472	-	-	41,534	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	28,059,819	9,233,332	3,386,868	2,299,777	463,359	100,398	495	-	-
Disbursements:									
Instruction	19,685,070	-	-	-	-	-	-	-	-
Support services	7,403,628	-	1,691,034	1,754,966	425,214	-	-	-	-
Noninstructional services	535,779	-	-	-	-	-	-	-	-
Facilities acquisition and construction	395	-	1,542,805	-	-	-	-	-	52,936
Debt service	-	8,785,607	286,634	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	27,624,872	8,785,607	3,520,473	1,754,966	425,214	-	-	-	52,936
Excess (deficiency) of receipts over disbursements	434,947	447,725	(133,605)	544,811	38,145	100,398	495	-	(52,936)
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	30,000	-	-	-	-	-	-
Transfers in	1,633	-	-	2,827	-	-	-	-	-
Transfers out	(144,194)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(142,561)	-	30,000	2,827	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	292,386	447,725	(103,605)	547,638	38,145	100,398	495	-	(52,936)
Cash and investments - ending	\$ 4,457,923	\$ 4,382,087	\$ 1,818,639	\$ 1,958,818	\$ 557,436	\$ 4,132,148	\$ 448,492	\$ 10,449	\$ 57,892

MIDDLEBURY COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS,
 OTHER FINANCING SOURCES (USES), AND CASH AND
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 For the Year Ended June 30, 2016

	2015 Refunded Construction	School Lunch	Textbook Rental	Self- Insurance	Levy Excess	Educational License Plates	Alternative Education	NMS O/D Learning Ctn - Lowe's	IU Health Grant Mobil Aid Stat
Cash and investments - beginning	\$ -	\$ 781,079	\$ 759,559	\$ 2,968,124	\$ 2,827	\$ 375	\$ 6,097	\$ -	\$ 5
Receipts:									
Local sources	-	1,133,713	271,687	3,561,651	-	-	-	-	-
Intermediate sources	-	-	-	-	-	263	-	-	-
State sources	-	33,201	107,419	-	-	-	6,601	-	-
Federal sources	-	885,658	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	-	2,052,572	379,106	3,561,651	-	263	6,601	-	-
Disbursements:									
Instruction	-	-	-	-	-	-	440	-	-
Support services	-	167,836	680,294	-	-	-	-	-	-
Noninstructional services	-	2,001,163	-	-	-	-	-	-	-
Facilities acquisition and construction	6,525	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	14,416	-	4,532,974	-	-	-	-	-
Total disbursements	6,525	2,183,415	680,294	4,532,974	-	-	440	-	-
Excess (deficiency) of receipts over disbursements	(6,525)	(130,843)	(301,188)	(971,323)	-	263	6,161	-	-
Other financing sources (uses):									
Proceeds of long-term debt	730,000	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	144,194	-	-	-	-	-	-	-
Transfers out	-	-	-	-	(2,827)	-	-	-	(5)
Total other financing sources (uses)	730,000	144,194	-	-	(2,827)	-	-	-	(5)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	723,475	13,351	(301,188)	(971,323)	(2,827)	263	6,161	-	(5)
Cash and investments - ending	\$ 723,475	\$ 794,430	\$ 458,371	\$ 1,996,801	\$ -	\$ 638	\$ 12,258	\$ -	\$ -

MIDDLEBURY COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS,
 OTHER FINANCING SOURCES (USES), AND CASH AND
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 For the Year Ended June 30, 2016

	Frank Moriham Miller Gift	Bike Shed NHS Donation	Formative Assessment	Bikes/Henkel Grant Winner	2013-2014 High Ability	High Ability 2014-2015	Reading Recovery	Instructional Support	Early Childhood Intervention (First Steps)
Cash and investments - beginning	\$ 465	\$ -	\$ -	\$ 1,322	\$ -	\$ 14,535	\$ 1,015	\$ 694	\$ -
Receipts:									
Local sources	-	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	-	-	37,167	-	-	-	-	-	18,400
Federal sources	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	-	-	37,167	-	-	-	-	-	18,400
Disbursements:									
Instruction	-	-	-	748	-	14,535	-	-	-
Support services	-	-	25,994	-	-	-	-	521	-
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	-	-	25,994	748	-	14,535	-	521	-
Excess (deficiency) of receipts over disbursements	-	-	11,173	(748)	-	(14,535)	-	(521)	18,400
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	(1,015)	(613)	-
Total other financing sources (uses)	-	-	-	-	-	-	(1,015)	(613)	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	11,173	(748)	-	(14,535)	(1,015)	(1,134)	18,400
Cash and investments - ending	\$ 465	\$ -	\$ 11,173	\$ 574	\$ -	\$ -	\$ -	\$ (440)	\$ 18,400

MIDDLEBURY COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS,
 OTHER FINANCING SOURCES (USES), AND CASH AND
 INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2016

	Medicaid Reimbursement	Secured Schools Safety Grant	Non-English Speaking Programs	2014-2015 NESP	NESP 2015-2016	School Technology	H/A 2015-2016	Coordinated Sch. Health Prog	No Excuses University
Cash and investments - beginning	\$ 109,160	\$ -	\$ 1,905	\$ 2,394	\$ -	\$ 5,986	\$ -	\$ 541	\$ 500
Receipts:									
Local sources	67,380	-	-	-	-	-	-	200	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	3,872	2,800	-	-	64,510	8,724	44,613	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	71,252	2,800	-	-	64,510	8,724	44,613	200	-
Disbursements:									
Instruction	1,385	-	1,118	2,394	68,079	-	19,983	-	-
Support services	38,857	-	-	-	-	9,999	-	300	-
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	40,242	-	1,118	2,394	68,079	9,999	19,983	300	-
Excess (deficiency) of receipts over disbursements	31,010	2,800	(1,118)	(2,394)	(3,569)	(1,275)	24,630	(100)	-
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	31,010	2,800	(1,118)	(2,394)	(3,569)	(1,275)	24,630	(100)	-
Cash and investments - ending	\$ 140,170	\$ 2,800	\$ 787	\$ -	\$ (3,569)	\$ 4,711	\$ 24,630	\$ 441	\$ 500

MIDDLEBURY COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS,
 OTHER FINANCING SOURCES (USES), AND CASH AND
 INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2016

	Excess PTRC Distributions	Title I 2013-2014	Title I 2014-2015	Title I 2015-2016	Part B, TA Grant LEA Technical Asst	Medicaid Reimbursement - Federal	Title II-A 2012-2013	Title II-A FY 2014-2015	Title II-A FY 2013-2014
Cash and investments - beginning	\$ 97	\$ -	\$ (91,000)	\$ -	\$ (5,030)	\$ -	\$ -	\$ -	\$ (8,997)
Receipts:									
Local sources	-	-	-	-	1,817	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-	-
Federal sources	-	-	172,820	424,522	-	-	118,801	26,953	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	-	-	172,820	424,522	1,817	-	118,801	26,953	-
Disbursements:									
Instruction	-	-	66,078	360,739	1,817	-	-	12	-
Support services	-	-	11,744	161,194	-	-	-	117,618	17,956
Noninstructional services	-	-	3,995	4,938	-	-	-	1,171	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	-	-	81,817	526,871	1,817	-	118,801	17,956	-
Excess (deficiency) of receipts over disbursements	-	-	91,003	(102,349)	-	-	-	-	8,997
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	91,003	(102,349)	-	-	-	-	8,997
Cash and investments - ending	\$ 97	\$ -	\$ 3	\$ (102,349)	\$ (5,030)	\$ -	\$ -	\$ -	\$ -

MIDDLEBURY COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS,
 OTHER FINANCING SOURCES (USES), AND CASH AND
 INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2016

	Title II-A 2015-2016	Title III 2015-2016	Title III 2013-2014	Title III NESP 2014-2015	Payroll Clearing Account	Prepaid Food	MCS Clearing Account	Clearing Account Employer	Totals
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ (3,877)	\$ 182,476	\$ 60,623	\$ 25,501	\$ (1,928)	\$ 21,368,086
Receipts:									
Local sources	-	-	-	-	-	-	-	-	20,946,185
Intermediate sources	-	-	-	-	-	-	-	-	408
State sources	-	33,844	-	6,664	-	-	-	-	27,107,975
Federal sources	-	-	-	-	-	-	-	-	2,522,760
Other receipts	-	-	-	-	21,537,207	317,916	19,223	19,003	21,893,349
Total receipts	-	33,844	-	6,664	21,537,207	317,916	19,223	19,003	72,470,677
Disbursements:									
Instruction	-	43,473	-	2,787	-	-	-	-	20,268,658
Support services	13,523	607	-	-	-	-	-	-	12,521,285
Noninstructional services	-	-	-	-	-	-	-	-	2,547,046
Facilities acquisition and construction	-	-	-	-	-	-	-	-	1,602,661
Debt service	-	-	-	-	-	-	-	-	9,072,241
Nonprogrammed charges	-	-	-	-	21,559,805	310,500	17,952	17,697	26,453,344
Total disbursements	13,523	44,080	-	2,787	21,559,805	310,500	17,952	17,697	72,465,235
Excess (deficiency) of receipts over disbursements	(13,523)	(10,236)	-	3,877	(22,598)	7,416	1,271	1,306	5,442
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	730,000
Sale of capital assets	-	-	-	-	-	-	-	-	30,000
Transfers in	-	-	-	-	-	-	-	-	148,654
Transfers out	-	-	-	-	-	-	-	-	(148,654)
Total other financing sources (uses)	-	-	-	-	-	-	-	-	760,000
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(13,523)	(10,236)	-	3,877	(22,598)	7,416	1,271	1,306	765,442
Cash and investments - ending	\$ (13,523)	\$ (10,236)	\$ -	\$ -	\$ 159,878	\$ 68,039	\$ 26,772	\$ (622)	\$ 22,133,528

MIDDLEBURY COMMUNITY SCHOOLS
 SCHEDULE OF LEASES AND DEBT
 June 30, 2016

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
Middlebury Schools Building Corporation	NHS Classrooms -Refunded	\$ 6,369,500	12/31/2015	12/31/2029
Middlebury Elementary Schools Building Corporation	Jefferson Refunded	1,057,462	6/30/2011	6/30/2018
Middlebury Schools Building Corporation	NHS Pool/Auditorium-Refunded	826,500	12/31/2016	12/31/2029
Middlebury Schools Building Corporation	HIS - 2016 ESTIMATED	<u>473,000</u>	6/30/2017	12/31/2018
Total governmental activities		<u>8,726,462</u>		
Total of annual lease payments		<u>\$ 8,726,462</u>		

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Governmental activities:			
Common School Fund Loans	Technology Lease 2013	\$ 198,903	\$ 99,653
Common School Fund Loans	Technology Lease 2015	<u>399,871</u>	<u>116,067</u>
Total governmental activities		<u>598,774</u>	<u>215,720</u>
Totals		<u>\$ 598,774</u>	<u>\$ 215,720</u>

MIDDLEBURY COMMUNITY SCHOOLS
 SCHEDULE OF CAPITAL ASSETS
 June 30, 2016

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

	<u>Ending Balance</u>
Governmental activities:	
Land	\$ 1,908,794
Buildings	115,356,270
Improvements other than buildings	9,808,575
Machinery, equipment, and vehicles	<u>13,533,118</u>
Total governmental activities	<u>140,606,757</u>
Total capital assets	<u>\$ 140,606,757</u>

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF THE MIDDLEBURY COMMUNITY SCHOOLS, ELKHART COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Middlebury 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, 2014 to June 30, 2016. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Special Education Cluster (IDEA)

As described in items 2016-007, 2016-008, 2016-009, 2016-010, and 2016-011, in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient appropriate audit evidence supporting the compliance of the School Corporation with the Special Education Cluster (IDEA) regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Performance, and Reporting. Consequently, we were unable to determine whether the School Corporation complied with these requirements applicable to the program.

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

Qualified Opinion on Special Education Cluster (IDEA)

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the School Corporation's compliance with the requirements of the Special Education Cluster (IDEA) regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Period of Performance, and Reporting, described in the *Basis for Qualified Opinion on Special Education Cluster (IDEA)* paragraph, the School Corporation complied, in all material respects, with the requirements referred to above that could have a direct and material effect on Special Education Cluster (IDEA) for the period of July 1, 2014 to June 30, 2016.

Unmodified Opinion on Title I Grants to Local Educational Agencies

In our opinion, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Title I Grants to Local Educational Agencies for the period of July 1, 2014 to June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-004 and 2016-006. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

Management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

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


A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable

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

possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2016-003, 2016-004, 2016-005, 2016-007, 2016-008, 2016-009, 2016-010, and 2016-011, 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

April 24, 2018

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.

MIDDLEBURY COMMUNITY SCHOOLS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Years Ended June 30, 2015 and 2016

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	Passed Through to Subrecipient 06-30-15	Total Federal Awards Expended 06-30-15	Passed Through to Subrecipient 06-30-16	Total Federal Awards Expended 06-30-16
<u>Department of Agriculture</u>							
Child Nutrition Cluster							
	Indiana Department of Education						
School Breakfast Program		10.553	FY14-15	\$ -	\$ 112,838	\$ -	\$ -
School Breakfast Program		10.553	FY15-16	-	-	-	121,787
Total - School Breakfast Program				-	112,838	-	121,787
National School Lunch Program							
	Indiana Department of Education						
National School Lunch		10.555	FY14-15	-	700,866	-	-
National School Lunch		10.555	FY15-16	-	-	-	763,871
National School Lunch - Commodities		10.555	FY14-15	-	135,749	-	-
National School Lunch - Commodities		10.555	FY15-16	-	-	-	141,154
Total - National School Lunch Program				-	836,615	-	905,025
Total - Child Nutrition Cluster				-	949,453	-	1,026,812
Total - Department of Agriculture				-	949,453	-	1,026,812
<u>Department of Education</u>							
Special Education Cluster (IDEA)							
	Indiana Department of Education						
Special Education Grants to States							
Special Education 2013-2014		84.027	14214-016-PN01	-	199,434	-	-
Special Education 2014-2015		84.027	14215-016-PN01	-	692,566	-	129,614
Special Education 2015-2016		84.027	14216-014-PN01	-	-	-	730,959
Technical Asst.		84.027	99914-016-TA01	-	7,773	-	3,028
Total - Special Education Grants to States				-	899,773	-	863,601
	Indiana Department of Education						
Special Education Preschool Grants							
Special Education Preschool		84.173	45714-016-PN01	-	19,394	-	-
Special Education Preschool		84.173	45715-016-PN01	-	23,973	-	8,945
Special Education Preschool		84.173	45716-014-PN01	-	-	-	18,108
Total - Special Education Preschool Grants				-	43,367	-	27,053
Total - Special Education Cluster (IDEA)				-	943,140	-	890,654

MIDDLEBURY COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Years Ended June 30, 2015 and 2016

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	Passed Through to Subrecipient 06-30-15	Total Federal Awards Expended 06-30-15	Passed Through to Subrecipient 06-30-16	Total Federal Awards Expended 06-30-16
Title I Grants to Local Educational Agencies	Indiana Department of Education						
Title I 2013-2014		84.010	14-2275	-	144,588	-	-
Title I 2014-2015		84.010	15-2275	-	382,437	-	172,820
Title I 2015-2016		84.010	16-2275	-	-	-	424,522
Total - Title I Grants to Local Educational Agencies				<u>-</u>	<u>527,025</u>	<u>-</u>	<u>597,342</u>
English Language Acquisition State Grants	Indiana Department of Education						
Title III 2013-2014		84.365	01113-017-PN01	-	13,046	-	-
Title III 2014-2015		84.365	01114-055-PN01	-	47,148	-	-
Title III 2014-2015		84.365	01115-020-PN01	-	-	-	6,664
Title III 2015-2016		84.365	01116-020-PN01	-	-	-	33,844
Total - English Language Acquisition State Grants				<u>-</u>	<u>60,194</u>	<u>-</u>	<u>40,508</u>
Improving Teacher Quality State Grants	Indiana Department of Education						
Improving Teacher Quality 2012-2013		84.367	FY12-13	-	38,628	-	-
Improving Teacher Quality 2013-2014		84.367	FY13-14	-	91,990	-	26,953
Improving Teacher Quality 2014-2015		84.367	FY 14-15	-	-	-	118,801
Total - Improving Teacher Quality State Grants				<u>-</u>	<u>130,618</u>	<u>-</u>	<u>145,754</u>
Total - Department of Education				<u>-</u>	<u>1,660,977</u>	<u>-</u>	<u>1,674,258</u>
Total federal awards expended				<u>\$ -</u>	<u>\$ 2,610,430</u>	<u>\$ -</u>	<u>\$ 2,701,070</u>

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

MIDDLEBURY 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, 2015 and 2016. 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 Elkhart County Special Education Cooperative (Cooperative) which operates the special education program for the School Corporation. As a result, some activity for the Special Education Cluster (IDEA) that is presented on the SEFA 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.

MIDDLEBURY COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

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

Federal Awards:

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

Identification of Major Programs:

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

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

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

Section II - Financial Statement Findings

FINDING 2016-001

Subject: Financial Transactions and Reporting
Audit Finding: Material Weakness

Repeat Finding

This is a repeat of Finding 2014-001 over receipts from the immediately prior audit.

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

Condition

There were several deficiencies in the internal control system of the School Corporation related to Financial Transactions and Reporting.

School Corporation Transactions:

Receipts

The School Corporation had not separated incompatible activities related to receipts, posting of receipts, and the preparation of the bank reconcilements. There was no oversight over all the receipts that were processed by the Treasurer, who also was responsible for preparing the bank reconcilements.

Disbursements - Fringe Benefits

There was no oversight for the School Corporation's share of fringe benefits, such as payments to the Teacher's Retirement Fund, Public Employee Retirement Fund, and the School Corporation's share of Social Security and Medicare. These disbursements were not included on the claims docket approved by the School Board.

Disbursements - Payroll - Time Card Approvals

Audit evidence was not available to verify the approval of the time cards. The time cards were available for audit; however, the School Corporation's time card software system did not maintain an audit trail of the approvals.

Self-Insurance Fund:

Financial Transactions and Reporting

The activities of the Self-Insurance fund were not included in the School Corporation's ledger, but were accounted for separately by the Treasurer. There was no oversight over the receipts, disbursements, cash reconcilements, or reporting for this fund. There was no approval process for the Self-Insurance fund transactions. The disbursements were made electronically by the claims administrator without approval from the School Board. Included in these disbursements were flex payments for certain types of insurance and there was no supporting documentation provided for these disbursements. There was no oversight of the receipts, disbursements, cash reconcilements, or reporting for this fund.

Context

This was a systematic problem that continued through the audit period.

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:

MIDDLEBURY COMMUNITY SCHOOLS
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(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.

Effect

The failure to establish controls could have enabled misstatements or irregularities to remain undetected.

Recommendation

We recommended that the School Corporation establish a system of internal controls related to Financial Transactions and Reporting of receipts, time card approvals, and School Board approvals for all Self-Insurance fund disbursements.

Views of Responsible Officials

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

FINDING 2016-002

Subject: Preparation of the Schedule of Expenditures of Federal Awards

Audit Findings: Material Weakness, Noncompliance

Condition

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA occurred.

Context

This was an isolated event that applied to the Special Education_Grants to States, Project No. 1425-016-PN01, which was overstated by \$174,888. Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA.

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

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.
- (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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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

Cause

Management had not established a system of internal control that would have ensured proper reporting of 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 *Context*.

Recommendation

We recommended that the School Corporation's management establish controls related to the preparation of the SEFA.

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 2016-003

Subject: Title I Grants to Local Educational Agencies - Internal Controls

Federal Agency: Department of Education

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

Federal Award Numbers and Years (or Other Identifying Numbers): 14-2275, 15-2275, 16-2275

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles,
Period of Performance, Special Tests and Provisions -
Comparability, Special Tests and Provisions - Assessment
System Security

Audit Finding: Material Weakness

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance, Special Tests and Provisions - Comparability, and Special Tests and Provisions - Assessment System Security compliance requirements.

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance

The Business Manager Assistant updated the employee's file of employees to be paid from the grant funds. There was no oversight, review, or approval process following the update to ensure that only appropriate employees were paid from the grants.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Fringe benefits claims were not being approved by someone knowledgeable about the grant requirements or by other school officials. Fringe benefit payments were not going through the normal claim approval process.

Special Tests and Provisions - Comparability

One person prepared and submitted the Comparability report without an oversight, review, or approval process to ensure that the report was accurate.

Special Tests and Provisions - Assessment System Security

The School Corporation did not have a process in place to ensure that all individuals involved in the testing process received the proper training and signed the required Indiana Testing Security and Integrity Agreement. At the high school, sign-in sheets were used to ensure that everyone who attended the training also signed the agreements. This process was not used at the other school locations.

Context

The lack of controls was a systemic issue. There were no documented controls over the compliance requirements noted in the *Condition* 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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

The School Corporation's management had not developed an effective system of internal controls that segregated key functions.

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

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 the compliance requirements listed above.

Views of Responsible Officials

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

FINDING 2016-004

Subject: Title I Grants to Local Educational Agencies - Special Tests and Provisions - Annual Report Card, High School Graduation Rate
Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Numbers and Years (or Other Identifying Numbers): 14-2275, 15-2275, 16-2275
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Annual Report Card, High School Graduation Rate
Audit Findings: Material Weakness, Other Matters

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Special Tests and Provisions - Annual Report Card, High School Graduations Rate compliance requirement. The codes used by the High School's Registrar office were determined and processed by one individual and the Student Withdrawals Clearance forms authorizing the removal of the student were not always approved by the school official.

The School Corporation did not comply with Special Tests and Provisions - Annual Report Card, High School Graduation Rate requirement that students removed from the High School cohort graduation rate for mobility reasons have written documentation to support the student's removal from the cohort. The School Corporation reported students as missing without the documentation required for classifying a student as missing.

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

Context

This was a systemic problem. Fifteen percent of the population, who were removed from the cohort during the audit period, were tested and the School Corporation did not have supporting documentation for five percent of these students. The Student Withdrawal Clearance form was not signed by the appropriate school official for fifty-eight percent of the students tested.

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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

34 CFR 200.19(b) states in part:

"*High schools*—(1) *Graduation rate*. Consistent with paragraphs (b)(4) and (b)(5) of this section regarding reporting and determining AYP, respectively, each State must calculate a graduation rate, defined as follows, for all public high schools in the State:

(i)(A) A State must calculate a 'four-year adjusted cohort graduation rate,' defined as the number of students who graduate in four years with a regular high school diploma divided by the number of students who form the adjusted cohort for that graduating class. . . .

(ii) The term 'adjusted cohort' means the students who enter grade 9 (or the earliest high school grade) and any students who transfer into the cohort in grades 9 through 12 minus any students removed from the cohort.

(A) The term 'students who transfer into the cohort' means the students who enroll after the beginning of the entering cohort's first year in high school, up to and including in grade 12.

(B) To remove a student from the cohort, a school or LEA must confirm in writing that the student transferred out, emigrated to another country, or is deceased.

(1) To confirm that a student transferred out, the school or LEA must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma. . . .

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

(2) *Transitional graduation rate.*

(i) Prior to the deadline in paragraph (b)(4)(ii)(A) of this section, a State must calculate graduation rate as defined in paragraph (b)(1) of this section or use, on a transitional basis—

(A) A graduation rate that measures the percentage of students from the beginning of high school who graduate with a regular high school diploma in the standard number or years; or . . .

(ii) For a transitional graduation rate calculated under paragraph (b)(2)(i) of this section—

(A) 'Regular high school diploma' has the same meaning as in paragraph (b)(1)(iv) of this section;

(B) 'Standard number of years' means four years unless a high school begins after ninth grade, in which case the standard number of years is the number of grades in the school; and

(C) A dropout may not be counted as a transfer. . . ."

Cause

The School Corporation's management had not developed an effective system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and 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 establish controls to ensure compliance and comply with the Special Tests and Provisions - Annual Report Card, High School Graduation Rate compliance requirement.

Views of Responsible Officials

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

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

FINDING 2016-005

Subject: Special Education Cluster (IDEA) - Activities Allowed or Unallowed,
Allowable Costs/Cost Principles, Period of Performance, and Level
of Effort - Maintenance of Effort

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14214-016-PN01, 14215-016-PN01,
14216-014-PN01, 45714-016-PN01,
45715-016-PN01, 45716-014-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed; Allowable Costs/Cost
Principles; Period of Performance; Matching,
Level of Effort, Earmarking

Audit Finding: Material Weakness

Condition

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance, and Level of Effort - Maintenance of Effort compliance requirements.

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance

Fringe benefits claims were not approved by someone knowledgeable about the grant requirements or by other school officials. Fringe benefit payments were not going through the normal claim approval process.

Level of Effort - Maintenance of Effort

Maintenance of effort calculations were being performed by one individual without an oversight, review, or approval process to ensure accuracy.

Context

The lack of controls was a systemic issue. There were no documented controls over the compliance requirements noted in the *Condition* 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. . . ."

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

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

The School Corporation's management had not developed an effective system of internal controls that segregated key functions.

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 programs.

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 the compliance requirements listed above.

Views of Responsible Officials

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

FINDING 2016-006

Subject: Special Education_Grants to States - Period of Performance
Federal Agency: Department of Education
Federal Program: Special Education_Grants to States
CFDA Number: 84.027
Federal Award Number and Year (or Other Identifying Number): 14216-014-PN01
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Period of Performance
Audit Finding: Other Matters

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

Condition

The School Corporation did not comply with the Period of Performance compliance requirement. The School Corporation paid \$38,039 for services that were rendered prior to the start of the period of performance.

Context

This was an isolated issue only applicable to the summer payrolls paid in July and August 2015. These payrolls were the final pays on the teachers' contracts for the prior school year, but were charged to the grant for the next school year.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 200.77 states:

"*Period of performance* means the time during which the non-Federal entity may incur new obligations to carry out the work authorized under the Federal award. The Federal awarding agency or pass-through entity must include start and end dates of the period of performance in the Federal award (see §§ 200.210 Information contained in a Federal award paragraph (a)(5) and 200.331 Requirements for pass-through entities, paragraph (a)(1)(iv))."

2 CFR 200.309 states:

"A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance (except as described in § 200.461 Publication and printing costs) and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity."

Cause

The School Corporation's management had not developed an effective system of internal controls that segregated key functions.

Effect

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

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

Questioned Costs

There were \$38,039 of questioned costs identified.

Recommendation

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

Views of Responsible Officials

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

FINDING 2016-007

Subject: Special Education Cluster (IDEA) - Activities Allowed or Unallowed

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Number): 14214-016-PN01, 14215-016-PN01,
14216-014-PN01, 99914-016-TA01,
45714-016-PN01, 45715-016-PN01,
45716-014-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Activities Allowed or Unallowed

Audit Findings: Material Weakness, Modified Opinion

Condition

The Elkhart County Special Education Cooperative (ECSEC) was a public school program serving approximately 3,400 students with disabilities 3-22 years old in Elkhart County. The School Corporation was a participating member school corporation of the ECSEC. The Goshen Community Schools (GCS) was the administrator of this Cooperative. Because the grant agreements were between the Indiana Department of Education and each member of the Cooperative, each member school corporation was ultimately responsible for ensuring compliance with the requirements. An effective internal control system was not in place at the School Corporation and at the ECSEC in order to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed compliance requirement. There were no controls in place to ensure that expenditures charged to the grant were adequately documented to show compliance over Activities Allowed or Unallowed.

The ECSEC provided special education services to its participating member school corporations (members) and billed them from expenditures paid within the ECSEC funds during the audit period. The ECSEC gave its members credits on their bills for amounts the members were awarded from the budgeted grant category, *Services from Another Educational Agency*. Members did not directly request reimbursement for *Services from Another Educational Agency*, but rather, the ECSEC requested reimbursement on the member's behalf for special education services provided under other categories such as *Certified Salaries, Non-Certified Salaries, Employee Benefits, Purchased/Contracted Services, Conference/Travel, Materials/Supplies, and Buildings*. The ECSEC did not provide any documentation to support the allocation charged to the grant for members' credits in order to test the population for Activities Allowed or Unallowed. Total allocations charged to Special Education_Grants to States by the ECSEC for member's credits for school years ending June 30, 2015 and 2016, were \$345,319 and \$247,449, respectively.

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

The funds requested by the ECSEC for members were receipted in the GCS's Spec Ed Part B Funds and never transferred into the appropriate ECSEC fund. As a result, the requested funds that belonged to the ECSEC were commingled with the Special Ed Part B fund transactions that benefited the GCS and may not have benefitted the other remaining members. Audit procedures over Special Ed Part B fund transactions revealed a lack of a review or approval process over payroll disbursements; however, sampled transactions as a whole, were made in compliance with Activities Allowed or Unallowed.

Context

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period. Additionally, adequate documentation did not support the ECSEC expenditures allocated to the grant for members' credits and the comingling of Spec Ed Part B funds and expenditures identified in the *Condition*.

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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

34 CFR 76.731 states: "A State and a subgrantee shall keep records to show its compliance with program requirements."

34 CFR 80.20 states in part:

"(a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

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

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. . . ."

2 CFR 200.302(b) states in part:

"The financial management system of each non-Federal entity must provide for the following . . .

- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. . . ."

Cause

The School Corporation and the ECSEC had not established an effective internal control structure that would have ensured compliance with the grant agreement and the Activities Allowed or Unallowed compliance requirements. Additionally, an effective internal control structure had not been established to ensure adequate documentation over ECSEC expenditures allocated to the grant for members' credits and the comingling of Spec Ed Part B funds and expenditures identified in the *Condition*.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the School Corporation and to the ECSEC. Additionally, the failure to maintain adequate documentation over ECSEC expenditures allocated to the grant for members' credits and the comingling of Spec Ed Part B funds prevented the determination of the School Corporation's compliance relating to Activities Allowed or Unallowed and the expenditures identified in the *Condition*.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the Activities Allowed or Unallowed compliance requirement. Additionally, we recommended that management of the School Corporation and the ECSEC establish controls to ensure adequate documentation will be maintained.

Views of Responsible Officials

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

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

FINDING 2016-008

Subject: Special Education Cluster (IDEA) - Allowable Costs/Cost Principles

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14214-016-PN01, 14215-016-PN01,
14216-014-PN01, 99914-016-TA01,
45714-016-PN01, 45715-016-PN01,
45716-014-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Modified Opinion

Condition

The Elkhart County Special Education Cooperative (ECSEC) was a public school program serving approximately 3,400 students with disabilities 3-22 years old in Elkhart County. The School Corporation was a participating member school corporation of the ECSEC. The Goshen Community Schools (GCS) was the administrator of this Cooperative. Because the grant agreements were between the Indiana Department of Education and each member of the Cooperative, each member school corporation was ultimately responsible for ensuring compliance with the requirements. An effective internal control system was not in place at the School Corporation and at the ECSEC in order to ensure compliance with requirements related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

Expenditures made by the GCS out of Special Ed Part B funds for salaries and benefits charged to the Special Education Cluster (IDEA) were paid without adequate documentation to ensure compliance with the Allowable Costs/Cost Principles compliance requirement. Personnel Activity Reports or other documentation of personnel expenses for employees who worked on multiple activities or cost objectives during the audit period were not completed or presented. Also, Semi-Annual Certifications or other documentation of personnel expenses for employees whose salaries were paid 100 percent out of the grant funds were not accurate or completed. The following is a list of issues found during our audit:

1. In a test performed on 31 employee payroll transactions, 22 of those transactions were not supported by personnel activity reports or other personnel expense documentation to support the percentage of their pay being charged to the Special Education Cluster (IDEA).
2. For two employees who did complete personnel activity reports or other personnel expense documentation, only 13 out of 20 personnel activity reports or other personnel expense documentation were signed by a supervisor.
3. The School Corporation maintained a listing of employees who were to be paid from the Special Ed Part B funds. The School Corporation paid two employees from the Special Ed Part B funds who were not on that list.
4. The GCS did not adequately maintain personnel expense documentation to support substitutes' pay that was charged to the Special Education Cluster (IDEA).

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

Furthermore, the ECSEC provided special education services to its participating member school corporations (members) and billed them from expenditures paid within the ECSEC funds during the audit period. The ECSEC gave its members credits on their bills for amounts the members were awarded from the budgeted grant category, *Services from Another Educational Agency*. Members did not directly request reimbursement for *Services from Another Educational Agency*, but rather, the ECSEC requested reimbursement on the member's behalf for special education services provided under other categories such as *Certified Salaries, Non-Certified Salaries, Employee Benefits, Purchased/Contracted Services, Conference/Travel, Materials/Supplies, and Buildings*. The ECSEC did not provide any documentation to support the allocation charged to the grant for members' credits in order to test the population for Allowable Costs/Cost Principles. Total allocations charged to Special Education_Grants to States by the ECSEC for member's credits for school years ending June 30, 2015 and 2016, were \$345,319 and \$247,449, respectively.

The funds requested by the ECSEC for members were receipted in the GCS's Spec Ed Part B Funds and never transferred into the appropriate ECSEC fund. As a result, the requested funds that belonged to the ECSEC were commingled with the Special Ed Part B fund transactions that benefitted the GCS and may not have benefitted the other remaining members. Audit procedures over Special Ed Part B fund transactions revealed a lack of a review or approval process over payroll disbursements; however, sampled transactions as a whole, except as noted above, were made in compliance with Allowable Costs/Cost Principles.

Context

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period. Additionally, documentation was not provided to support the expenditures identified in the *Condition*.

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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

OMB Circular A-87, Attachment A, Part C. states in part:

"1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

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

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of this Circular. . . .
- j. Be adequately documented. . . ."

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

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

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award, . . .

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

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

2 CFR 200.403 states in part:

"Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items. . . .
- (g) Be adequately documented. . . ."

2 CFR 200.430(i) states in part:

"*Standards for Documentation of Personnel Expenses* (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

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

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS); . . .
- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. . . ."

Cause

The School Corporation had not established an effective internal control structure that would have ensured compliance with the grant agreement and the Allowable Costs/Cost Principles compliance requirement. Additionally, an effective internal control structure had not been established to ensure supporting documentation was maintained relating to Personnel Activity Reports or other documentation of personnel expenses and the expenditures identified in the *Condition*.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the Allowable Costs/Cost Principles compliance requirement could have resulted in the loss of federal funds to the School Corporation and to the ECSEC. Additionally, the failure to maintain supporting documentation prevented the determination of the School Corporation's compliance relating to Personnel Activity Reports or other documentation of personnel expenses and the expenditures identified in the *Condition*.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the Allowable Costs/Cost Principles compliance requirement. Additionally, we recommended that management of the School Corporation and the ECSEC establish controls to ensure adequate supporting documentation will be maintained.

Views of Responsible Officials

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

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

FINDING 2016-009

Subject: Special Education Cluster (IDEA) - Cash Management

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14214-016-PN01, 14215-016-PN01,
14216-014-PN01, 99914-016-TA01,
45714-016-PN01, 45715-016-PN01,
45716-014-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Cash Management

Audit Findings: Material Weakness, Modified Opinion

Condition

The Elkhart County Special Education Cooperative (ECSEC) was a public school program serving approximately 3,400 students with disabilities 3-22 years old in Elkhart County. The School Corporation was a participating member school corporation of the ECSEC. The Goshen Community Schools (GCS) was the administrator of this Cooperative. Because the grant agreements were between Indiana Department of Education (IDOE) and each member of the Cooperative, each member school corporation was ultimately responsible for ensuring compliance with the requirements. An effective internal control system was not in place at the School Corporation and at the ECSEC in order to ensure compliance with requirements related to the grant agreement and the Cash Management compliance requirement.

The reimbursement request form prescribed by the IDOE required dual signatures for approval before submission. Multiple requests presented for audit did not have the required dual signatures.

Expenditures charged to the Special Education Cluster (IDEA) were paid without adequate documentation; therefore, we could not determine whether expenditures were paid prior to the ECSEC requesting reimbursement.

The ECSEC, who operated out of its own fund on the GCS's ledger and provided services to its member school corporation (members) and billed its members for those services, requested special education funds on behalf of its members in exchange for credits on its members' bills. The members budgeted and used the category, *Services from Another Educational Agency*, to account for the activity they wanted to receive from the ECSEC. For instance, the grant award, 14215-016-PN01, the ECSEC requested reimbursement on April 15, 2015, and on September 15, 2015, for the activities, *Certified Salaries* and *Employee Benefits*, but did not provide any supporting documentation for a total of \$214,569. The ECSEC's requested funds were received by the GCS and comingled with the GCS's Spec Ed Part B Funds. The ECSEC did not bill its members for its services until January 8, 2016. The funds the ECSEC requested were never transferred to the appropriate GCS fund to reimburse the credits that were given to ECSEC members.

Context

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period. Additionally, documentation was not provided to support requests for reimbursement and that expenditures were made prior to the request, and evidence was not presented to support approval of requests identified in the *Condition*.

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

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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

34 CFR 74.22 states in part:

". . . (e)(1) When the reimbursement method is used, the Secretary makes payment within 30 days after receipt of the billing, unless the billing is improper. . . ."

(f). . . Thereafter, the Secretary reimburses the recipient for its actual cash disbursements. . . ."

34 CFR 76.702 states: "A State and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds."

34 CFR 76.730 states:

"A State and a subgrantee shall keep records that fully show:

- (a) The amount of funds under the grant or subgrant;
- (b) How the State or subgrantee uses the funds;
- (c) The total cost of the project;
- (d) The share of that cost provided from other sources; and
- (e) Other records to facilitate an effective audit."

34 CFR 76.731 states: "A State and a subgrantee shall keep records to show its compliance with program requirements."

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

Cause

The School Corporation had not established an effective internal control structure that would have ensured compliance with the grant agreement and the Cash Management compliance requirement. Additionally, an effective internal control structure had not been established to ensure supporting documentation was maintained relating to the reimbursement requests and expenditures identified in the *Condition*.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the School Corporation and to the ECSEC. Additionally, the failure to maintain supporting documentation prevented the determination of the School Corporation's compliance relating to the reimbursement requests and expenditures identified in the *Condition*.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the Cash Management compliance requirement. Additionally, we recommended that management of the School Corporation and the ECSEC establish controls to ensure supporting documentation will be maintained.

Views of Responsible Officials

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

FINDING 2016-010

Subject: Special Education Cluster (IDEA) - Period of Performance

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14214-016-PN01, 14215-016-PN01,
14216-014-PN01, 99914-016-TA01,
45714-016-PN01, 45715-016-PN01,
45716-014-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Period of Performance

Audit Findings: Material Weakness, Modified Opinion

Condition

The Elkhart County Special Education Cooperative (ECSEC) was a public school program serving approximately 3,400 students with disabilities 3-22 years old in Elkhart County. The School Corporation was a participating member school corporation of the ECSEC. The Goshen Community Schools (GCS) was the administrator of this Cooperative. Because the grant agreements were between Indiana Department of Education and each member of the Cooperative, each member school corporation was

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

ultimately responsible for ensuring compliance with the requirements. An effective internal control system was not in place at the School Corporation and at the ECSEC in order to ensure compliance with requirements related to the grant agreement and the Period of Performance compliance requirement. There were no controls in place to ensure that all expenditures charged to the grant fund were obligated within the Period of Performance. Expenditures charged by the ECSEC to the Special Education Cluster (IDEA) were paid with no supporting documentation to determine if expenditures were within the Period of Performance.

Context

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period. Additionally, documentation was not provided to support the expenditures identified in the *Condition*.

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. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

34 CFR 80.23 states:

"(a) *General*. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

(b) *Liquidation of obligations*. A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee."

34 CFR 76.730 states:

"A State and a subgrantee shall keep records that fully show:

- (a) The amount of funds under the grant or subgrant;
- (b) How the State or subgrantee uses the funds;

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

- (c) The total cost of the project;
- (d) The share of that cost provided from other sources; and
- (e) Other records to facilitate an effective audit."

34 CFR 76.731 states: "A State and a subgrantee shall keep records to show its compliance with program requirements."

Cause

The School Corporation had not established an effective internal control structure that would have ensured compliance with the grant agreement and the Period of Performance compliance requirement. Additionally, an effective internal control structure had not been established to ensure supporting documentation was maintained relating to the expenditures identified in the *Condition*.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in the loss of federal funds to the School Corporation and to the ECSEC. Additionally, the failure to maintain supporting documentation prevented the determination of the School Corporation's compliance relating to the expenditures identified in the *Condition*.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the Period of Performance compliance requirement. Additionally, we recommended that management of the School Corporation and the ECSEC establish controls to ensure supporting documentation will be maintained.

Views of Responsible Officials

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

FINDING 2016-011

Subject: Special Education Cluster (IDEA) - Reporting

Federal Agency: Department of Education

Federal Programs: Special Education_Grants to States, Special Education_Preschool Grants

CFDA Numbers: 84.027, 84.173

Federal Award Numbers and Years (or Other Identifying Numbers): 14214-016-PN01, 14215-016-PN01,
14216-014-PN01, 99914-016-TA01,
45714-016-PN01, 45715-016-PN01,
45716-014-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Reporting

Audit Findings: Material Weakness, Modified Opinion

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

Condition

The Elkhart County Special Education Cooperative (ECSEC) was a public school program serving approximately 3,400 students with disabilities 3-22 years old in Elkhart County. The School Corporation was a participating member school corporation of ECSEC. The Goshen Community Schools (GCS) was the administrator of this Cooperative. Because the grant agreements were between Indiana Department of Education and each member of the Cooperative, each member school corporation was ultimately responsible for ensuring compliance with the requirements. An effective internal control system was not in place at the School Corporation and at the ECSEC in order to ensure compliance with requirements related to the grant agreement and the Reporting compliance requirement. There were no controls in place to ensure that all expenditures charged to the grant fund were reported correctly.

The ECSEC, who requested funds on behalf of its members, did not provide any documentation supporting its reimbursement requests and were submitted without an oversight, review, or approval process to ensure they were accurate and in compliance with the Reporting compliance requirement. In addition, the ECSEC prepared and submitted the final reports for its member school corporations without an oversight, review, or approval process to ensure they were accurate and in compliance with the Reporting compliance requirement.

Context

The lack of controls and noncompliance were systemic issues, which occurred throughout the audit period. Additionally, documentation was not provided to support the reimbursement requests and expenditures identified in the *Condition*.

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. . . ."

2 CFR section 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

34 CFR 80.20 states in part:

"(a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

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

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
 - (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
- (b) The financial management systems of other grantees and subgrantees must meet the following standards:
- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
 - (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. . . ."

34 CFR 76.731 states: "A State and a subgrantee shall keep records to show its compliance with program requirements."

2 CFR 200.302(b) states in part:

"The financial management system of each non-Federal entity must provide for the following . . .

- (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. . . ."

Cause

The School Corporation had not established a proper internal control structure that would have ensured compliance with the grant agreement and the Reporting compliance requirement.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. A lack of segregation of duties within an internal control system also allowed noncompliance with the compliance requirement 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. Noncompliance with the grant agreement and the Reporting compliance requirement could have resulted in the loss of federal funds to the School Corporation and to the ECSEC. Additionally, the failure to maintain supporting documentation prevented the determination of the School Corporation's compliance relating to reporting identified in the *Condition*.

Questioned Costs

There were no questioned costs identified.

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

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the Reporting compliance requirement. Additionally, we recommended that management of the School Corporation establish controls to ensure supporting documentation will be maintained.

Views of Responsible Officials

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

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AUDITEE-PREPARED DOCUMENTS

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



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2014-002 (Auditor Assigned Reference Number)

Fiscal year in which the finding initially occurred: 2014

Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: Indiana Department of Education

Contact Person Responsible for Corrective Action: Mark Snyder

Contact Phone Number: 574-825-9425

Status of Audit Finding:

The Director of Business or the Assistant to the Director of Business prints out necessary reports in the financial software in order to determine the exact expenditures that may be requested for reimbursement. The requested amount is requested through the Title I DOE website. The report, along with the completed reimbursement form, is given to the Title I Director for review. Once the Title I Director thoroughly reviews to ensure the requests are accurate and the funds were previously expended, the Title I Director will sign the certification page verifying that the requested funds are accurate and return it to the Director of Business or Assistant to the Director of Business. The Director of Business reviews again for accuracy. The requested amount is documented in a ledger, and once the payment is received and receipted in, the information is documented within the ledger to ensure the requested amount and received amount match.

The described process above began in March 2015.

Mark Snyder
(Signature)

Director of Business
(Title)

1/24/18
(Date)



CORRECTIVE ACTION PLAN

FINDING 2016-001

Contact Person Responsible for Corrective Action: Mark Snyder

Contact Phone Number: (574)825-9425

Views of Responsible Official:

We felt that we had an adequate system of internal controls for receipting by having one staff member input the receipting into the financial system, then have another staff member review receipt and deposit, then input into a ledger. Then at the end of the month, three signatures were necessary on the end of month financial statement, including the Director of Business (preparer), Assistant to the Director of Business (reviewer), and Superintendent (reviewer). A thorough review of all receipting was necessary during this step. We have added some additional steps detailed below that should be a more adequate system for internal controls.

Description of Corrective Action Plan:

Receipts: One staff member will receipt all deposits into the financial system, and another will review all receipts and deposit, and then sign a certification page verifying the corresponding deposits are accurate and complete, including the date of the receipt and the total receipted on that date.

Disbursements – Fringe Benefits: All payment made to the Teacher's Retirement Fund, Public Employee Retirement Fund, and the Corporation's share of Social Security and Medicare will be processed on a claims docket and approved by the School Board.

Disbursements – Payroll, Time Card Approvals: While there has always been approval of time cards from designated building level personnel, there was no record of that approval. We contacted the Time Management vendor and requested that a checkbox be added that allows the designee to authorize and verify the time card for submission.

Self-Insurance Fund: As far as receipting, the Payroll/Benefits clerk has always collected checks from retirees and written checks covering employee premiums, corporation premiums, and flex contributions. These checks were given to the Director of Business monthly to deposit into the trust account. A copy of the deposit slip was then given to the Payroll/Benefit clerk for verification. Effective 10/1/17 we switched Third Party Administrators (TPA). The new TPA includes more detailed reporting on claims and flex payments to correspond with the electronic payments. The Director of Business will reconcile the receipts (deposits made by school corporation, any stop-loss reimbursement, or any other miscellaneous receipts) and the detailed disbursements sent by the TPA to the monthly trust statement. Once all is reconciled to

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Community Schools

the bank statement, a certification page verifying balances, debits and credits will be signed by the Director of Business, Superintendent, and Assistant Treasurer or Payroll/Benefits clerk.

Anticipated Completion Date: Immediately

MARCO D. DUNN
(Signature)

Director of Business
(Title)

4/24/18
(Date)



CORRECTIVE ACTION PLAN

FINDING 2016-002

Contact Person Responsible for Corrective Action: Mark Snyder

Contact Phone Number: (574)825-9425

Views of Responsible Official: We concur with this finding.

Description of Corrective Action Plan:

For future filings, prior to entering the data into Gateway, the Director of Business will verify the numbers with reports from the financial software that either the Assistant to the Director of Business or the Assistant Treasurer has submitted. Once those numbers are verified, both the Director of Business and either the Assistant to the Director of Business or the Assistant Treasurer will sign the reports prior to the Director of Business entering the data into Gateway.

Anticipated Completion Date: Immediately

Mark D. Snyder

(Signature)

Director of Business

(Title)

4/24/18

(Date)



CORRECTIVE ACTION PLAN

FINDING 2016-003

Contact Person Responsible for Corrective Action: Mark Snyder/ Dr. Robby Goodman
Contact Phone Number: (574)825-9425

Views of Responsible Official: We concur with this finding.

Description of Corrective Action Plan:

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance: Either the Assistant to the Director of Business or the Assistant Treasurer will update the employee's file of employees to be paid from the grant fund, then the other will verify that only the appropriate employees are being paid from the grant within the correct time period. Both the Assistant to the Director of Business and the Assistant Treasurer will sign the reimbursement requests, in addition to any other necessary persons once all documentation is reviewed.

As stated in Audit Finding 2016-001, all payments made to the Teacher's Retirement Fund, Public Employee Retirement Fund, and the Corporation's share of Social Security and Medicare will be processed on a claims docket and approved by the School Board.

Special Tests and Provisions – Comparability: The Title I program administrator will calculate for compatibility, then give the final report, along with all documentation to the Assistant Superintendent or Superintendent for review. The Title I program administrator and either the Assistant Superintendent or Superintendent will sign the comparability report after verifying accuracy and completeness, prior to submitting.

Special Tests and Provisions – Assessment Security: Our understanding is that 2017-2018 was the first year that the IDOE required a sign-in sheet after participating in the staff training on Indiana Test Security protocols. All teachers, paras, custodians, or any other staff that could potentially encounter ISTEP materials signed the individual Test Security Agreement during the audit period, and these were all given to auditors. Effective 2017-2018, a sign-in sheet was required as dictated by the IDOE and will continue in subsequent years.

Anticipated Completion Date: Immediately

Mark D. Snyder / Robby Goodman
(Signature)

Director of Business / Assistant Superintendent
(Title)

4/24/18
(Date)



CORRECTIVE ACTION PLAN

FINDING 2016-004

Contact Person Responsible for Corrective Action: Dr. Robby Goodman / Linda Grant

Contact Phone Number: (574)825-9425

Views of Responsible Official: We concur with this finding.

Description of Corrective Action Plan:

Student withdrawal from cohort: While the same process and forms will continue to be utilized, we acknowledge that more effort must be made to obtain all necessary signatures. Either the Student Attendance Monitor or the Director of Guidance (or designee if unavailable, likely another counselor), will review the Student Withdrawal Clearance form and certifying that the process is complete and accurate, and all necessary items are signed.

Anticipated Completion Date: Immediately



(Signature)

Assistant Superintendent

(Title)

4/24/18

(Date)



CORRECTIVE ACTION PLAN

FINDING 2016-005

Contact Person Responsible for Corrective Action: Mark Snyder

Contact Phone Number: (574)825-9425

Views of Responsible Official: We concur with this finding.

Description of Corrective Action Plan:

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance: As stated in Audit Finding 2016-001, all payments made to the Teacher's Retirement Fund, Public Employee Retirement Fund, and the Corporation's share of Social Security and Medicare will be processed on a claims docket and approved by the School Board.

Level of Effort – Maintenance of Effort: Either the Assistant to the Director of Business or the Assistant Treasurer will calculate the maintenance of effort, then the other member or the Director of Business will verify accuracy. Both the preparer and the reviewer will sign the reimbursement requests verifying accuracy and completeness. In addition, any other necessary persons will sign once all documentation is reviewed.

Anticipated Completion Date: Immediately

Mark Snyder
(Signature)

Director of Business
(Title)

April 24, 2018
(Date)



CORRECTIVE ACTION PLAN

FINDING 2016-006

Contact Person Responsible for Corrective Action: Mark Snyder
Contact Phone Number: (574)825-9425

Views of Responsible Official: We concur with this finding.

Description of Corrective Action Plan:

Either the Assistant to the Director of Business or the Assistant Treasurer will update the employee's file of employees to be paid from the grant fund, then the other will verify that only the appropriate employees are being paid from the grant within the correct time period. Both the Assistant to the Director of Business and the Assistant Treasurer will sign the reimbursement requests, in addition to any other necessary persons once all documentation is reviewed and then submitted for reimbursement.

Anticipated Completion Date: Immediately

Mark D. Snyder

(Signature)

Director of Business

(Title)

4/24/18

(Date)



CORRECTIVE ACTION PLAN

FINDING 2016-007

Contact Person Responsible for Corrective Action: Mark Snyder/ECSEC
Contact Phone Number: (574)825-9425, (574)533-3151

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Elkhart County Special Education Cooperative (ECSEC) is a public school program serving students with disabilities in Elkhart County. Middlebury Community Schools is a participating member of the Cooperative. Goshen Community Schools is the administrator of the Cooperative.

While Middlebury Community Schools acknowledges that as a member of the Cooperative they, along with other member schools, are equally responsible to ensure that all state and federal regulations are adhered to in the accounting and documentation of the programs and related federal grants, it should be stated that the shortcomings documented in this finding are of an internal nature at the administrative school (GCS). The audit completed by the State Board of Accounts for this period on the records of Middlebury Community Schools relative to special education programs and related grants also found deficiency related to this requirement.

Description of Corrective Action Plan:

The entire ECSEC operation is going through some transitions. These transitions range from different personnel in place who handle the programs and related grants to the decentralization of some of the programs. Through these transitions procedures are being upgraded to establish controls for adequate documentation that will ensure compliance with all state and federal guidelines as they relate to the programs. Middlebury Community Schools business office personnel and our Special Education Coordinator will not only continue to follow established guidelines as they understand them, but will also monitor the related procedures put in place by the administrator (GCS) to the best of their abilities.

Anticipated Completion Date: Immediately

Mark Snyder
(Signature)

Director of Business
(Title)

4/24/18
(Date)



CORRECTIVE ACTION PLAN

FINDING 2016-008

Contact Person Responsible for Corrective Action: Mark Snyder, ECSEC
Contact Phone Number: (574)825-9425, (574)533-3151

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Elkhart County Special Education Cooperative (ECSEC) is a public school program serving students with disabilities in Elkhart County. Middlebury Community Schools is a participating member of the Cooperative. Goshen Community Schools is the administrator of the Cooperative.

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Anticipated Completion Date: Immediately

Mark R. Snyder

(Signature)

Director of Business

(Title)

4/24/18

(Date)



CORRECTIVE ACTION PLAN

FINDING 2016-009

Contact Person Responsible for Corrective Action: Mark Snyder, ECSEC
Contact Phone Number: (574)825-9425, (574)533-3151

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

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Description of Corrective Action Plan:

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Anticipated Completion Date: Immediately

Mark D. Snyder
(Signature)

Director of Business
(Title)

4/24/18
(Date)



CORRECTIVE ACTION PLAN

FINDING 2016-010

Contact Person Responsible for Corrective Action: Mark Snyder, ECSEC
Contact Phone Number: (574)825-9425, (574)533-3151

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The Elkhart County Special Education Cooperative (ECSEC) is a public school program serving students with disabilities in Elkhart County. Middlebury Community Schools is a participating member of the Cooperative. Goshen Community Schools is the administrator of the Cooperative.

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Anticipated Completion Date: Immediately

Mark D. Snyder
(Signature)

Director of Business
(Title)

4/24/18
(Date)



CORRECTIVE ACTION PLAN

FINDING 2016-011

Contact Person Responsible for Corrective Action: Mark Snyder, ECSEC
Contact Phone Number: (574)825-9425, (574)533-3151

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

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Anticipated Completion Date: Immediately

Mark D. Snyder
(Signature)

Director of Business
(Title)

4/24/18
(Date)

OTHER REPORTS

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