

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

SALEM COMMUNITY SCHOOLS
WASHINGTON COUNTY, INDIANA

July 1, 2015 to June 30, 2017



FILED
01/18/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Geneva Sue Collier	07-01-15 to 04-17-16
	Ruth D. Gilbert	04-18-16 to 08-31-18
	Rachel Weedin	09-01-18 to 12-31-18
Superintendent of Schools	Dr. D. Lynn Reed	07-01-15 to 12-31-20
President of the School Board	Steven R. Motsinger	01-01-15 to 12-31-16
	Mark Abbott	01-01-17 to 12-31-17
	Rebecca L. White	01-01-18 to 12-31-18



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statement

We have audited the accompanying financial statement of the Salem Community Schools (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2015 to June 30, 2017, 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, 2015 to June 30, 2017.

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, 2015 to June 30, 2017, 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Other Information

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 4, 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

December 4, 2018



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the Salem Community Schools (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2015 to June 30, 2017, and the related notes to the financial statement, and have issued our report thereon dated December 4, 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School Corporation's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001 and 2017-002, that we consider to be material weaknesses.

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

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the School Corporation's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001 and 2017-002.

Salem Community Schools' Response to Findings

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

Purpose of This Report

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


Paul D. Joyce, CPA
State Examiner

December 4, 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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SALEM COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
OTHER FINANCING SOURCES (USES), AND CASH AND
INVESTMENT BALANCES - REGULATORY BASIS
For the Years Ended June 30, 2016 and 2017

Fund	Cash and Investments			Other Financing Sources (Uses)	Cash and Investments			Other Financing Sources (Uses)	Cash and Investments	
	07-01-15	Receipts	Disbursements		06-30-16	Receipts	Disbursements		06-30-17	Receipts
General	\$ 414,644	\$ 13,078,968	\$ 12,824,173	\$ 97,735	\$ 767,174	\$ 13,130,580	\$ 13,304,763	\$ 62,541	\$ 655,532	
Debt Service	1,128,251	2,155,163	2,036,198	36,794	1,284,010	2,079,867	2,088,600	-	1,275,277	
Retirement/Severance Bond Debt Service	115,305	193,167	189,787	-	118,685	178,284	179,139	-	117,830	
Capital Projects	587,180	1,493,622	1,489,246	-	591,556	1,388,007	1,400,178	-	579,385	
School Transportation	18,619	846,747	732,178	-	133,188	891,404	798,989	-	225,603	
School Bus Replacement	74,585	132,872	-	-	207,457	233,428	259,430	1,800	183,255	
Rainy Day	200,000	40,885	163,351	-	77,534	-	16,666	-	60,868	
Safe Room GO Bond	-	-	68,767	2,000,000	1,931,233	-	1,539,237	501,053	893,049	
HS Bldg/ES HVAC Bond	-	-	166,437	600,000	433,563	-	360,499	-	73,064	
Safe Room Retainage	-	-	-	-	-	125,409	-	-	125,409	
School Lunch	496,662	905,163	852,843	(85,964)	463,018	904,682	868,629	(61,828)	437,243	
Textbook Rental	319,149	169,445	174,560	4,641	318,675	154,946	267,408	130	206,343	
Levy Excess	567	-	-	-	567	-	-	-	567	
Educational License Plates	820	188	-	-	1,008	206	-	-	1,214	
Alternative Education	-	3,363	-	-	3,363	5,174	8,537	-	-	
Early Intervention Grant	-	12,480	12,480	-	-	5,638	436	-	5,202	
Lilly Grant	-	-	-	-	-	30,000	10,745	-	19,255	
2017 STEM GT Grant	-	-	-	-	-	440	440	-	-	
IN Natural Resources Fund	-	-	-	-	-	250	250	-	-	
Screenagers/Digital Age Grant	-	-	-	-	-	400	400	-	-	
Duke "Real Men Read" Grant	-	-	-	-	-	2,780	2,800	-	(20)	
Duke 2017 Summer Reading Grant	-	-	-	-	-	20,318	6,094	-	14,224	
Washington County Community Foundation Grants	413	3,920	3,473	-	860	4,280	4,904	-	236	
SHS Counseling Department Fund	15,488	10,000	6,067	-	19,421	5,000	7,639	-	16,782	
Target Writing Club	-	-	-	-	-	500	500	-	-	
Formative Assessment	-	12,814	7,040	-	5,774	20,602	19,543	-	6,833	
High Ability Grant G/T	9,167	33,288	24,752	-	17,703	33,411	38,349	-	12,765	
Drug Free Communities	1,004	-	1,004	-	-	-	-	-	-	
Medicaid Reimbursement	68	-	-	-	68	-	-	-	68	
Secured Schools Safety Grant	(2,084)	45,917	45,917	-	(2,084)	28,000	64,583	-	(38,667)	
School Technology	1,255	4,404	3,738	-	1,921	6,308	1,789	-	6,440	
Tech Fund-Laptop Rental	-	-	-	-	-	3,405	244	-	3,161	
Career and Technical Performance Grant	-	-	-	-	-	9,886	-	-	9,886	
Performance Based Awards	-	29,741	29,741	-	-	26,286	31,182	-	(4,896)	
21st Century Scholars	-	1,000	1,000	-	-	-	-	-	-	
Senator David Ford Technology	-	9,150	9,150	-	-	-	-	-	-	
Safe Haven Grant	-	-	-	-	-	15,000	15,000	-	-	
Title I 2014-15	(32,802)	84,889	52,087	-	-	-	-	-	-	
Title I 2015-16	-	394,914	432,522	-	(37,608)	57,784	20,176	-	-	
Title I 2016-17	-	-	-	-	-	376,369	443,953	-	(67,584)	
Improving Teacher Quality, No Child Left, Title II, Part A	(6,454)	94,337	94,843	-	(6,960)	89,890	85,930	-	(3,000)	
Prepaid Lunches	14,696	314,177	312,545	-	16,328	309,395	311,565	-	14,158	
Clearing Accounts	13,780	4,172,718	4,173,549	-	12,949	4,191,062	4,188,924	-	15,087	
Totals	\$ 3,370,313	\$ 24,243,332	\$ 23,907,448	\$ 2,653,206	\$ 6,359,403	\$ 24,328,991	\$ 26,347,521	\$ 503,696	\$ 4,844,569	

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

SALEM COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

B. Basis of Accounting

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

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

C. Cash and Investments

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

D. Receipts

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

Local sources. 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.

SALEM 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.

SALEM 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.

SALEM 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.

SALEM COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

B. Teachers' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

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

C. Additional Pension Plans

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

Note 7. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of expenditures made by the School Corporation for reimbursable grants which were not reimbursed by June 30 of the years 2016 and 2017.

SALEM COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 8. Holding Corporations

The School Corporation has entered into a capital lease with Salem High School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related-party of the School Corporation. Lease payments during the fiscal years 2016 and 2017 totaled \$1,039,500 and \$1,063,500, respectively.

The School Corporation has entered into a capital lease with Salem Middle School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related-party of the School Corporation. Lease payments during the fiscal years 2016 and 2017 totaled \$982,000 each.

Note 9. Other Postemployment Benefits

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

Note 10. Subsequent Event

At the November 12, 2018 School Board meeting, the School Board voted to award a contract to RL Turner Corporation for the Salem Middle School Natatorium Renovation and Pool Replacement project in the amount of \$2,442,000. The project will be financed by a \$3,300,000 bond issue that was sold on November 28, 2018. The bond issue closing date will be December 20, 2018.

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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.

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

	General	Debt Service	Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Rainy Day	Safe Room GO Bond	HS Bldg/ ES HVAC Bond
Cash and investments - beginning	\$ 414,644	\$ 1,128,251	\$ 115,305	\$ 587,180	\$ 18,619	\$ 74,585	\$ 200,000	\$ -	\$ -
Receipts:									
Local sources	61,647	2,155,163	193,167	1,493,622	846,747	132,872	40,885	-	-
Intermediate sources	17	-	-	-	-	-	-	-	-
State sources	13,017,304	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	13,078,968	2,155,163	193,167	1,493,622	846,747	132,872	40,885	-	-
Disbursements:									
Instruction	9,162,497	-	-	-	-	-	-	-	-
Support services	3,652,688	-	-	975,156	732,178	-	163,351	-	-
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	514,090	-	-	-	68,767	166,437
Debt service	5,434	2,036,198	189,787	-	-	-	-	-	-
Nonprogrammed charges	3,554	-	-	-	-	-	-	-	-
Total disbursements	12,824,173	2,036,198	189,787	1,489,246	732,178	-	163,351	68,767	166,437
Excess (deficiency) of receipts over disbursements	254,795	118,965	3,380	4,376	114,569	132,872	(122,466)	(68,767)	(166,437)
Other financing sources (uses):									
Proceeds of long-term debt	-	36,794	-	-	-	-	-	2,000,000	600,000
Sale of capital assets	11,771	-	-	-	-	-	-	-	-
Transfers in	85,964	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	97,735	36,794	-	-	-	-	-	2,000,000	600,000
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	352,530	155,759	3,380	4,376	114,569	132,872	(122,466)	1,931,233	433,563
Cash and investments - ending	\$ 767,174	\$ 1,284,010	\$ 118,685	\$ 591,556	\$ 133,188	\$ 207,457	\$ 77,534	\$ 1,931,233	\$ 433,563

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

	Safe Room Retainage	School Lunch	Textbook Rental	Levy Excess	Educational License Plates	Alternative Education	Early Intervention Grant	Lilly Grant	2017 STEM GT Grant
Cash and investments - beginning	\$ -	\$ 496,662	\$ 319,149	\$ 567	\$ 820	\$ -	\$ -	\$ -	\$ -
Receipts:									
Local sources	-	317,231	130,198	-	-	-	-	-	-
Intermediate sources	-	-	-	-	188	-	-	-	-
State sources	-	8,329	39,247	-	-	3,363	12,480	-	-
Federal sources	-	579,603	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	-	905,163	169,445	-	188	3,363	12,480	-	-
Disbursements:									
Instruction	-	-	-	-	-	-	12,480	-	-
Support services	-	-	174,254	-	-	-	-	-	-
Noninstructional services	-	852,843	306	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	-	852,843	174,560	-	-	-	12,480	-	-
Excess (deficiency) of receipts over disbursements	-	52,320	(5,115)	-	188	3,363	-	-	-
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	4,641	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	(85,964)	-	-	-	-	-	-	-
Total other financing sources (uses)	-	(85,964)	4,641	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(33,644)	(474)	-	188	3,363	-	-	-
Cash and investments - ending	\$ -	\$ 463,018	\$ 318,675	\$ 567	\$ 1,008	\$ 3,363	\$ -	\$ -	\$ -

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

	IN Natural Resources Fund	Screenagers/ Digital Age Grant	Duke "Real Men Read" Grant	Duke 2017 Summer Reading Grant	Washington County Community Foundation Grants	SHS Counseling Department Fund	Target Writing Club	Formative Assessment	High Ability Grant G/T
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ 413	\$ 15,488	\$ -	\$ -	\$ 9,167
Receipts:									
Local sources	-	-	-	-	3,920	10,000	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	12,814	33,288
Federal sources	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	-	-	-	-	3,920	10,000	-	12,814	33,288
Disbursements:									
Instruction	-	-	-	-	3,473	-	-	7,040	24,752
Support services	-	-	-	-	-	-	-	-	-
Noninstructional services	-	-	-	-	-	6,067	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	-	-	-	-	3,473	6,067	-	7,040	24,752
Excess (deficiency) of receipts over disbursements	-	-	-	-	447	3,933	-	5,774	8,536
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	-	-	-	-	447	3,933	-	5,774	8,536
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ 860	\$ 19,421	\$ -	\$ 5,774	\$ 17,703

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

	Drug Free Communities	Medicaid Reimbursement	Secured Schools Safety Grant	School Technology	Tech Fund-Laptop Rental	Career and Technical Performance Grant	Performance Based Awards	21st Century Scholars	Senator David Ford Technology
Cash and investments - beginning	\$ 1,004	\$ 68	\$ (2,084)	\$ 1,255	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:									
Local sources	-	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	-	-	45,917	4,404	-	-	29,741	1,000	9,150
Federal sources	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	-	-	45,917	4,404	-	-	29,741	1,000	9,150
Disbursements:									
Instruction	751	-	-	-	-	-	-	1,000	-
Support services	253	-	45,917	3,738	-	-	29,741	-	9,150
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	1,004	-	45,917	3,738	-	-	29,741	1,000	9,150
Excess (deficiency) of receipts over disbursements	(1,004)	-	-	666	-	-	-	-	-
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	(1,004)	-	-	666	-	-	-	-	-
Cash and investments - ending	\$ -	\$ 68	\$ (2,084)	\$ 1,921	\$ -	\$ -	\$ -	\$ -	\$ -

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

	Safe Haven Grant	Title I 2014-15	Title I 2015-16	Title I 2016-17	Improving Teacher Quality, No Child Left, Title II, Part A	Prepaid Lunches	Clearing Accounts	Totals
Cash and investments - beginning	\$ -	\$ (32,802)	\$ -	\$ -	\$ (6,454)	\$ 14,696	\$ 13,780	\$ 3,370,313
Receipts:								
Local sources	-	-	-	-	-	314,177	-	5,699,629
Intermediate sources	-	-	-	-	-	-	-	205
State sources	-	-	-	-	-	-	-	13,217,037
Federal sources	-	84,889	394,914	-	94,337	-	-	1,153,743
Other receipts	-	-	-	-	-	-	4,172,718	4,172,718
Total receipts	-	84,889	394,914	-	94,337	314,177	4,172,718	24,243,332
Disbursements:								
Instruction	-	52,642	423,031	-	94,843	-	-	9,782,509
Support services	-	-	8,891	-	-	-	-	5,795,317
Noninstructional services	-	(555)	600	-	-	312,545	-	1,171,806
Facilities acquisition and construction	-	-	-	-	-	-	-	749,294
Debt service	-	-	-	-	-	-	-	2,231,419
Nonprogrammed charges	-	-	-	-	-	-	4,173,549	4,177,103
Total disbursements	-	52,087	432,522	-	94,843	312,545	4,173,549	23,907,448
Excess (deficiency) of receipts over disbursements	-	32,802	(37,608)	-	(506)	1,632	(831)	335,884
Other financing sources (uses):								
Proceeds of long-term debt	-	-	-	-	-	-	-	2,636,794
Sale of capital assets	-	-	-	-	-	-	-	16,412
Transfers in	-	-	-	-	-	-	-	85,964
Transfers out	-	-	-	-	-	-	-	(85,964)
Total other financing sources (uses)	-	-	-	-	-	-	-	2,653,206
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	32,802	(37,608)	-	(506)	1,632	(831)	2,989,090
Cash and investments - ending	\$ -	\$ -	\$ (37,608)	\$ -	\$ (6,960)	\$ 16,328	\$ 12,949	\$ 6,359,403

SALEM COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS,
 OTHER FINANCING SOURCES (USES), AND CASH AND
 INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2017

	General	Debt Service	Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Rainy Day	Safe Room GO Bond	HS Bldg/ ES HVAC Bond
Cash and investments - beginning	\$ 767,174	\$ 1,284,010	\$ 118,685	\$ 591,556	\$ 133,188	\$ 207,457	\$ 77,534	\$ 1,931,233	\$ 433,563
Receipts:									
Local sources	74,599	2,079,867	178,284	1,387,074	879,478	233,428	-	-	-
Intermediate sources	69	-	-	-	-	-	-	-	-
State sources	13,055,912	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	933	11,926	-	-	-	-
Total receipts	13,130,580	2,079,867	178,284	1,388,007	891,404	233,428	-	-	-
Disbursements:									
Instruction	9,384,200	-	-	-	-	-	16,666	-	-
Support services	3,919,657	-	-	972,102	798,989	259,430	-	-	-
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	428,076	-	-	-	1,539,237	360,499
Debt service	906	2,088,600	179,139	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	13,304,763	2,088,600	179,139	1,400,178	798,989	259,430	16,666	1,539,237	360,499
Excess (deficiency) of receipts over disbursements	(174,183)	(8,733)	(855)	(12,171)	92,415	(26,002)	(16,666)	(1,539,237)	(360,499)
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	501,053	-
Sale of capital assets	713	-	-	-	-	1,800	-	-	-
Transfers in	61,828	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	62,541	-	-	-	-	1,800	-	501,053	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(111,642)	(8,733)	(855)	(12,171)	92,415	(24,202)	(16,666)	(1,038,184)	(360,499)
Cash and investments - ending	\$ 655,532	\$ 1,275,277	\$ 117,830	\$ 579,385	\$ 225,603	\$ 183,255	\$ 60,868	\$ 893,049	\$ 73,064

SALEM COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS,
 OTHER FINANCING SOURCES (USES), AND CASH AND
 INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2017

	Safe Room Retainage	School Lunch	Textbook Rental	Levy Excess	Educational License Plates	Alternative Education	Early Intervention Grant	Lilly Grant	2017 STEM GT Grant
Cash and investments - beginning	\$ -	\$ 463,018	\$ 318,675	\$ 567	\$ 1,008	\$ 3,363	\$ -	\$ -	\$ -
Receipts:									
Local sources	125,409	315,942	113,316	-	-	-	-	30,000	440
Intermediate sources	-	-	-	-	206	-	-	-	-
State sources	-	8,023	41,630	-	-	5,174	5,638	-	-
Federal sources	-	580,717	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	<u>125,409</u>	<u>904,682</u>	<u>154,946</u>	<u>-</u>	<u>206</u>	<u>5,174</u>	<u>5,638</u>	<u>30,000</u>	<u>440</u>
Disbursements:									
Instruction	-	-	-	-	-	8,537	436	-	440
Support services	-	-	267,102	-	-	-	-	10,745	-
Noninstructional services	-	868,629	306	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	<u>-</u>	<u>868,629</u>	<u>267,408</u>	<u>-</u>	<u>-</u>	<u>8,537</u>	<u>436</u>	<u>10,745</u>	<u>440</u>
Excess (deficiency) of receipts over disbursements	<u>125,409</u>	<u>36,053</u>	<u>(112,462)</u>	<u>-</u>	<u>206</u>	<u>(3,363)</u>	<u>5,202</u>	<u>19,255</u>	<u>-</u>
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	130	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	(61,828)	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>(61,828)</u>	<u>130</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>125,409</u>	<u>(25,775)</u>	<u>(112,332)</u>	<u>-</u>	<u>206</u>	<u>(3,363)</u>	<u>5,202</u>	<u>19,255</u>	<u>-</u>
Cash and investments - ending	<u>\$ 125,409</u>	<u>\$ 437,243</u>	<u>\$ 206,343</u>	<u>\$ 567</u>	<u>\$ 1,214</u>	<u>\$ -</u>	<u>\$ 5,202</u>	<u>\$ 19,255</u>	<u>\$ -</u>

SALEM COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS,
 OTHER FINANCING SOURCES (USES), AND CASH AND
 INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2017

	IN Natural Resources Fund	Screenagers/ Digital Age Grant	Duke "Real Men Read" Grant	Duke 2017 Summer Reading Grant	Washington County Community Foundation Grants	SHS Counseling Department Fund	Target Writing Club	Formative Assessment	High Ability Grant G/T
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ 860	\$ 19,421	\$ -	\$ 5,774	\$ 17,703
Receipts:									
Local sources	-	400	2,780	20,318	4,280	5,000	500	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	250	-	-	-	-	-	-	20,602	33,411
Federal sources	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	<u>250</u>	<u>400</u>	<u>2,780</u>	<u>20,318</u>	<u>4,280</u>	<u>5,000</u>	<u>500</u>	<u>20,602</u>	<u>33,411</u>
Disbursements:									
Instruction	250	-	2,800	6,094	4,904	-	500	19,543	38,349
Support services	-	400	-	-	-	-	-	-	-
Noninstructional services	-	-	-	-	-	7,639	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	<u>250</u>	<u>400</u>	<u>2,800</u>	<u>6,094</u>	<u>4,904</u>	<u>7,639</u>	<u>500</u>	<u>19,543</u>	<u>38,349</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>-</u>	<u>(20)</u>	<u>14,224</u>	<u>(624)</u>	<u>(2,639)</u>	<u>-</u>	<u>1,059</u>	<u>(4,938)</u>
Other financing sources (uses):									
Proceeds of long-term debt	-	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>-</u>	<u>-</u>	<u>(20)</u>	<u>14,224</u>	<u>(624)</u>	<u>(2,639)</u>	<u>-</u>	<u>1,059</u>	<u>(4,938)</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (20)</u>	<u>\$ 14,224</u>	<u>\$ 236</u>	<u>\$ 16,782</u>	<u>\$ -</u>	<u>\$ 6,833</u>	<u>\$ 12,765</u>

SALEM COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS,
 OTHER FINANCING SOURCES (USES), AND CASH AND
 INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2017

	Drug Free Communities	Medicaid Reimbursement	Secured Schools Safety Grant	School Technology	Tech Fund-Laptop Rental	Career and Technical Performance Grant	Performance Based Awards	21st Century Scholars	Senator David Ford Technology
Cash and investments - beginning	\$ -	\$ 68	\$ (2,084)	\$ 1,921	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:									
Local sources	-	-	-	-	3,405	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	-	-	28,000	6,308	-	9,886	26,286	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-
Total receipts	-	-	28,000	6,308	3,405	9,886	26,286	-	-
Disbursements:									
Instruction	-	-	-	-	244	-	-	-	-
Support services	-	-	64,583	1,789	-	-	31,182	-	-
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Total disbursements	-	-	64,583	1,789	244	-	31,182	-	-
Excess (deficiency) of receipts over disbursements	-	-	(36,583)	4,519	3,161	9,886	(4,896)	-	-
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	-	-	(36,583)	4,519	3,161	9,886	(4,896)	-	-
Cash and investments - ending	\$ -	\$ 68	\$ (38,667)	\$ 6,440	\$ 3,161	\$ 9,886	\$ (4,896)	\$ -	\$ -

SALEM COMMUNITY SCHOOLS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS,
 OTHER FINANCING SOURCES (USES), AND CASH AND
 INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended June 30, 2017

	Safe Haven Grant	Title I 2014-15	Title I 2015-16	Title I 2016-17	Improving Teacher Quality, No Child Left, Title II, Part A	Prepaid Lunches	Clearing Accounts	Totals
Cash and investments - beginning	\$ -	\$ -	\$ (37,608)	\$ -	\$ (6,960)	\$ 16,328	\$ 12,949	\$ 6,359,403
Receipts:								
Local sources	-	-	-	-	-	309,395	-	5,763,915
Intermediate sources	-	-	-	-	-	-	-	275
State sources	15,000	-	-	-	-	-	-	13,256,120
Federal sources	-	-	57,784	376,369	89,890	-	-	1,104,760
Other receipts	-	-	-	-	-	-	4,191,062	4,203,921
Total receipts	15,000	-	57,784	376,369	89,890	309,395	4,191,062	24,328,991
Disbursements:								
Instruction	15,000	-	20,176	443,953	85,930	-	-	10,048,022
Support services	-	-	-	-	-	-	-	6,325,979
Noninstructional services	-	-	-	-	-	311,565	-	1,188,139
Facilities acquisition and construction	-	-	-	-	-	-	-	2,327,812
Debt service	-	-	-	-	-	-	-	2,268,645
Nonprogrammed charges	-	-	-	-	-	-	4,188,924	4,188,924
Total disbursements	15,000	-	20,176	443,953	85,930	311,565	4,188,924	26,347,521
Excess (deficiency) of receipts over disbursements	-	-	37,608	(67,584)	3,960	(2,170)	2,138	(2,018,530)
Other financing sources (uses):								
Proceeds of long-term debt	-	-	-	-	-	-	-	501,053
Sale of capital assets	-	-	-	-	-	-	-	2,643
Transfers in	-	-	-	-	-	-	-	61,828
Transfers out	-	-	-	-	-	-	-	(61,828)
Total other financing sources (uses)	-	-	-	-	-	-	-	503,696
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	37,608	(67,584)	3,960	(2,170)	2,138	(1,514,834)
Cash and investments - ending	\$ -	\$ -	\$ -	\$ (67,584)	\$ (3,000)	\$ 14,158	\$ 15,087	\$ 4,844,569

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SALEM COMMUNITY SCHOOLS
SCHEDULE OF PAYABLES AND RECEIVABLES
June 30, 2017

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Governmental activities	<u>\$ 679,459</u>	<u>\$ -</u>

SALEM COMMUNITY SCHOOLS
SCHEDULE OF LEASES AND DEBT
June 30, 2017

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
Salem Middle School Building Corporation	SMS Renovation	\$ 715,000	12/31/2012	12/31/2024
Salem Middle School Building Corporation	Elementary School HVAC Renovation	272,000	6/30/2013	12/31/2019
Salem High School Building Corporation	SHS Renovation	<u>1,083,500</u>	6/30/2016	12/31/2023
Total of annual lease payments		<u>\$ 2,070,500</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
General obligation bonds	Pension Bonds Refinancing - Indiana Bond Bank	\$ 470,000	\$ 179,779
General obligation bonds	Saferoom Construction	2,000,000	40,000
Notes and loans payable	Land Payment - Trent Nichols	<u>276,513</u>	<u>45,462</u>
Totals		<u>\$ 2,746,513</u>	<u>\$ 265,241</u>

SALEM COMMUNITY SCHOOLS
SCHEDULE OF CAPITAL ASSETS
June 30, 2017

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

	<u>Ending Balance</u>
Governmental activities:	
Land	\$ 643,161
Buildings	21,708,891
Improvements other than buildings	3,613,547
Machinery, equipment, and vehicles	<u>4,294,192</u>
Total governmental activities	<u>30,259,791</u>
Total capital assets	<u>\$ 30,259,791</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

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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 SALEM COMMUNITY SCHOOLS, WASHINGTON COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Salem Community Schools' (School Corporation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the period of July 1, 2015 to June 30, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the period of July 1, 2015 to June 30, 2017.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2017-004, 2017-005, 2017-006, 2017-007, 2017-008, and 2017-009. 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 the Uniform Guidance, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2017-003, 2017-004, 2017-005, 2017-006, 2017-007, 2017-008, and 2017-009, that we consider 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

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

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SALEM COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Years Ended June 30, 2016 and 2017

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 06-30-16	Total Federal Awards Expended 06-30-16	Passed Through to Subrecipient 06-30-17	Total Federal Awards Expended 06-30-17
Department of Agriculture							
Child Nutrition Cluster							
School Breakfast Program	Indiana Department of Education	10.553					
School Breakfast			FY 2016	\$ -	\$ 95,479	\$ -	\$ -
School Breakfast			FY 2017	-	-	-	100,900
Total - School Breakfast Program				-	95,479	-	100,900
National School Lunch Program	Indiana Department of Education	10.555					
School Lunch			FY 2016	-	484,124	-	-
School Lunch			FY 2017	-	-	-	479,817
Commodities			FY 2016	-	71,241	-	-
Commodities			FY 2017	-	-	-	97,643
Total - National School Lunch Program				-	555,365	-	577,460
Total - Child Nutrition Cluster				-	650,844	-	678,360
Total - Department of Agriculture				-	650,844	-	678,360
Department of Education							
Special Education Cluster (IDEA)							
Special Education_Grants to States	Indiana Department of Education	84.027					
FY 14 Part B 611			14214-056-PN01	-	613	-	-
FY 14 Technical Assistance			99914-056-TA01	-	3,666	-	-
FY 15 Part B 611			14215-056-PN01	-	109,023	-	4,457
FY 16 Part B 611			14216-054-PN01	-	276,766	-	138,703
FY 17 Part B 611			14217-054-PN01	-	-	-	269,910
Total - Special Education_Grants to States				-	390,068	-	413,070
Special Education_Preschool Grants	Indiana Department of Education	84.173					
FY 15 Preschool 619			45715-056-PN01	-	7,183	-	392
FY 16 Preschool 619			45716-054-PN01	-	7,290	-	6,587
FY 17 Preschool 619			45717-054-PN01	-	-	-	8,282
Total - Special Education Preschool Grants				-	14,473	-	15,261
Total - Special Education Cluster (IDEA)				-	404,541	-	428,331
Title I Grants to Local Educational Agencies	Indiana Department of Education	84.010					
Title I 2014-15			FY 2015	-	84,889	-	-
Title I 2015-16			FY 2016	-	394,914	-	57,784
Title I 2016-17			FY 2017	-	-	-	376,369
Total - Title I Grants to Local Educational Agencies				-	479,803	-	434,153
Supporting Effective Instruction State Grants	Indiana Department of Education	84.367					
Title II Pt A 2013 Improving Teacher Quality State Grants			FY 2014	-	17,299	-	-
Title II Pt A 2014			FY 2015	-	77,038	-	-
Title II Pt A 2015 Improving Teacher Quality State Grants			FY 2016	-	-	-	15,606
Title II Pt A 2016			FY 2017	-	-	-	74,284
Total - Supporting Effective Instruction State Grants				-	94,337	-	89,890
Total - Department of Education				-	978,681	-	952,374
Department of Homeland Security							
Pre-Disaster Mitigation	Indiana Department of Homeland Security	97.047	38514-PDMC	-	-	-	493,362
Total - Department of Homeland Security				-	-	-	493,362
Total federal awards expended				\$ -	\$ 1,629,525	\$ -	\$ 2,124,096

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

SALEM COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the School Corporation under programs of the federal government for the years ended June 30, 2016 and 2017. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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.

The Uniform Guidance requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$750,000 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 the Uniform Guidance, 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. The School Corporation has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3. Special Education Cooperative

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

SALEM COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

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

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiency identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	yes

Identification of Major Programs and type of auditor's report issued on compliance for each:

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

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? no

Section II - Financial Statement Findings

FINDING 2017-001

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Condition

There were deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. There was a lack of segregation of duties as the School Corporation had not separated incompatible activities related to cash and investments and vendor disbursements of the School Lunch fund. One individual ordered items, approved and recorded disbursements, and was responsible for preparing bank reconciliations for the School Lunch fund, without evidence of an oversight, review, or approval process.

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

The School Corporation did not have a proper system of internal control in place to prevent, or detect and correct, errors on the financial statement. Due to the lack of controls, the School Corporation's financial statement contained the following errors:

1. Receipts were understated for the School Lunch fund by \$286.
2. Disbursements were overstated for the General fund by \$65,422. Disbursements were understated for the following funds and amounts: Title I 2016-17 fund by \$65,422 and Textbook Rental fund by \$4,389.
3. Other financing sources (uses) were overstated for the Safe Room GO Bond fund by \$1,700,000.

In addition, beginning cash and investment balances, receipts, disbursements, and ending cash and investment balances of several funds were not included in the financial statements for the years ending June 30, 2016 and 2017, as follows:

Fund	For the Year Ended June 30, 2016			
	Cash and Investments	Receipts	Disbursements	Cash and Investments
Prepaid Lunches	\$ 14,696	\$ 314,177	\$ 312,545	\$ 16,328
Clearing Accounts	13,780	4,172,718	4,173,549	12,949
Totals	<u>\$ 28,476</u>	<u>\$ 4,486,895</u>	<u>\$ 4,486,094</u>	<u>\$ 29,277</u>

Fund	For the Year Ended June 30, 2017			
	Cash and Investments	Receipts	Disbursements	Cash and Investments
Prepaid Lunches	\$ 16,328	\$ 309,395	\$ 311,565	\$ 14,158
Clearing Accounts	12,949	4,191,062	4,188,924	15,087
Totals	<u>\$ 29,277</u>	<u>\$ 4,500,457</u>	<u>\$ 4,500,489</u>	<u>\$ 29,245</u>

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

Context

The lack of controls and noncompliance were systemic issues throughout 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:

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

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

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

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

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

Cause

Management had not established a proper system of internal control.

Effect

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

Recommendation

We recommended that the School Corporation's management establish a system of internal controls related to financial transactions and reporting.

Views of Responsible Officials

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

FINDING 2017-002

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2015-001.

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

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). The Treasurer was the person solely responsible for preparing and submitting the SEFA. There was no segregation of duties documented, such as an oversight, review, approval process, or other compensating control.

Context

The SEFA presented for audit contained the following errors:

1. The Pre-Disaster Mitigation grant was omitted for fiscal year 2017.
2. The National School Lunch Program was not properly reported for either year.

In total, the SEFA was overstated in fiscal year 2016 by \$63,148, and understated in fiscal year 2017 by \$499,970. Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA.

Criteria

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

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

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

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

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 financial statements. . . ."

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards*. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. 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 Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

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

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal 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 must 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. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

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.

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

Section III - Federal Award Findings and Questioned Costs

FINDING 2017-003

Subject: Child Nutrition Cluster - Internal Controls

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2016, FY 2017

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Program Income, Reporting, Special Tests and Provisions - School Food Accounts

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 Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Program Income, Reporting, and Special Tests and Provisions - School Food Accounts compliance requirements.

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Program Income

The Food Service Director was responsible for ordering items for the School Lunch fund and was also responsible for approving and recording the disbursements. There was no segregation of duties, such as an oversight, review, or approval process.

Reporting

Monthly Sponsor Claims (Claims for Reimbursement), Annual Financial Reports, and School Food Authority (SFA) Verification Collection Reports were prepared and submitted by one individual. There was no segregation of duties, such as an oversight, review, or approval process.

Special Tests and Provisions - School Food Accounts

A school food account had been established for the School Corporation; however, an oversight or review process of the amounts recorded in the school food account had not been established.

Context

The lack of controls was a systemic issue, which occurred throughout the audit period.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

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

(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

Management had not developed a system of internal controls that would have ensured compliance with the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Program Income, Reporting, and Special Tests and Provisions - School Food Accounts compliance requirements.

Effect

The failure to establish an effective internal control system, which would include segregation of duties, placed the School Corporation at risk of noncompliance with the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Program Income, Reporting, and Special Tests and Provisions - School Food Accounts compliance requirements.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Program Income, Reporting, and Special Tests and Provisions - School Food Accounts compliance requirements.

Views of Responsible Officials

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

FINDING 2017-004

Subject: Child Nutrition Cluster - Procurement and Suspension and Debarment
Federal Agency: Department of Agriculture
Federal Programs: School Breakfast Program, National School Lunch Program
CFDA Numbers: 10.553, 10.555
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2016, FY 2017
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Procurement and Suspension and Debarment
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 Procurement and Suspension and Debarment compliance requirement.

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

Procurement

The School Corporation did not have an effective internal control system to ensure compliance with procurement requirements. A Procurement Plan was maintained by the Food Service Director; however, there were no controls in place to ensure procurement procedures were followed.

Suspension and Debarment

The School Corporation did not have an effective internal control system to ensure compliance with suspension and debarment requirements. The School Corporation did not comply with the suspension and debarment requirements for the 2015-2016 and 2016-2017 school years. They did not perform any procedures to verify that vendors were not suspended or debarred from participation in federal programs before entering into covered transactions.

Context

The lack of controls existed throughout the audit period. There was one vendor during each school year that exceeded \$25,000. The School Corporation did not verify that the vendors were not suspended or debarred prior to entering into covered transactions.

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). . . ."

2 CFR 180.300 states:

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

You do this by:

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

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

Cause

Management of the School Corporation had not developed a system of internal controls that would have ensured compliance with the Procurement and Suspension and Debarment compliance requirement.

Effect

The failure to establish an effective internal control system enabled the School Corporation to be in noncompliance with the suspension and debarment compliance requirements and the grant agreement. In addition, lack of an effective internal control system placed the School Corporation at risk of noncompliance with the procurement requirements.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls related to the grant agreement and the Procurement and Suspension and Debarment 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 2017-005

Subject: Title I Grants to Local Educational Agencies - Special Tests and Provisions - Schoolwide Programs
Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Numbers and Years (or Other Identifying Numbers): FY 2015, FY 2016, FY 2017
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Special Tests and Provisions - Schoolwide Programs
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding numbers were 2015-002 and 2015-004.

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 - Schoolwide Programs compliance requirement.

The school operating a schoolwide program did not perform a comprehensive needs assessment of the entire school, develop a comprehensive plan based on that assessment, or conduct an annual evaluation of the results achieved by the schoolwide program.

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

Context

Lack of controls and noncompliance were systemic issues throughout the audit period.

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). . . ."

34 CFR 200.26 states:

"(a) *Comprehensive needs assessment.*

- (1) A school operating a schoolwide program must conduct a comprehensive needs assessment of the entire school that—
 - (i) Is based on academic achievement information about all students in the school, including all groups under § 200.13(b)(7) and migratory children as defined in section 1309(2) of the ESEA, relative to the State's academic standards under § 200.1 to—
 - (A) Help the school understand the subjects and skills for which teaching and learning need to be improved; and
 - (B) Identify the specific academic needs of students and groups of students who are not yet achieving the State's academic standards; and
 - (ii) Assesses the needs of the school relative to each of the components of the schoolwide program under § 200.28.
- (2) The comprehensive needs assessment must be developed with the participation of individuals who will carry out the schoolwide program plan.
- (3) The school must document how it conducted the needs assessment, the results it obtained, and the conclusions it drew from those results.

(b) *Comprehensive plan.* Using data from the comprehensive needs assessment under paragraph (a) of this section, a school that wishes to operate a schoolwide program must develop a comprehensive plan, in accordance with § 200.27, that describes how the school will improve academic achievement throughout the school, but particularly for those students furthest away from demonstrating proficiency, so that all students demonstrate at least proficiency on the State's academic standards.

(c) *Evaluation.* A school operating a schoolwide program must—

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

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

Cause

Management had not developed a system of internal controls that would have ensured compliance with the Special Tests and Provisions - Schoolwide Programs compliance requirement.

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 the federal funds to the School Corporation.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls to ensure compliance with the grant agreement and the Special Test and Provisions - Schoolwide Programs 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 2017-006

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): 14214-056-PN01, 14215-056-PN01,
14216-054-PN01, 14217-054-PN01,
45715-056-PN01, 45716-054-PN01,
45717-054-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Other Matters

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

Condition

The School Corporation is a member of the South Central Area Special Education Cooperative (Cooperative). The Cooperative operated the special education program on behalf of the School Corporation and managed the special education grant funds. There was no oversight of the Cooperative by the School Corporation. Each member school corporation is ultimately responsible for ensuring compliance with the requirements.

An effective internal control system was not in place to ensure compliance with requirements related to the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

No Semi-Annual Certifications or records of activity for School Corporation employees that were paid solely from special education funds were maintained during the audit period. No personal activity reports or records of activity for School Corporation employees paid from multiple cost objectives were maintained during the audit period.

Context

No evidence was presented that Semi-Annual Certifications were completed and certified for the audit period for employees who were paid solely from special education funds. No evidence was presented that personal activity reports were prepared and signed during the audit period for any employees who were paid from multiple cost objectives. In addition, no records of activity were presented for audit for any employees paid either solely or partially from special education funds.

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 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.

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

(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. . . ."

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:

- (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); . . .
- (iv) 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

Management of the School Corporation had not designed or implemented internal control procedures to ensure compliance with the Allowable Costs/Cost Principles compliance requirement.

Effect

The failure to establish an effective internal control system placed the School Corporation in non-compliance with grant agreement and the Allowable Costs/Cost Principles compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management develop and implement procedures and establish controls to ensure compliance with the grant agreement and the Allowable Costs/Cost Principles compliance requirement.

Views of Responsible Officials

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

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

FINDING 2017-007

Subject: Special Education Cluster (IDEA) - 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): 14217-054-PN01, 45717-054-PN01
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Matching, Level of Effort, Earmarking
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 Level of Effort - Maintenance of Effort (MOE) requirements of the Matching, Level of Effort, Earmarking compliance requirement.

In calculating the state and local expenditures for special education to meet the MOE requirement of Level of Effort, the School Corporation did not use consistent categories of expenditure accounts from year to year. Additional expenditure categories were added to the 2015-2016 calculation that were not included in the 2014-2015 and 2016-2017 calculations. Acceptable documentation or explanations of the change in categories were not provided.

Context

The lack of internal controls and noncompliance affected the MOE calculation for the fiscal year 2017 application.

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). . . ."

34 CFR 300.203(b) states in part:

"Compliance standard.

- (1) Except as provided in §§ 300.204 and 300.205, funds provided to an LEA under IDEA, Part B must not be used to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds below the level of those expenditures for the preceding fiscal year.

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

- (2) An LEA meets this standard if it does not reduce the level of expenditures for the education of children with disabilities made by the LEA from at least one of the following sources below the level of those expenditures from the same source for the preceding fiscal year, except as provided in §§ 300.204 and 300.205:
- (i) Local funds only;
 - (ii) The combination of State and local funds;
 - (iii) Local funds only on a per capita basis; or
 - (iv) The combination of State and local funds on a per capita basis. . . ."

Cause

Management had not developed a system of internal controls that would have ensured compliance with the MOE requirements of the Matching, Level of Effort, Earmarking compliance requirement.

Effect

The failure to establish an effective internal control system placed the School Corporation in noncompliance with the grant agreement and the MOE requirements of the Matching, Level of Effort, Earmarking compliance requirement.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the School Corporation's management establish controls related to the grant agreement and the MOE requirements of the Matching, Level of Effort, Earmarking 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 2017-008

Subject: Special Education Grants to States - Suspension and Debarment

Federal Agency: Department of Education

Federal Program: Special Education_Grants to States

CFDA Number: 84.027

Federal Award Numbers and Years (or Other Identifying Numbers): 14215-056-PN01, 14216-054-PN01
14217-054-PN01

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

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

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2015-006.

Condition

The School Corporation was a member of the South Central Area Special Education Cooperative (Cooperative). The Cooperative operated the special education programs on behalf of the School Corporation and managed the special education grant funds. There was no oversight of the Cooperative by the School Corporation. Each member school corporation was ultimately responsible for ensuring compliance with the requirements.

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

The Cooperative's Director signed the Application and Assurance Plan as a condition of federal assistance, which stated that the Cooperative would check the subcontractors to ensure that they were not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded by any federal agency or by any department, agency, or political subdivision of the State of Indiana. However, the School Corporation did not have procedures in place to monitor that the Cooperative verified that the vendors were not suspended or debarred or otherwise excluded from or ineligible for participation in federal assistance programs prior to entering into a covered transaction with them.

Context

There were three contracts during fiscal year 2016 and three contracts during fiscal year 2017 that exceeded \$25,000; however, the Cooperative did not verify that the vendors were not suspended or debarred prior to awarding these contracts for covered transactions.

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). . . ."

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

2 CFR 180.300 states:

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

You do this by:

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

Cause

Management of the School Corporation had not developed a system of internal controls that would ensure that the Cooperative complied with the suspension and debarment requirements.

Effect

The failure to establish an effective internal control system enabled the School Corporation to be in noncompliance with the suspension and debarment requirements and the grant agreement.

Questioned Costs

There were no questioned costs identified.

Recommendation

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

Views of Responsible Officials

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

FINDING 2017-009

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): 14215-056-PN01, 45715-056-PN01
Pass-Through Entity: Indiana Department of Education
Compliance Requirement: Reporting
Audit Findings: Material Weakness, Other Matters

Repeat Finding

This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2015-005.

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

Condition

The School Corporation was a member of the South Central Area Special Education Cooperative (Cooperative). The Cooperative operated the special education program on behalf of the School Corporation and managed the special education grant funds. There was no oversight of the Cooperative by the School Corporation. Each member school corporation is ultimately responsible for ensuring compliance with the requirements.

An effective internal control system was not in place to ensure compliance with requirements related to the grant agreement and the Reporting compliance requirement. The required Final Reports for special education grants were not completed and submitted to the Indiana Department of Education (IDOE).

Context

Two final reports for the special education grants that were due by December 15, 2016, were not prepared and submitted to IDOE.

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. . . ."

34 CFR 80.20(b) states in part:

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

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

Cause

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

Effect

The failure to establish an effective internal control system enabled the School Corporation to be in noncompliance with the grant agreement and the Reporting compliance requirement.

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

Questioned Costs

There were no questioned costs identified.

Recommendation

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

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.



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Assistant Superintendent
Dr. Kim Thurston
Dir. of Informational Technology
Erin Humphrey

Board of School Trustees
Mark Abbott
Erika Garloch
Ron Haendiges
Steven R. Motsinger
Monika Spaulding
Dr. Tricia Wheeler
Rebecca White

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2015-001

Fiscal year in which the finding initially occurred: FY 2011-2012
Contact Person Responsible for Corrective Action: Dr. Kim Thurston
Contact Phone Number: (812) 883-4437

Preparation of the Schedule of Expenditures of Federal Awards
Corrective action plan in progress.

(Signature)

Asst Superintendent
(Title)

12/4/2018
(Date)

(Note to Officials: To determine what audit findings are required to be reported in the Summary Schedule of Prior Audit Findings, please see U.S. Office of Management and Budget (OMB), Circular A-133, Subpart C, section .315(b) for audit periods beginning before December 26, 2014. For audit periods beginning after December 26, 2014, please see 2 CFR §200.511(b).)



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2015-002

Fiscal year in which the finding initially occurred: FY 2013
Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: DOE
Contact Person Responsible for Corrective Action: Dr. Kim Thurston
Contact Phone Number: (812) 883-4437

Internal Control of Title I

Corrective action plan completed, with the exception of Special Tests and Provisions, which will be executed in FY2019.

Kim A. Thurston, Ed.D.
(Signature)

Asst. Superintendent
(Title)

12/4/2018
(Date)

(Note to Officials: To determine what audit findings are required to be reported in the Summary Schedule of Prior Audit Findings, please see U.S. Office of Management and Budget (OMB), Circular A-133, Subpart C, section .315(b) for audit periods beginning before December 26, 2014. For audit periods beginning after December 26, 2014, please see 2 CFR §200.511(b).)



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2015-003

Fiscal year in which the finding initially occurred: FY 2013
Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: DOE
Contact Person Responsible for Corrective Action: Dr. Kim Thurston
Contact Phone Number: (812) 883-4437

Allowable Costs/Cost Principles Title I

Corrective action plan completed.

(Signature)

Asst. Superintendent
(Title)

12/4/2018
(Date)

(Note to Officials: To determine what audit findings are required to be reported in the Summary Schedule of Prior Audit Findings, please see U.S. Office of Management and Budget (OMB), Circular A-133, Subpart C, section .315(b) for audit periods beginning before December 26, 2014. For audit periods beginning after December 26, 2014, please see 2 CFR §200.511(b).)



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2015-004

Fiscal year in which the finding initially occurred: FY 2013

Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: DOE

Contact Person Responsible for Corrective Action: Dr. Kim Thurston

Contact Phone Number: (812) 883-4437

Special Tests and Provisions-Schoolwide Programs

Corrective action plan will be executed FY2019.

(Signature)

(Title)

(Date)

(Note to Officials: To determine what audit findings are required to be reported in the Summary Schedule of Prior Audit Findings, please see U.S. Office of Management and Budget (OMB), Circular A-133, Subpart C, section .315(b) for audit periods beginning before December 26, 2014. For audit periods beginning after December 26, 2014, please see 2 CFR §200.511(b).)



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Rebecca White

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2015-005

Fiscal year in which the finding initially occurred: FY 2013

Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: DOE

Contact Person Responsible for Corrective Action: Dr. Kim Thurston

Contact Phone Number: (812) 883-4437

Special Education Grants

Corrective action plan in progress.

(Signature)

(Title)

(Date)

(Note to Officials: To determine what audit findings are required to be reported in the Summary Schedule of Prior Audit Findings, please see U.S. Office of Management and Budget (OMB), Circular A-133, Subpart C, section .315(b) for audit periods beginning before December 26, 2014. For audit periods beginning after December 26, 2014, please see 2 CFR §200.511(b).)



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2015-006

Fiscal year in which the finding initially occurred: FY 2013

Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: DOE

Contact Person Responsible for Corrective Action: Dr. Kim Thurston

Contact Phone Number: (812) 883-4437

Suspension and Debarment

Corrective action plan in progress.

(Signature)

(Title)

(Date)

(Note to Officials: To determine what audit findings are required to be reported in the Summary Schedule of Prior Audit Findings, please see U.S. Office of Management and Budget (OMB), Circular A-133, Subpart C, section .315(b) for audit periods beginning before December 26, 2014. For audit periods beginning after December 26, 2014, please see 2 CFR §200.511(b).)



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CORRECTIVE ACTION PLAN

FINDING 2017-001

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

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

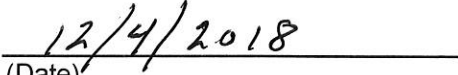
The school district is re-evaluating its internal controls system. The school district will continue to strive to become more diligent toward the management of financial transactions and reporting. The disbursements from the school lunch fund will be reviewed and approved by the Assistant Superintendent. The bank reconcilements and financial statements from the school lunch program will be submitted to the Administration Office for the Assistant Superintendent to review and approve those transactions. The responsibility of the Corporation Treasurer and Food Service Director is to generate and enter a transaction while the Assistant Superintendent's responsibility is to review, approve, and acknowledge the transaction through a signature or initial and date. We will review our records to be sure all funds are properly reported on the Form 9.

Anticipated Completion Date:

The anticipated completion date is January 31, 2019.


(Signature)


(Title)


(Date)



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CORRECTIVE ACTION PLAN

FINDING 2017-002

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

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The school district is re-evaluating its internal controls system as it relates to the proper reporting of SEFA. The Assistant Superintendent is responsible for reviewing the SEFA prior to submission. The Treasurer will prepare the SEFA, submit it to the Assistant Superintendent for review and will initial it for submission after conferring with the Treasurer. The Food Service Director will complete the report for the National School Lunch Program. The Director will submit a report to the Assistant Superintendent. Following a review of the report by the Assistant Superintendent, he/she and the Food Service Director will confer, sign and initial the report for submission.

Anticipated Completion Date:

The anticipated completion date is January 31, 2019.

Kim A. Thurston, Ed.D.
(Signature)

Asst. Superintendent
(Title)

12/4/2018
(Date)



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CORRECTIVE ACTION PLAN

FINDING 2017-003

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

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The school district is working to establish a system of controls pertaining to the grant agreement as well as the allowed and un-allowed activities. Particular attention will be paid to compliance requirements regarding school food accounts. The Assistant Superintendent will review and approve disbursements before they are made. Receipts and disbursement reports will be generated monthly and submitted to the Assistant Superintendent for review. Reports will be reviewed and approved before submittal.

Anticipated Completion Date:

The anticipated completion date is January 31, 2019.

Kim A. Thurston, Ed.D.
(Signature)

Asst. Superintendent
(Title)

12/4/2018
(Date)



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CORRECTIVE ACTION PLAN

FINDING 2017-004

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

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The school district is working to establish a system of controls pertaining to the grant agreement as well as the Procurement and Suspension and Debarment compliance requirement. The Assistant Superintendent will review purchases to ensure those purchases adhere to the school district's purchasing policy and the State of Indiana's purchasing requirements. Prior to entering into a contract exceeding \$25,000 the school district will verify the vendor is not presently suspended or debarred and ineligible from participating in federally funded programs.

Anticipated Completion Date:

The anticipated completion date is January 31, 2019.

(Signature)

(Title)

(Date)



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CORRECTIVE ACTION PLAN

FINDING 2017-005

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

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The required elements and data regarding the schoolwide needs assessment plan cannot be located from when it was conducted in 2010. A new needs assessment will be conducted at Bradie Shrum Elementary to replace the 2010 assessment and this will be updated annually.

Anticipated Completion Date:

The anticipated completion date is March 29, 2019.

Kim A. Thurston, Ed.D.
(Signature)

Asst. Superintendent
(Title)

12/4/2018
(Date)



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CORRECTIVE ACTION PLAN

FINDING 2017-006

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

Views of Responsible Official: We concur with the finding.

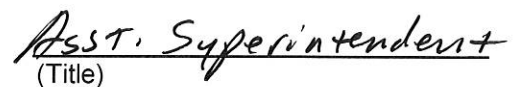
Description of Corrective Action Plan:

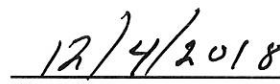
The school district is working to establish a system of procedures and controls to ensure compliance with the grant agreement and allowable costs/cost principles compliance requirement. The School Corporation Treasurer will maintain records of activity for school corporation employees paid solely from special education funds by completing semi-annual certifications. The Assistant Superintendent will review these records, confer with the Treasurer and initial the records prior to filing.

Anticipated Completion Date:

The anticipated completion date is January 31, 2019.


(Signature)


(Title)


(Date)



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CORRECTIVE ACTION PLAN

FINDING 2017-007

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

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The school district is working to establish a system of procedures and controls related to the grant agreement and the Level of Effort/Maintenance of Effort (MOE) requirements. To achieve this, the school district will use consistent categories of expenditure accounts from year to year. If additional expenditure categories are added, documentation will be maintained to support the change in categories following a review by the Assistant Superintendent.

Anticipated Completion Date:

The anticipated completion date is January 31, 2019.

(Signature)

(Title)

(Date)



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CORRECTIVE ACTION PLAN

FINDING 2017-008

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

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Recognizing this is a repeat finding, the school district is working to establish a more effective system of procedures and controls to monitor the Cooperative ensuring compliance with the grant agreement as well as the Suspension and Debarment compliance requirement. To achieve this, contracts and subcontracts will be presented by the South Central Area Special Education Cooperative to the SCASEC Board of Directors and reviewed by the superintendent prior to approval.

Anticipated Completion Date:

The anticipated completion date is January 31, 2019.

(Signature)

(Title)

(Date)



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CORRECTIVE ACTION PLAN

FINDING 2017-009

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

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

The school district is working to establish a more effective system of procedures and controls to monitor the Cooperative ensuring compliance with the grant agreement and the Reporting compliance requirement. To ensure this, reports will be generated by the South Central Area Special Education Cooperative and signed by the Board President and verified by the Superintendent.

Anticipated Completion Date:

The anticipated completion date is January 31, 2019.

(Signature)

(Title)

(Date)

OTHER REPORTS

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