

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

FINANCIAL STATEMENT AUDIT REPORT  
OF

HANCOCK MADISON SHELBY  
EDUCATIONAL SERVICES CENTER  
HANCOCK COUNTY, INDIANA

July 1, 2017 to June 30, 2019



**FILED**  
05/01/2020



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Kaitlyn Veach	07-01-17 to 12-31-19
Business Manager	Ken McCarty	07-01-17 to 12-31-19
President of the School Board	Chris Hoke	07-01-17 to 12-31-19



## INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE HANCOCK MADISON SHELBY EDUCATIONAL SERVICES CENTER, HANCOCK COUNTY, INDIANA

### **Report on the Financial Statement**

We have audited the accompanying financial statement of the Hancock Madison Shelby Educational Services Center (School Corporation), which comprise the financial position and results of operations for the period of July 1, 2017 to June 30, 2019, 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 the 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. 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, 2017 to June 30, 2019.

***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, 2017 to June 30, 2019, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

***Other Matters***

*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, as listed in the Table of Contents, is presented for additional analysis and is not a required part 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.

  
Paul D. Joyce, CPA  
State Examiner

March 24, 2020

## 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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HANCOCK MADISON SHELBY EDUCATIONAL SERVICES CENTER  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING  
 SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Years Ended June 30, 2018 and 2019

	Cash and Investments 07-01-17	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-18	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-19
Operations Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46	\$ 20,688	\$ 187,833	\$ 167,192
Joint Operations - Special Education Cooperative	1,045,067	22,614	615,017	-	452,664	5,367	34,398	(423,633)	-
Special Education Direct Billing	(766,040)	636,062	207,964	-	(337,942)	-	-	337,942	-
Special Ed Capital Projects	140,719	-	39,867	1,240	102,092	-	-	(102,092)	-
Rubio IPAD Donations	50	-	-	-	50	-	-	(50)	-
IDEA PS PROJ#45716-027-PN01	(18,392)	-	(18,392)	-	-	-	-	-	-
IDEA FY16 PROJ#14216-027-PN01	(9,241)	12,168	2,927	-	-	-	-	-	-
Payroll Funds	22,581	88,577	96,211	-	14,947	-	-	-	14,947
<b>Totals</b>	<u>\$ 414,744</u>	<u>\$ 759,421</u>	<u>\$ 943,594</u>	<u>\$ 1,240</u>	<u>\$ 231,811</u>	<u>\$ 5,413</u>	<u>\$ 55,086</u>	<u>\$ -</u>	<u>\$ 182,139</u>

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

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES CENTER  
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.

*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.

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES CENTER  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*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.

**F. Other Financing Sources and Uses**

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

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

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

*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. 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.

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES CENTER  
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 3. 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 4. Negative Receipts and Disbursements**

The financial statement contains some disbursements which appear as negative entries. This is a result of a posting error.

**Note 5. Cash Balance Deficit**

The financial statement contains one fund with a deficit in cash. This is a result of a cash balance deficit in the Special Education Direct Billing fund, which was used as a reimbursable billing fund in fiscal year 2017-2018.

**Note 6. Hancock Madison Shelby Educational Services Center Partial Dissolution**

The Hancock Madison Shelby Educational Services Center partially dissolved on June 30, 2017, and all services provided will return to the school level. A resolution has been filed in which the Service Center will withhold \$300,000 in the School Corporation's depository account, for the purpose of liquidation of the Service Center's activities. Individual agreements have been made for each member school to proportionately receive the remaining funds by December 31, 2019.

#### 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.

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES CENTER  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING  
 SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2018

	Operations Fund	Joint Operations - Special Education Cooperative	Special Education Direct Billing	Special Ed Capital Projects	Rubio IPAD Donations
Cash and investments - beginning	\$ -	\$ 1,045,067	\$ (766,040)	\$ 140,719	\$ 50
Receipts:					
Local sources	-	22,614	636,062	-	-
Federal sources	-	-	-	-	-
Other	-	-	-	-	-
Total receipts	-	22,614	636,062	-	-
Disbursements:					
Instruction	-	30,293	137,036	-	-
Support services	-	584,724	70,928	39,867	-
Total disbursements	-	615,017	207,964	39,867	-
Excess (deficiency) of receipts over disbursements	-	(592,403)	428,098	(39,867)	-
Other financing sources (uses):					
Sale of capital assets	-	-	-	1,240	-
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	1,240	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(592,403)	428,098	(38,627)	-
Cash and investments - ending	\$ -	\$ 452,664	\$ (337,942)	\$ 102,092	\$ 50

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES CENTER  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING  
 SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2018

	IDEA PS PROJ#45716-027-PN01	IDEA FY16 PROJ#14216-027-PN01	Payroll Funds	Totals
Cash and investments - beginning	\$ (18,392)	\$ (9,241)	\$ 22,581	\$ 414,744
Receipts:				
Local sources	-	-	-	658,676
Federal sources	-	12,168	-	12,168
Other	-	-	88,577	88,577
Total receipts	-	12,168	88,577	759,421
Disbursements:				
Instruction	(18,392)	2,927	-	151,864
Support services	-	-	96,211	791,730
Total disbursements	(18,392)	2,927	96,211	943,594
Excess (deficiency) of receipts over disbursements	18,392	9,241	(7,634)	(184,173)
Other financing sources (uses):				
Sale of capital assets	-	-	-	1,240
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	1,240
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	18,392	9,241	(7,634)	(182,933)
Cash and investments - ending	\$ -	\$ -	\$ 14,947	\$ 231,811

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES CENTER  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING  
 SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2019

	Operations Fund	Joint Operations - Special Education Cooperative	Special Education Direct Billing	Special Ed Capital Projects	Rubio IPAD Donations
Cash and investments - beginning	\$ -	\$ 452,664	\$ (337,942)	\$ 102,092	\$ 50
Receipts:					
Local sources	46	5,367	-	-	-
Federal sources	-	-	-	-	-
Other	-	-	-	-	-
Total receipts	46	5,367	-	-	-
Disbursements:					
Instruction	-	(3)	-	-	-
Support services	20,688	34,401	-	-	-
Total disbursements	20,688	34,398	-	-	-
Excess (deficiency) of receipts over disbursements	(20,642)	(29,031)	-	-	-
Other financing sources (uses):					
Sale of capital assets	-	-	-	-	-
Transfers in	187,833	-	337,942	-	-
Transfers out	-	(423,633)	-	(102,092)	(50)
Total other financing sources (uses)	187,833	(423,633)	337,942	(102,092)	(50)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	167,192	(452,664)	337,942	(102,092)	(50)
Cash and investments - ending	\$ 167,192	\$ -	\$ -	\$ -	\$ -

HANCOCK MADISON SHELBY EDUCATIONAL SERVICES CENTER  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING  
 SOURCES (USES), AND CASH AND INVESTMENT BALANCES -  
 REGULATORY BASIS  
 For the Year Ended June 30, 2019

	IDEA PS PROJ#45716-027-PN01	IDEA FY16 PROJ#14216-027-PN01	Payroll Funds	Totals
Cash and investments - beginning	\$ -	\$ -	\$ 14,947	\$ 231,811
Receipts:				
Local sources	-	-	-	5,413
Federal sources	-	-	-	-
Other	-	-	-	-
Total receipts	-	-	-	5,413
Disbursements:				
Instruction	-	-	-	(3)
Support services	-	-	-	55,089
Total disbursements	-	-	-	55,086
Excess (deficiency) of receipts over disbursements	-	-	-	(49,673)
Other financing sources (uses):				
Sale of capital assets	-	-	-	-
Transfers in	-	-	-	525,775
Transfers out	-	-	-	(525,775)
Total other financing sources (uses)	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	-	(49,673)
Cash and investments - ending	\$ -	\$ -	\$ 14,947	\$ 182,139

## 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/>.