

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

AUDIT REPORT

OF

FLAT ROCK-HAWCREEK SCHOOL CORPORATION

BARTHOLOMEW COUNTY, INDIANA

July 1, 2003 to June 30, 2005



FILED
7/10/06

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Auditor's Report.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Cash and Investments	4-5
Statement of Cash Activities	6-7
Fund Financial Statements:	
Governmental Funds:	
Statement of Receipts, Disbursements, and Cash and Investment Balances	
– Governmental Funds.....	8-9
Fiduciary Funds:	
Statement of Receipts, Disbursements, and Changes in Cash and Investments	
– Fiduciary Funds.....	10-11
Statement of Cash and Investments – Fiduciary Funds	12-13
Notes to Financial Statements	14-24
Required Supplementary Information:	
Schedule of Funding Progress	25
Audit Results and Comments:	
Bank Account Reconciliations	26
Overdrawn Cash Balances	26
Receipt Issuance	26
Transfer Tuition – Children of Teachers	27
Capital Asset Records	27
Official Bond	27
Travel Policy	27
Guaranteed Energy Savings Contracts	28-30
Old Outstanding Checks.....	31
Overpayment Collections.....	31
Temporary Loan.....	31-32
List of Employees Not Filed With County Treasurer.....	32
Internal Controls	32
Indebtedness	33
Overdrawn Fund Balances	33
Nonuse of Ticket Sales Form SA-4	33-34
Deposits.....	34
Undeposited Cash Receipts	34
Disbursement Documentation	35
Fund Sources and Uses	35
Timely Recordkeeping	35
Exit Conference.....	36

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jeffrey A. Cleland	07-01-03 to 06-30-06
Superintendent of Schools	Thomas L. Book Linda C. Gellert Philip K. Deardorff	07-01-03 to 07-31-03 08-01-03 to 07-31-05 08-01-05 to 06-30-06
President of the School Board	William F. Lentz D. Thomas Miller Gregory D. Spurling	07-01-03 to 06-30-04 07-01-04 to 06-30-05 07-01-05 to 06-30-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

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

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE FLAT ROCK-HAWCREEK SCHOOL CORPORATION, BARTHOLOMEW COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Flat Rock-Hawcreek School Corporation (School Corporation), as of and for the years ended June 30, 2004 and 2005, which collectively comprise the Flat Rock-Hawcreek School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2004 and 2005, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

The Schedule of Funding Progress, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The School Corporation has not presented Management Discussion and Analysis, or Budgetary Comparison Schedules, that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

April 10, 2006

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2004

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 612,476
Restricted assets:	
Cash and investments	<u>78,836</u>
Total assets	<u>\$ 691,312</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 78,836
Unrestricted	<u>612,476</u>
Total net assets	<u>\$ 691,312</u>

The accompanying notes are an integral part of the financial statements.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 897,139
Restricted assets:	
Cash and investments	<u>530,623</u>
Total assets	<u>\$ 1,427,762</u>
<u>Net Assets</u>	
Restricted for:	
Debt service	\$ 530,623
Unrestricted	<u>897,139</u>
Total net assets	<u>\$ 1,427,762</u>

The accompanying notes are an integral part of the financial statements.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2004

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 3,336,685	\$ -	\$ 56,859	\$ (3,279,826)
Support services	3,859,744	379,029	191,022	(3,289,693)
Community services	286	-	-	(286)
Nonprogrammed charges	703,863	-	-	(703,863)
Debt service	<u>2,954,804</u>	-	-	<u>(2,954,804)</u>
Total governmental activities	<u>\$ 10,855,382</u>	<u>\$ 379,029</u>	<u>\$ 247,881</u>	<u>(10,228,472)</u>
General receipts:				
Property taxes				2,414,441
Other local sources				508,115
State aid				4,846,254
Grants and contributions not restricted				185,916
Bonds and loans				1,863,593
Sale of property, adjustments, and refunds				48,681
Investment earnings				12,741
Intergovernmental transfers				<u>16,489</u>
				Total general receipts and intergovernmental transfers
				<u>9,896,230</u>
				Change in cash and investments
				(332,242)
				Net assets - beginning
				<u>1,023,554</u>
				Net assets - ending
				<u>\$ 691,312</u>

The accompanying notes are an integral part of the financial statements.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 3,106,935	\$ -	\$ 58,199	\$ (3,048,736)
Support services	3,763,559	374,363	171,707	(3,217,489)
Community services	19,923	-	-	(19,923)
Nonprogrammed charges	936,516	-	-	(936,516)
Debt service	<u>3,632,122</u>	<u>-</u>	<u>-</u>	<u>(3,632,122)</u>
Total governmental activities	<u>\$ 11,459,055</u>	<u>\$ 374,363</u>	<u>\$ 229,906</u>	<u>(10,854,786)</u>
General receipts:				
Property taxes				3,633,663
Other local sources				684,100
State aid				4,987,356
Grants and contributions not restricted				256,462
Bonds and loans				1,459,745
Sale of property, adjustments, and refunds				337,997
Investment earnings				21,000
Intergovernmental transfers				<u>210,913</u>
				Total general receipts and intergovernmental transfers
				<u>11,591,236</u>
				Change in cash and investments
				736,450
				Net assets - beginning
				<u>691,312</u>
				Net assets - ending
				<u>\$ 1,427,762</u>

The accompanying notes are an integral part of the financial statements.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2004

	General	Transportation Operating	Title II Part A	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 1,309,516	\$ 222,933	\$ -	\$ 884,576	\$ 449,332	\$ 19,532	\$ 402,323	\$ 3,288,212
Intermediate sources	20,584	-	-	-	-	-	5,530	26,114
State sources	4,815,909	55,112	-	19,940	-	-	45,689	4,936,650
Federal sources	-	-	38,792	-	-	-	304,609	343,401
Bonds and loans	1,426,968	114,479	-	263,507	-	-	58,639	1,863,593
Sale of property, adjustments and refunds	35,681	-	-	-	-	-	13,000	48,681
Intergovernmental transfers	-	-	-	-	-	-	16,489	16,489
Total receipts	<u>7,608,658</u>	<u>392,524</u>	<u>38,792</u>	<u>1,168,023</u>	<u>449,332</u>	<u>19,532</u>	<u>846,279</u>	<u>10,523,140</u>
Disbursements:								
Current:								
Instruction	3,239,732	-	-	-	-	-	96,953	3,336,685
Support services	2,636,243	423,318	-	-	196,293	24,285	579,605	3,859,744
Community services	-	-	-	-	-	-	286	286
Nonprogrammed charges	663,855	-	-	-	-	-	40,008	703,863
Debt services	1,334,334	134,548	-	1,241,593	146,825	14,256	83,248	2,954,804
Total disbursements	<u>7,874,164</u>	<u>557,866</u>	<u>-</u>	<u>1,241,593</u>	<u>343,118</u>	<u>38,541</u>	<u>800,100</u>	<u>10,855,382</u>
Excess (deficiency) of total receipts over (under) total disbursements	(265,506)	(165,342)	38,792	(73,570)	106,214	(19,009)	46,179	(332,242)
Cash and investments - beginning	465,234	93,416	36,898	161,166	54,829	24,053	187,958	1,023,554
Cash and investments - ending	<u>\$ 199,728</u>	<u>\$ (71,926)</u>	<u>\$ 75,690</u>	<u>\$ 87,596</u>	<u>\$ 161,043</u>	<u>\$ 5,044</u>	<u>\$ 234,137</u>	<u>\$ 691,312</u>

The accompanying notes are an integral part of the financial statements.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	Title II Part A	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 1,885,200	\$ 367,834	\$ -	\$ 1,316,959	\$ 439,698	\$ 60,261	\$ 626,256	\$ 4,696,208
Intermediate sources	8,000	-	-	-	-	-	8,918	16,918
State sources	5,033,294	-	-	-	-	-	119,722	5,153,016
Federal sources	-	-	38,940	-	-	-	281,767	320,707
Bonds and loans	832,014	202,257	-	364,324	-	-	61,152	1,459,747
Sale of property, adjustments and refunds	95,926	61,860	-	-	167,345	-	12,865	337,996
Intergovernmental transfers	60,810	150,103	-	-	-	-	-	210,913
Total receipts	7,915,244	782,054	38,940	1,681,283	607,043	60,261	1,110,680	12,195,505
Disbursements:								
Current:								
Instruction	2,915,672	-	36,898	-	-	-	154,365	3,106,935
Support services	2,328,118	385,661	-	-	271,934	112,000	665,846	3,763,559
Community services	19,923	-	-	-	-	-	-	19,923
Nonprogrammed charges	658,137	-	-	-	270,592	-	7,787	936,516
Debt services	1,843,430	185,846	-	1,303,949	60,924	6,430	231,543	3,632,122
Total disbursements	7,765,280	571,507	36,898	1,303,949	603,450	118,430	1,059,541	11,459,055
Excess (deficiency) of total receipts over (under) total disbursements	149,964	210,547	2,042	377,334	3,593	(58,169)	51,139	736,450
Cash and investments - beginning	199,729	(71,926)	75,690	87,595	161,043	5,044	234,137	691,312
Cash and investments - ending	<u>\$ 349,693</u>	<u>\$ 138,621</u>	<u>\$ 77,732</u>	<u>\$ 464,929</u>	<u>\$ 164,636</u>	<u>\$ (53,125)</u>	<u>\$ 285,276</u>	<u>\$ 1,427,762</u>

The accompanying notes are an integral part of the financial statements.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2004

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ -	\$ 1,500
Bonds and loans	1,332,450	-
Total additions	1,332,450	1,500
Deductions:		
Debt services	672,255	-
Excess of total additions over total deductions	660,195	1,500
Cash and investments - beginning	-	2,253
Cash and investments - ending	\$ 660,195	\$ 3,753

The accompanying notes are an integral part of the financial statements.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2005

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Additions	\$ -	\$ -
Deductions:		
Support services	<u>69,672</u>	<u>1,499</u>
Deficiency of total additions under total deductions	(69,672)	(1,499)
Cash and investments - beginning	<u>660,195</u>	<u>3,753</u>
Cash and investments - ending	<u><u>\$ 590,523</u></u>	<u><u>\$ 2,254</u></u>

The accompanying notes are an integral part of the financial statements.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 June 30, 2004

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 660,195	\$ 3,753	\$ 30,572
 <u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 660,195	\$ 3,753	

The accompanying notes are an integral part of the financial statements.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 590,523	\$ 2,254	\$ 27,995
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 590,523	\$ 2,254	

The accompanying notes are an integral part of the financial statements.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, 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 statements present the activities of the School Corporation (primary government). There are no significant component units which require inclusion.

Jointly Governed Organizations

The School Corporation is a participant with Northwestern Consolidated School Corporation, Shelby Eastern School Corporation, Shelbyville Central School Corporation, and Southwestern Consolidated School Corporation in a joint venture to operate the Blue River Special Education Cooperative which was created to provide special education services. The Blue River Special Education Cooperative's continued existence depends on continued funding by the School Corporations. Complete financial statements for the Blue River Special Education Cooperative can be obtained from Blue River Special Education Cooperative, 111 West McKay Road, Shelbyville, Indiana, 46176.

The School Corporation is a participant with Bartholomew Consolidated School Corporation, County School Corporation of Brown County, Crothersville Community School Corporation, Decatur County School Corporation, Greensburg Community School Corporation and Seymour Community School Corporation in a joint venture to operate the Columbus Area Career Connection that was created to provide vocational education services. The Columbus Area Career Connection's continued existence depends on continued funding by the School Corporations. Complete financial statements for the Columbus Area Career Connection can be obtained from Marilyn Metzler, 2650 Home Avenue, Columbus, Indiana, 47201.

B. Government-Wide and Fund Financial Statements

Government-wide financial statements, (i.e., the Statement of Cash and Investments and the Statement of Cash Activities) report information on all of the nonfiduciary activities of the School Corporation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. However, there are no business-type activities to report at this time.

The Statement of Cash Activities demonstrates the degree to which direct disbursements of a given function or segments are offset by program receipts. Direct disbursements are clearly identifiable with a specific function or segment. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program receipts are reported instead as general receipts.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide, governmental fund and fiduciary financial statements are reported using the basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash 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. Investment transactions are not presented on the financial statements.

The School Corporation reports the following major governmental funds:

The general fund is the School Corporation's primary operating fund and accounts for all financial resources of the School Corporation, except those required to be accounted for in another fund.

The transportation operating fund accounts for financial resources for the transportation of school children to and from school.

The debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction, and interest on emergency and temporary loans.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment, and energy savings contracts.

The school bus replacement fund is used to account for receipts and disbursements concerning the acquisition and disposal of school buses.

The Title II, Part A fund is a grant fund used for class sized reduction.

Additionally, the School Corporation reports the following fund type:

The private-purpose trust fund reports a trust arrangement under which principal and income benefit individuals.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash Net Assets or Equity

1. Deposits and Investments

State statute (IC 5-13-9) authorizes the School Corporation to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

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

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% 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 become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to December 31 of the year collected.

3. Compensated Absences

a. Sick Leave

Certified School Corporation employees earn sick leave at the rate of 10 days per year. Noncertified School Corporation employees earn sick leave at rates from 7 days to 9 days per year. Certified School Corporation employees' unused sick leave may be accumulated to a maximum of 200 days. Noncertified School Corporation employees' unused sick leave may be accumulated to a maximum 120 days. Accumulated sick leave is paid to noncertified employees through cash payments upon retirement.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 10 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

c. Personal Leave

Certified School Corporation employees and noncertified School Corporation employees earn personal leave at the rate of 2 days to 3 days per school year. Certified School Corporation employees' unused personal leave may be accumulated to a maximum of 5 days. Noncertified School Corporation employees' unused personal leave may not accumulate. Accumulated personal leave is not paid to employees upon retirement.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

4. Reclassified Prior Year Data

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year end.

On or before September 10, the fiscal officer of the School Corporation submits to the School Board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the School Board to obtain taxpayer comments. No later than September 20th of each year, the School Board, through the passage of a resolution, adopts the budget for the next year. Copies of the budget resolution and the advertisement for funds for which property taxes are levied are sent to the Indiana Department of Local Government Finance. The budget becomes effective after the School Corporation receives notice from of the Indiana Department of Local Government Finance.

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the School Board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Cash and Investment Balance Deficits

At June 30, 2004 and 2005, the following funds reported deficits in cash and investments:

Fund	2004	2005
Transportation Operating	\$ 71,926	\$ -
School Bus Replacement	-	53,125

The cash and investment deficit for Transportation Operating arose primarily from disbursements or expenses exceeding receipts or revenues due to the underestimate of current requirements. This deficit is to be repaid from future revenues. The cash and investment deficit for the School Bus Replacement Fund arose from an overpayment for a school bus that was not posted and was corrected in the financials by the State Board of Accounts.

III. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Interfund Transfers

Interfund transfers for the fiscal years ended June 30, 2004 and 2005, were as follows:

Transfer From	Transfer To	2005
Capital Projects	Transportation Operating	\$ 150,103
Capital Projects	General Fund	<u>60,810</u>
Total		<u>\$ 210,913</u>

The School Corporation typically uses transfers for cash flow purposes as provided by various statutory provisions.

C. Leases

1. Operating Lease

The School Corporation has entered into an operating lease having a remaining noncancelable term of one year for an energy management system. Annual rental expenditures for this lease are \$65,060.

2. Capital Leases

The School Corporation has entered into various capital leases for school facilities and school buses. Future minimum lease payments and present values of the net minimum lease payments under the capital leases as of June 30, 2005, follows:

	Governmental Activities
2005-2006	\$ 372,695
2006-2007	364,029
2007-2008	369,740
2008-2009	364,460
2009-2010	368,370
2010-2011	<u>185,250</u>
Total minimum lease payments	2,024,544
Less amount representing interest	<u>274,544</u>
Present value of net minimum lease payments	<u>\$ 1,750,000</u>

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

The assets acquired through capital leases still in effect are as follows:

	Governmental Activities
Buildings	\$ 3,750,000

D. Short-Term Liabilities

Tax Anticipation Warrants

The School Corporation issues tax anticipation warrants for cash flow purposes in advance of property tax collections and state tuition support distributions, depositing the proceeds in the appropriate fund.

Short-term debt activity for the years ended June 30, 2004 and 2005, was as follows:

<u>Fiscal Year 2003-2004</u>	<u>Beginning Balance</u>	<u>Issued/ Draws</u>	<u>Redeemed Repayments</u>	<u>Ending Balance</u>
Tax anticipation warrants	\$ 2,035,437	\$ 1,863,593	\$ 2,015,922	\$ 1,883,108
<u>Fiscal Year 2004-2005</u>				
Tax anticipation warrants	\$ 1,883,108	\$ 1,387,368	\$ 2,405,762	\$ 864,714

E. Long-Term Liabilities

1. General Obligation Bonds

The School Corporation issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities or to finance retirement/severance liabilities.

General obligation bonds are direct obligations and pledge the full faith and credit of the School Corporation. General obligation bonds currently outstanding at year end are as follows:

Purpose	Interest Rates	Amount
\$530,000 July 1, 1991, School Building General Obligation Bonds due in installments of \$25,000 to \$75,000	7%	\$ 245,000
\$1,350,000 December 18, 2003, Pension General Obligation Bonds due in installments of \$55,000 to \$80,000	1% to 5%	1,175,000
Total		\$ 1,420,000

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Annual debt service requirements to maturity for general obligation bonds, for the years ended June 30, are as follows:

	Governmental Activities	
	Principal	Interest
2005-2006	\$ 110,000	\$ 40,013
2006-2007	175,000	58,247
2007-2008	190,000	54,321
2008-2009	205,000	40,793
2009-2010	135,000	33,045
2010-2014	605,000	67,748
Totals	\$ 1,420,000	\$ 294,167

2. Notes and Loans Payable

The School Corporation has entered into three common school loans. Annual debt service requirements to maturity for the three loans, are as follows:

	Governmental Activities	
	Principal	Interest
2005-2006	\$ 389,913	\$ 67,260
2006-2007	402,202	48,260
2007-2008	134,139	31,966
2008-2009	134,139	25,259
2009-2010	104,569	18,552
2010-2014	300,000	33,751
Totals	\$ 1,464,962	\$ 225,048

3. Changes in Long-Term Debt

Long-term debt activity for the years ended June 30, 2004 and 2005, was as follows:

Fiscal Year 2003-2004	Balance July 1	Additions	Reductions	Balance June 30	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation	\$ 320,000	\$ 1,350,000	\$ 35,000	\$ 1,635,000	\$ 215,000
Capital leases	2,280,000	-	260,000	2,020,000	270,000
Loans payable	2,210,135	-	366,991	1,843,144	378,182
Total governmental activities long-term liabilities	\$ 4,810,135	\$ 1,350,000	\$ 661,991	\$ 5,498,144	\$ 863,182

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Fiscal Year 2004-2005</u>	<u>Balance July 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
General obligation	\$ 1,635,000	\$ -	\$ 215,000	\$ 1,420,000	\$ 170,000
Capital leases	2,020,000	-	270,000	1,750,000	290,000
Loans payable	<u>1,843,144</u>	<u>-</u>	<u>378,182</u>	<u>1,464,962</u>	<u>389,913</u>
Total governmental activities long-term liabilities	<u>\$ 5,498,144</u>	<u>\$ -</u>	<u>\$ 863,182</u>	<u>\$ 4,634,962</u>	<u>\$ 849,913</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term debt for internal service funds is included as part of the above totals for governmental activities.

IV. Other Information

A. Risk Management

The School Corporation is 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 (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits

The School Corporation has chosen to establish a risk financing fund for risks associated with medical benefits to employees and dependents. The risk financing fund is accounted for in the General Fund where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$20,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

B. Holding Corporation

The School Corporation has entered into a capital lease with Flat Rock-Hawcreek Elementary School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation.

The facility under the lease has been included in the governmental activities column of the lease note. Lease payments for the year ending June 30, 2004 and 2005, totaled \$367,628 and \$365,519, respectively.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF 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 member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF 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. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 22,474
Interest on net pension obligation	(2,778)
Adjustment to annual required contribution	3,166
Annual pension cost	22,862
Contributions made	42,758
Decrease in net pension obligation	(19,896)
Net pension obligation, beginning of year	(38,317)
Net pension obligation, end of year	\$ (58,213)

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

	PERF
Contribution rates:	
School Corporation	7%
Plan members	3%
Actuarial valuation date	07-01-04
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-02	\$ 36,352	129%	\$ (22,284)
	06-30-03	32,189	150%	(38,317)
	06-30-04	22,862	187%	(58,213)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), 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 TRF 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 member's contributions, set by state statute at 3% 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.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

TRF 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:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

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.

Plan members are required to contribute 3% of their salary and the School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$217,813, \$214,480, and \$207,029, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-02	\$ 463,918	\$ 529,430	\$ (65,512)	88%	\$ 477,988	(14%)
07-01-03	488,966	464,297	24,669	105%	505,536	5%
07-01-04	510,354	543,087	(32,733)	94%	495,180	(7%)

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were not presented for audit or were incorrect. The School Corporation has not prepared monthly reconcilements for approximately ten years. The Field Examiner instructed the School Corporation on how to prepare reconcilements During the previous audit. At that time we were informed that in the future reconcilements would be prepared monthly.

The audit for the July 1, 2003 to June 30, 2005 period began on December 12, 2005. We asked for the reconcilements, and were informed that none had been prepared since the prior audit. Numerous requests were given for the preparation of reconcilements; however, we did not receive them until March 15, 2006. The School Corporation's books were overstated by more than \$60,000 at the end of June 30, 2005. Included in the overstatement was a \$60,649 payment to Speedway International for a school bus. The payment had not been posted to the School Corporation's books. Upon further inquiry, we determined the \$60,648 was also a duplicate payment. The error was corrected in the financial statements by the State Board of Accounts.

Prior audits have contained similar audit comments concerning the lack of School Corporation prepared reconcilements.

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OVERDRAWN CASH BALANCES

The cash balance of the Transportation Operating Fund was overdrawn in 2004 and the cash balance of the School Bus Replacement Fund was overdrawn in 2005.

The cash balance of any fund may not be reduced below zero. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

RECEIPT ISSUANCE

Receipts did not always state who was paying what amount to the School Corporation, and receipts were not always written and distributed in a timely manner. A similar comment appeared in prior Audit Report B22751.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

TRANSFER TUITION - CHILDREN OF TEACHERS

Some teachers who do not live in the School Corporation District have not paid transfer tuition for their children who are being educated by the School Corporation. Also, records presented for audit indicate that cash transfer students did not pay the full transfer tuition amount. A similar comment appeared in prior Audit Report B22751.

Indiana Code 26-11-6 states in part:

"(a) A school corporation may accept a transferring student without approval of the transferor corporation under section 5 of this chapter."

"(b) A transfer may not be accepted unless the requesting parents or student pays transfer tuition in an amount determined under the formula established . . ."

CAPITAL ASSET RECORDS

Information presented for audit did not indicate an inventory or record of capital assets. A similar comment appeared in prior Audit Report B22751.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded on the applicable Capital Asset Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OFFICIAL BOND

The following official bonds were not filed in the Office of the County Recorder:

Jeff Cleland
Shirley Wiseman
Joyce Henderson
Joyce Garrison

A similar comment appeared in prior Audit Report B22751.

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder . . ."

TRAVEL POLICY

A travel policy was not presented for audit. A similar comment appeared in prior Audit Report B22751.

Each governmental unit should adopt a written travel policy in conformity with applicable statutes. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

GUARANTEED ENERGY SAVINGS CONTRACTS

The Flat Rock-Hawcreek School Corporation entered into a guaranteed energy savings contract with Havel Brothers in 1996. The total amount of the contract was \$495,339. The total amount of guaranteed energy savings was \$654,070. The total amount of guaranteed operational savings was \$4,500.

The contract states in part: ". . . the Flat Rock-Hawcreek School Corporation accepts the operational savings of \$4,500 per year, as stipulated in the proposal." The operational savings incorporated two parts. First, calibration savings were calculated at \$500 per year at each of the three school buildings (\$1,500 per year). The new computerized energy control system was designed to eliminate labor costs deemed unnecessary to calibrate the climate control systems in each building. The fixture replacement savings, calculated at \$3,000 included: labor costs deemed unnecessary to replace light fixtures and light bulbs, and fewer light fixtures and light bulbs required.

The energy savings portion of the contract was calculated at \$16,467 per year. Also included in calculated energy savings is cost avoidance of \$444,400. That included a surge protection system for lighting storm damage. The net cost avoidance was estimated at \$120,000. A study performed showed an average of \$12,870 in lightning storm damage per year. The project cost of the surge protection system was \$8,700. Also, \$324,400 was calculated as a cost avoidance of capital replacement of Hauser Jr.-Sr. High School vent intakes and unit ventilator. The contractor performed repairs and modification to the vent intakes and unit ventilator system for \$137,358 as well as other energy management control costs associated with the unit ventilator system of \$87,343. Estimated capital replacement costs were \$549,101.

Statutory and Other Compliance Guideline Provisions

The Public Works Law, Indiana Code 36-1-12-1(e), states in part: "As an alternative to this chapter, the governing body . . . may . . . enter into a guaranteed energy savings contract as permitted under IC 36-1-12.5."

Effective March 21, 2002, Indiana Code 36-1-12.5-1 states in part:

"As used in this chapter, 'energy conservation measure' means a school facility alteration or an alteration of a structure (as defined in IC 36-1-10-2) designed to reduce energy consumption costs or other operating costs . . . including future:

- (A) labor costs;
- (B) costs for contracted services; and
- (C) related capital expenditures."

Indiana Code 36-1-12.5-5(a) concerning energy savings contracts states in part: "The governing body may enter into . . . a guaranteed energy savings contract with a qualified provider to reduce the school corporation's or the political subdivision's energy consumption costs or operating costs if, after review of the report described in section 6 of this chapter, the governing body finds: (1) that the amount the governing body would spend on the energy conservation measures under the contract and that are recommended in the report is not likely to exceed the amount to be saved in energy consumption costs and other operating costs over ten (10) years from the date of installation if the recommendations in the report were followed; and (2) in the case of a guaranteed energy savings contract, the qualified provider provides a written guarantee as described in subsection (d)(2)."

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 36-1-12.5-5(d) states in part: "An agreement to participate in . . . guaranteed energy savings contract under this section must provide that: . . . (2) in the case of the guaranteed energy savings contract: (A) the savings in energy and operating costs due to the energy conservation measures are guaranteed to cover the costs of the payments for the measures; and (B) the qualified provider will reimburse the school corporation or political subdivision for the difference between the guaranteed savings and the actual savings . . ."

Effective March 21, 2002, Indiana Code 36-1-12.5-0.5 states: "As used in this chapter, 'actual savings' includes stipulated savings."

Indiana Code 36-1-12.5-0.7 states: "As used in this chapter, 'causally connected work' means work that is required to properly implement an energy conservation measure."

Indiana Code 36-1-12.5-3.7 states in part: "As used in this chapter, 'stipulated savings' are assumed savings that are documented by industry engineering standards."

Indiana Code 36-1-12.5-11 states in part:

"(a) A guaranteed energy savings contract that includes stipulated savings must specify the methodology used to calculate the savings using industry engineering standards.

(b) Stipulated savings may be used for energy conservation measures including . . . (9) Any work that is causally connected to the energy conservation measures listed in subdivisions (1) through (8).

(c) The guaranteed energy savings contract shall:

(1) describe stipulated savings for:

(A) energy conservation measures; and

(B) work causally connected to the energy conservation measures; and

(2) document assumptions by industry engineering standards."

Repayment of Costs in Excess of Savings

Flat Rock-Hawcreek School Corporation Officials conveyed that the items shown as "agreed upon" or "stipulated savings" have been predetermined. Furthermore, Flat Rock-Hawcreek School Corporation Officials do not have available for audit and conveyed they do not plan in the future to have any additional information to document actual operating or energy savings. Accordingly, with due regards for the remaining contract time for which information may be presented to document actual operating and energy savings (effective March 21, 2002 "stipulated savings" documented by "industry engineering standards"), the Flat Rock-Hawcreek School Corporation should request reimbursement from Havel Brothers for costs which did not result in an actual reduction of energy consumption costs or other operating costs (or effective March 21, 2002, stipulated savings which were not supported by "industry engineering standards") at the end of the contract term in accordance with Indiana Code 36-1-12.5-5(d)(2)(B).

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Non "Causally connected work"

The project included a "Security System," a "fire alarm," "new high performance coaxial speakers," "state intercom system," attic storage space added, and exterior sandblasting which totaled 20% of the total project.

Effective March 21, 2002, Indiana Code 36-1-12.5-12 states in part:

"(a) An improvement that is not causally connected to an energy conservation measure may be included in a guaranteed energy savings contract if:

- (1) the total value of the improvement does not exceed fifteen percent (15%) of the total value of the guaranteed energy savings contract . . ."

Late Reports

Savings summary reports relative to guaranteed energy savings contracts that are required to be filed with the Indiana Department of Commerce, Energy Policy Division, were not filed prior to March 2003 and were not filled after May 1, 2004.

Information forwarded to the Indiana Department of Commerce, Energy Policy Division by Flat Rock-Hawcreek School Corporation did not include (a copy of the executed guaranteed energy savings contract), (the energy consumption costs before the date of execution of the guaranteed energy savings contract), (the documentation using industry engineering standards for stipulated savings; and related capital expenditures) Effective March 21, 2002, Indiana Code 36-1-12.5-10 states:

"The governing body shall:

- (1) provide to the department of commerce not more than sixty (60) days after the date of execution of the guaranteed energy savings contract:
 - (A) a copy of the executed guaranteed energy savings contract;
 - (B) the energy consumption costs before the date of execution of the guaranteed energy savings contract; and
 - (C) the documentation using industry engineering standards for:
 - (i) stipulated savings; and
 - (ii) related capital expenditures; and
- (2) annually report to the department of commerce, in accordance with procedures established by the department of commerce, the savings resulting in the previous year from the guaranteed energy savings contract or utility energy efficiency program."

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

OLD OUTSTANDING CHECKS

Our review of the outstanding check list as of June 30, 2005, revealed checks outstanding in excess of two years. A similar comment appeared in prior Audit Report B22751.

Indiana Code 5-11-10.5-2 states in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

Indiana Code 5-11-10.5-3 states in part: "Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the: (1) board of finance of the political subdivision; or (2) the fiscal body of a city or town. The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

Indiana Code 5-11-10.5-5 states:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision."

OVERPAYMENT COLLECTIONS

Overpayments of \$300 and \$60,649 were made to Idealease of Greensburg LLC and to Speedway International, respectively. A refund from Idealease has not been received as of January 24, 2006. However, Speedway International refunded the \$60,649 on December 30, 2004.

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TEMPORARY LOAN

A temporary loan of \$59,679 was made December 30, 2004, from the Capital Projects Fund and was not repaid by June 30, 2005. The loan was not approved by the School Board and has not been repaid as of March 2006.

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 36-1-8-4 concerning temporary loans states in part:

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs. (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . ."

"(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following: (1) Passes an ordinance or a resolution that contains the following: (A) A statement that the fiscal body has determined that an emergency exists. (B) A brief description of the grounds for the emergency. (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs. (2) Immediately forwards the ordinance or resolution to the state board of accounts and the Department of Local Government Finance."

LIST OF EMPLOYEES NOT FILED WITH COUNTY TREASURER

Officials or employees of the School Corporation had money due from the School Corporation, but a list of such employees was not certified to the County Treasurer.

Indiana Code 6-1.1-22-14(a) states in part: "On or before June 1 and December 1 of each year . . . the disbursing officer of each political subdivision . . . shall certify the names and addresses of each person who has money due from the political subdivision to the treasurer of each county in which the political subdivision is located."

INTERNAL CONTROLS (Hope Elementary, Cross Cliff Elementary, and Hauser Jr./Sr. High School)

The controls over the receipting of all extra-curricular accounts were insufficient. The school treasurers do not issue receipts at the time money is received, but will wait until they have time to count the money and prepare a receipt.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

INDEBTEDNESS (Hope Elementary, Cross Cliff Elementary, and Hauser Jr.-Sr. High School)

The Hope Elementary School, Cross Cliff Elementary School and Hauser Jr.-Sr. High School Book Rental Fund owed \$66,289.68 to various book companies as of June 30, 2005. Textbook rental fees and payments for indebtedness to textbook rental companies are made at the extra-curricular level. A similar comment was in the prior three Audit Reports, B18324, B13976 and B22751.

Indiana Code 20-26-5-16 states in part:

"(a) A governing body in operating a textbook rental program under IC 20-26-5-4(12) may use either of the following accounting methods:

- (1) The governing body may supervise and control the program through the school corporation account, establishing a textbook rental fund.
- (2) If textbooks have not been purchased and financial commitments or guarantees for the purchases have not been made by the school corporation, the governing body may cause the program to be operated by the individual schools of the school corporation through the school corporation's extracurricular account or accounts in accordance with IC 20-26-6."

OVERDRAWN FUND BALANCES (Hauser Jr./Sr. High School)

The Honor Society Fund and the Physical Education Fund were overdrawn at the end of the 2005 school year.

The balance of any fund may not be reduced below zero. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

NONUSE OF TICKET SALES FORM SA-4 (Hauser Jr./Sr. High School)

We noted several instances where the Ticket Sales Form SA-4 was not used properly. The School is using the form, but not for all athletic events in which admittance is charged. As a result, full accountability for all money received from admissions could not be determined.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Ticket sales conducted by any activity should be accounted for as follows:

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

The treasurer should be responsible for the proper accounting for all tickets and should keep a record of the number purchased, the number issued for sale, and the number returned. The treasurer should see that proper accounting is made for the cash received from those sold. All tickets shall be prenumbered, with a different ticket color and numerical series for each price group. When cash for ticket sales is deposited with the treasurer, the treasurer's receipt issued therefore should show the number of tickets issued to the seller, the number returned unsold and the balance remitted in cash. All tickets (including free or reduced) must be listed and accounted for on the SA-4 Ticket Sales Form. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

Serially prenumbered tickets by the printing supplier should be used for all athletic and other extra-curricular activities and events for which admission is charged. Part of the prenumbered ticket should be given to the person paying for the ticket upon admission to the event. The other part of the ticket (which should also be prenumbered, referred to as the stub) should be retained. All tickets (unused tickets and stubs) should be retained for audit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

Tickets for each price group should be different colors and/or different in their series number. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

DEPOSITS (Cross Cliff Elementary)

Receipts for textbook rental, in several instances were deposited later than the next business day.

Indiana Code 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

UNDEPOSITED CASH RECEIPTS (Hauser Jr./Sr. High School Athletics)

Cash receipts were not always deposited in the same form as the collections. Cash receipts were withheld from deposits and used for undocumented small purchases or for cash change. The Athletic Director at Hauser Jr./Sr. High School used ticket sales collections to pay for four basketball officials. Also, the School held a half time shoot out at one of the varsity basketball games and the Athletic Director paid the persons who won from the ticket sales receipts.

Indiana Code 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

DISBURSEMENT DOCUMENTATION (Hauser Jr./Sr. High School)

Several payments were observed which did not contain adequate supporting documentation such as receipts, and invoices.

Due to the lack of supporting information, the validity and accountability for some monies disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

FUND SOURCES AND USES (Hauser Jr./Sr. High School)

Funds were disbursed from the Fundraiser Fund for retirement gifts, refrigerator for the teachers lounge, carpet for the teachers lounge, and various other questionable items for teacher. The Fundraiser Fund receives money from coke machines which are used by the students and from the faculty.

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

TIMELY RECORDKEEPING (Hauser Jr./Sr. High School Athletics)

We noted instances of up to 12 days from the time of the original date of the athletic event on the Ticket Sale Form SA-4 to the time of receipt by the High School ECA Treasurer.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with Indiana Code 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

FLAT ROCK-HAWCREEK SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on May 1, 2006, with Philip K. Deardorff, Superintendent of Schools; Jeffrey A. Cleland, Treasurer; Karen L. Wetherland, Assistant; and Gregory D. Spurling, President of the School Board. The officials concurred with our audit findings.