

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

EXAMINATION REPORT
OF
WESTERN SCHOOL CORPORATION
HOWARD COUNTY, INDIANA
July 1, 2004 to June 30, 2006



FILED
11/20/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Pam Carter	07-01-04 to 06-30-07
Superintendent of Schools	Ronald L. Wilson	07-01-04 to 06-30-07
President of the School Board	J. Conrad Maugans Jon A. Marley	07-01-04 to 06-30-05 07-01-05 to 06-30-07



STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF WESTERN SCHOOL CORPORATION, HOWARD COUNTY, INDIANA

We have examined the financial information presented herein of Western School Corporation (School Corporation), for the period of July 1, 2004 to June 30, 2006. The School Corporation's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above present fairly, in all material respects, the financial information of the School Corporation for the years ended June 30, 2005 and 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

October 17, 2006

WESTERN SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 4,695,324
Restricted assets:	
Cash and investments	<u>642,022</u>
Total assets	<u>\$ 5,337,346</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 642,022
Unrestricted	<u>4,695,324</u>
Total net assets	<u>\$ 5,337,346</u>

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

WESTERN SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 5,127,113
Restricted assets:	
Cash and investments	<u>939,221</u>
Total assets	<u>\$ 6,066,334</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 939,221
Unrestricted	<u>5,127,113</u>
Total net assets	<u>\$ 6,066,334</u>

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

WESTERN 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	\$ 6,385,287	\$ -	\$ 68,255	\$ (6,317,032)
Support services	8,823,812	663,722	185,483	(7,974,607)
Community services	316,322	-	-	(316,322)
Nonprogrammed charges	635,012	-	-	(635,012)
Debt service	3,978,930	-	-	(3,978,930)
Total governmental activities	<u>\$ 20,139,363</u>	<u>\$ 663,722</u>	<u>\$ 253,738</u>	<u>(19,221,903)</u>
General receipts:				
Property taxes				7,151,101
Other local sources				1,868,485
State aid				7,352,962
Grants and contributions not restricted				363,146
Bonds and loans				2,000,000
Sale of property, adjustments, and refunds				54,370
Investment earnings				76,874
Intergovernmental transfers				<u>565,553</u>
				19,432,491
				<u>210,588</u>
				<u>5,126,758</u>
				<u>\$ 5,337,346</u>

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

WESTERN SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 6,577,147	\$ -	\$ 78,406	\$ (6,498,741)
Support services	9,478,162	726,353	221,496	(8,530,313)
Community services	312,318	-	-	(312,318)
Nonprogrammed charges	1,265,545	-	-	(1,265,545)
Debt service	<u>3,748,050</u>	<u>-</u>	<u>-</u>	<u>(3,748,050)</u>
Total governmental activities	<u>\$ 21,381,222</u>	<u>\$ 726,353</u>	<u>\$ 299,902</u>	<u>(20,354,967)</u>
General receipts:				
Property taxes				8,499,571
Other local sources				1,505,235
State aid				7,369,750
Grants and contributions not restricted				366,303
Bonds and loans				2,000,000
Sale of property, adjustments, and refunds				68,798
Investment earnings				130,214
Intergovernmental transfers				<u>1,144,084</u>
Total general receipts and intergovernmental transfers				<u>21,083,955</u>
Change in cash and investments				728,988
Net assets - beginning				<u>5,337,346</u>
Net assets - ending				<u>\$ 6,066,334</u>

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

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

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 4,597,303	\$ 615,038	\$ 1,567,582	\$ 1,835,279	\$ 240,226	\$ 903,988	\$ 9,759,416
Intermediate sources	147	-	-	-	-	619	766
State sources	7,377,626	-	-	-	-	169,715	7,547,341
Federal sources	-	-	-	-	-	422,505	422,505
Bonds and loans	2,000,000	-	-	-	-	-	2,000,000
Sale of property, adjustments and refunds	27,303	65	180	26,039	-	783	54,370
Intergovernmental transfers	9,188	-	-	500,000	-	56,365	565,553
Total receipts	<u>14,011,567</u>	<u>615,103</u>	<u>1,567,762</u>	<u>2,361,318</u>	<u>240,226</u>	<u>1,553,975</u>	<u>20,349,951</u>
Disbursements:							
Current:							
Instruction	6,127,725	-	-	-	-	257,562	6,385,287
Support services	5,099,983	691,334	-	1,875,995	161,533	994,967	8,823,812
Community services	316,156	-	-	-	-	166	316,322
Nonprogrammed charges	600,476	3,136	8,712	10,148	786	11,754	635,012
Debt services	2,000,000	-	1,568,987	-	-	409,943	3,978,930
Total disbursements	<u>14,144,340</u>	<u>694,470</u>	<u>1,577,699</u>	<u>1,886,143</u>	<u>162,319</u>	<u>1,674,392</u>	<u>20,139,363</u>
Excess (deficiency) of total receipts over (under) total disbursements	(132,773)	(79,367)	(9,937)	475,175	77,907	(120,417)	210,588
Cash and investments - beginning	<u>3,139,095</u>	<u>172,419</u>	<u>763,244</u>	<u>662,797</u>	<u>113,946</u>	<u>275,257</u>	<u>5,126,758</u>
Cash and investments - ending	<u>\$ 3,006,322</u>	<u>\$ 93,052</u>	<u>\$ 753,307</u>	<u>\$ 1,137,972</u>	<u>\$ 191,853</u>	<u>\$ 154,840</u>	<u>\$ 5,337,346</u>

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

WESTERN SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 5,401,790	\$ 666,043	\$ 1,603,788	\$ 1,914,167	\$ 273,033	\$ 1,002,064	\$ 10,860,885
Intermediate sources	74	-	-	-	-	413	487
State sources	7,403,639	-	-	-	-	177,407	7,581,046
Federal sources	-	-	-	-	-	454,910	454,910
Bonds and loans	2,000,000	-	-	-	-	-	2,000,000
Sale of property, adjustments and refunds	13,860	2,516	-	9,925	37,171	5,326	68,798
Intergovernmental transfers	47,919	428,397	-	332,000	14,000	321,768	1,144,084
Total receipts	<u>14,867,282</u>	<u>1,096,956</u>	<u>1,603,788</u>	<u>2,256,092</u>	<u>324,204</u>	<u>1,961,888</u>	<u>22,110,210</u>
Disbursements:							
Current:							
Instruction	6,293,832	-	-	-	-	283,315	6,577,147
Support services	5,021,251	800,130	-	2,148,420	553,316	955,045	9,478,162
Community services	312,318	-	-	-	-	-	312,318
Nonprogrammed charges	536,185	200,000	10,000	332,000	14,000	173,360	1,265,545
Debt services	2,000,000	-	1,609,779	-	-	138,271	3,748,050
Total disbursements	<u>14,163,586</u>	<u>1,000,130</u>	<u>1,619,779</u>	<u>2,480,420</u>	<u>567,316</u>	<u>1,549,991</u>	<u>21,381,222</u>
Excess (deficiency) of total receipts over (under) total disbursements	703,696	96,826	(15,991)	(224,328)	(243,112)	411,897	728,988
Cash and investments - beginning	<u>3,006,322</u>	<u>93,052</u>	<u>753,307</u>	<u>1,137,972</u>	<u>191,853</u>	<u>154,840</u>	<u>5,337,346</u>
Cash and investments - ending	<u>\$ 3,710,018</u>	<u>\$ 189,878</u>	<u>\$ 737,316</u>	<u>\$ 913,644</u>	<u>\$ (51,259)</u>	<u>\$ 566,737</u>	<u>\$ 6,066,334</u>

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

WESTERN 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:		
Local sources	\$ -	\$ 3,260
Sale of property, adjustments and refunds	-	243
	<u>-</u>	<u>3,503</u>
Total additions		
	-	3,503
Deductions:		
Instruction	-	714
Support services	-	3,561
Community services	-	2,774
Debt services	10,142	-
	<u>10,142</u>	<u>-</u>
Total deductions		
	10,142	7,049
Deficiency of total additions under total deductions		
	(10,142)	(3,546)
Cash and investments - beginning		
	<u>10,142</u>	<u>6,706</u>
Cash and investments - ending		
	<u>\$ -</u>	<u>\$ 3,160</u>

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

WESTERN SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2006

	<u>Private-Purpose Trust Funds</u>
Additions:	
Sale of property, adjustments and refunds	\$ 151
Transfers	<u>453</u>
Total additions	<u>604</u>
Deductions:	
Support services	1,018
Community services	<u>94</u>
Total deductions	<u>1,112</u>
Deficiency of total additions under total deductions	(508)
Cash and investments - beginning	<u>3,160</u>
Cash and investments - ending	<u><u>\$ 2,652</u></u>

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

WESTERN SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 3,160	\$ 107,201
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 3,160	

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

WESTERN SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 June 30, 2006

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ <u>2,652</u>	\$ <u>130,535</u>
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ <u>2,652</u>	

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

WESTERN SCHOOL CORPORATION
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

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.

Note 2. Fund Accounting

The School Corporation uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and 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 June 30 of the year collected.

Note 5. Deposits and Investments

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

State 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.

WESTERN SCHOOL CORPORATION
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. 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 this 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 members' 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. That 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 the plan members for PERF are established by the Board of Trustees of PERF.

Teacher's Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teacher's 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 members' 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.

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:

WESTERN SCHOOL CORPORATION
NOTES TO FINANCIAL INFORMATION
(Continued)

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

Funding Policy and Annual Pension Cost

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

Note 7. Subsequent Event

The School Corporation has entered into a lease with Western School Building Corporation for the lease of a school building for a term of 23 years at an annual lease rental of \$2,139,000 commencing on the day the school building is completed or June 30, 2008, whichever is later.

WESTERN SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For the year ended June 30, 2006

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.

The School Corporation was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the School Corporation constructs or acquires additional capital assets each period, they are reported at historical cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 442,630.00
Buildings	37,332,339.77
Improvements other than buildings	2,246,389.44
Machinery and equipment	2,619,333.58
Construction in progress	<u>346,612.00</u>
 Total governmental activities, capital assets not being depreciated	 <u><u>\$ 42,987,304.79</u></u>

WESTERN SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 For The Year Ended June 30, 2006

CAPITAL LEASES

The School Corporation has entered into the following capital leases:

Description of Asset	Ending Balance	Due Within One Year
Governmental activities:		
Capital leases:		
Holding Corporation - Public & Private	\$ 11,535,000	\$ 990,000
Notes and loans payable	2,000,000	2,000,000
Bonds payable:		
General obligation bonds:		
Retirement/Severance Bonds	2,625,000	155,000
Total governmental activities long-term debt	\$ 16,160,000	\$ 3,145,000

WESTERN SCHOOL CORPORATION
EXAMINATION RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The cash balance of the Bus Replacement, Textbook Rental and Westag Funds were overdrawn in 2006. The Textbook Rental Fund and the Pension Debt Fund were overdrawn in 2005.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

CASH DISBURSEMENTS (Applies to the Western Middle School)

Disbursements were not always made by check. In May 2006, \$1,290 was withdrawn from the bank and disbursed as cash prizes to students ranging from \$1 to \$20 awards for a total of 255 disbursements.

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)

USE OF FORM SA-5, FINANCIAL REPORT (Applies to the Western High School, Western Middle School and Western Intermediate School)

Financial Reports (Form SA-5) presented for examination were inaccurate and incomplete. The receipts, disbursements and fund balances as presented in the reports did not accurately reflect the financial activity of the Extra-Curricular Account. June 2005 transactions were not included in the SA-5 reports for the Middle School. The High School did not provide an SA-5 report for June 1, 2004 to December 31, 2005. In reviewing the monthly reports of all three schools, it was observed the fund balances would change from ending balance of the prior month to beginning balance of the current month without documentation of any transactions.

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)

WESTERN SCHOOL CORPORATION
EXAMINATION RESULTS AND COMMENTS
(Continued)

BANK ACCOUNT RECONCILIATIONS (Applies to the Western Intermediate School)

Depository reconciliations of the fund balances to the bank account balances were not presented for examination or were incorrect.

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."

PAYMENT TO EMPLOYEES FROM EXTRA-CURRICULAR
ACTIVITY FUNDS (Applies to Western Middle School)

Payments to School Corporation employees working at an Extra-Curricular activity (Spell Bowl) were made by the Student Activities Extra-Curricular Fund rather than through a payroll system.

Pay of teachers and other personnel for service at interscholastic athletic events such as ticket takers, scoreboard personnel, etc., are expenses of the Athletic Fund of the Extra-Curricular Account. Pay of concession stand supervisors and of ticket takers, etc., for fine arts events should be paid from the proceeds of the activity sponsoring these events. Payment to all such personnel must be by way of a payroll. If an extra-curricular payroll is not maintained, the payments may be made a part of the corporation payroll and charged to a school corporation General Fund appropriation; however, the General Fund must be reimbursed for such payment by the activity which the employees served. (The School Administrator and Uniform Compliance Guidelines, Volume 130) (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

OVERDRAWN CASH BALANCES (Applies to Western Middle School)

The cash balance of the following Western Middle School funds were overdrawn during the 2005-2006 school year: FACS Fund, WMS Closet Fund, Teacher's Coke Fund, Teachers Flower Fund, Drama Fund and Cheerleaders Fund.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

WESTERN SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on October 26, 2006, with Pam Carter, Treasurer; Jon A. Marley, President of the School Board; and Randy McCracken, Assistant Superintendent. The officials concurred with our findings.