

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

EXAMINATION REPORT  
OF  
SHOALS COMMUNITY SCHOOL CORPORATION  
MARTIN COUNTY, INDIANA  
July 1, 2004 to June 30, 2006



**FILED**  
01/26/2007



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials .....	2
Independent Accountant's Report .....	3
Financial Information:	
Government-Wide Financial Schedules:	
Schedule of Cash and Investments.....	4-5
Schedule of Cash Activities.....	6-7
Fund Financial Schedules:	
Governmental Funds:	
Schedule of Receipts, Disbursements, and Cash and Investment Balances	
– Governmental Funds.....	8-9
Fiduciary Funds:	
Schedule of Receipts, Disbursements, and Changes in Cash and Investments	
– Fiduciary Funds.....	10-11
Schedule of Cash and Investments – Fiduciary Funds .....	12-13
Notes to Financial Information.....	14-16
Examination Result and Comment:	
Transportation Fund Expenditures .....	17
Exit Conference.....	18

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Lisa C. Elliott	07-01-04 to 06-30-07
Superintendent of Schools	Dr. Anthony E. Nonte	07-01-04 to 06-30-07
President of the School Board	Cary D. Albright Tony Cundiff	07-01-04 to 06-30-06 07-01-06 to 06-30-07



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

---

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

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

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF SHOALS COMMUNITY SCHOOL CORPORATION,  
MARTIN COUNTY, INDIANA

We have examined the financial information presented herein of Shoals Community 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

December 13, 2006

SHOALS COMMUNITY SCHOOL CORPORATION  
 SCHEDULE OF CASH AND INVESTMENTS  
 June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 669,182
Restricted assets:	
Cash and investments	<u>8,365</u>
Total assets	<u>\$ 677,547</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 8,365
Unrestricted	<u>669,182</u>
Total net assets	<u>\$ 677,547</u>

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

SHOALS COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF CASH AND INVESTMENTS  
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 2,305,446
Restricted assets:	
Cash and investments	<u>172,733</u>
Total assets	<u>\$ 2,478,179</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 172,733
Unrestricted	<u>2,305,446</u>
Total net assets	<u>\$ 2,478,179</u>

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

SHOALS COMMUNITY SCHOOL CORPORATION  
SCHEDULE 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	\$ 2,763,041	\$ -	\$ 63,374	\$ (2,699,667)
Support services	4,221,260	134,926	130,822	(3,955,512)
Community services	82,263	-	-	(82,263)
Nonprogrammed charges	1,282,425	-	-	(1,282,425)
Debt service	413,413	-	-	(413,413)
<b>Total governmental activities</b>	<b>\$ 8,762,402</b>	<b>\$ 134,926</b>	<b>\$ 194,196</b>	<b>(8,433,280)</b>
General receipts:				
Property taxes				2,124,126
Other local sources				426,816
State aid				3,347,886
Grants and contributions not restricted				299,251
Bonds and loans				1,120,000
Sale of property, adjustments, and refunds				1,397
Investment earnings				20,348
Transfers:				
Intergovernmental				116,724
<b>Total general receipts and transfers</b>				<b>7,456,548</b>
<b>Change in cash and investments</b>				<b>(976,732)</b>
<b>Net assets - beginning</b>				<b>1,654,279</b>
<b>Net assets - ending</b>				<b>\$ 677,547</b>

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

SHOALS COMMUNITY SCHOOL CORPORATION  
SCHEDULE 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	\$ 2,307,272	\$ -	\$ 40,576	\$ (2,266,696)
Support services	3,438,642	125,393	122,827	(3,190,422)
Community services	89,364	-	-	(89,364)
Nonprogrammed charges	708,667	-	-	(708,667)
Debt service	<u>737,289</u>	<u>-</u>	<u>-</u>	<u>(737,289)</u>
 Total governmental activities	 <u>\$ 7,281,234</u>	 <u>\$ 125,393</u>	 <u>\$ 163,403</u>	 <u>(6,992,438)</u>
 General receipts:				
Property taxes				3,675,510
Other local sources				475,361
State aid				3,528,285
Grants and contributions not restricted				278,628
Bonds and loans				370,000
Sale of property, adjustments, and refunds				2,012
Investment earnings				59,415
Transfers:				
Intergovernmental				<u>403,859</u>
 Total general receipts and transfers				 <u>8,793,070</u>
 Change in cash and investments				 1,800,632
 Net assets - beginning				 <u>677,547</u>
 Net assets - ending				 <u>\$ 2,478,179</u>

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

SHOALS COMMUNITY SCHOOL CORPORATION  
SCHEDULE 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
<b>Receipts:</b>							
Local sources	\$ 1,168,901	\$ 479,638	\$ 446,924	\$ 466,444	\$ 346	\$ 143,593	\$ 2,705,846
Intermediate sources	163	-	-	-	-	207	370
State sources	3,395,525	-	-	-	-	65,997	3,461,522
Federal sources	-	-	-	-	-	379,811	379,811
Bonds and loans	750,000	-	70,000	250,000	-	50,000	1,120,000
Sale of property, adjustments and refunds	1,022	-	-	375	-	-	1,397
Intergovernmental transfers	2,246	-	-	-	-	114,478	116,724
<b>Total receipts</b>	<u>5,317,857</u>	<u>479,638</u>	<u>516,924</u>	<u>716,819</u>	<u>346</u>	<u>754,086</u>	<u>7,785,670</u>
<b>Disbursements:</b>							
<b>Current:</b>							
Instruction	2,517,683	-	-	-	-	245,358	2,763,041
Support services	2,713,014	521,365	-	531,691	-	455,190	4,221,260
Community services	79,114	-	-	-	-	3,149	82,263
Nonprogrammed charges	415,701	95,000	350,000	400,000	-	21,724	1,282,425
Debt services	-	-	364,821	-	-	48,592	413,413
<b>Total disbursements</b>	<u>5,725,512</u>	<u>616,365</u>	<u>714,821</u>	<u>931,691</u>	<u>-</u>	<u>774,013</u>	<u>8,762,402</u>
Excess (deficiency) of total receipts over total disbursements	(407,655)	(136,727)	(197,897)	(214,872)	346	(19,927)	(976,732)
Cash and investments - beginning	743,500	249,460	203,802	221,250	42,152	194,115	1,654,279
Cash and investments - ending	<u>\$ 335,845</u>	<u>\$ 112,733</u>	<u>\$ 5,905</u>	<u>\$ 6,378</u>	<u>\$ 42,498</u>	<u>\$ 174,188</u>	<u>\$ 677,547</u>

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

SHOALS COMMUNITY SCHOOL CORPORATION  
SCHEDULE 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
<b>Receipts:</b>							
Local sources	\$ 1,684,668	\$ 785,520	\$ 854,153	\$ 622,181	\$ 33,895	\$ 354,729	\$ 4,335,146
Intermediate sources	327	-	-	-	-	206	533
State sources	3,557,326	-	-	-	-	82,787	3,640,113
Federal sources	-	-	-	-	-	330,203	330,203
Bonds and loans	370,000	-	-	-	-	-	370,000
Sale of property, adjustments and refunds	1,262	-	-	750	-	-	2,012
Intergovernmental transfers	129,386	-	-	-	-	274,473	403,859
<b>Total receipts</b>	<u>5,742,969</u>	<u>785,520</u>	<u>854,153</u>	<u>622,931</u>	<u>33,895</u>	<u>1,042,398</u>	<u>9,081,866</u>
<b>Disbursements:</b>							
<b>Current:</b>							
Instruction	2,101,078	-	-	-	-	206,194	2,307,272
Support services	2,224,742	512,843	-	307,824	-	393,233	3,438,642
Community services	87,732	-	-	-	-	1,632	89,364
Nonprogrammed charges	112,093	142,548	106,185	275,866	1,537	70,438	708,667
Debt services	-	-	592,371	-	-	144,918	737,289
<b>Total disbursements</b>	<u>4,525,645</u>	<u>655,391</u>	<u>698,556</u>	<u>583,690</u>	<u>1,537</u>	<u>816,415</u>	<u>7,281,234</u>
Excess of total receipts over total disbursements	1,217,324	130,129	155,597	39,241	32,358	225,983	1,800,632
Cash and investments - beginning	335,845	112,733	5,905	6,378	42,498	174,188	677,547
Cash and investments - ending	<u>\$ 1,553,169</u>	<u>\$ 242,862</u>	<u>\$ 161,502</u>	<u>\$ 45,619</u>	<u>\$ 74,856</u>	<u>\$ 400,171</u>	<u>\$ 2,478,179</u>

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

SHOALS COMMUNITY SCHOOL CORPORATION  
SCHEDULE 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	\$ -	\$ 20,000
Bonds and loans	<u>1,875,490</u>	<u>-</u>
Total additions	<u>1,875,490</u>	<u>20,000</u>
Deductions:		
Instruction	-	7,203
Support services	618,066	43,511
Community services	<u>-</u>	<u>294</u>
Total deductions	<u>618,066</u>	<u>51,008</u>
Excess (deficiency) of total additions over total deductions	1,257,424	(31,008)
Cash and investments - beginning	<u>-</u>	<u>51,882</u>
Cash and investments - ending	<u>\$ 1,257,424</u>	<u>\$ 20,874</u>

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

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

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ -	\$ 20,650
Deductions:		
Instruction	-	8,569
Support services	567,732	15,443
Community services	-	497
Nonprogrammed charges	128,801	-
Total deductions	696,533	24,509
Deficiency of total additions under total deductions	(696,533)	(3,859)
Cash and investments - beginning	1,257,424	20,874
Cash and investments - ending	\$ 560,891	\$ 17,015

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

SHOALS COMMUNITY SCHOOL CORPORATION  
 SCHEDULE OF CASH AND INVESTMENTS  
 FIDUCIARY FUNDS  
 June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ 1,257,424	\$ 20,874
	<u>                    </u>	<u>                    </u>
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 1,257,424	\$ 20,874
	<u>                    </u>	<u>                    </u>

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

SHOALS COMMUNITY SCHOOL CORPORATION  
 SCHEDULE OF CASH AND INVESTMENTS  
 FIDUCIARY FUNDS  
 June 30, 2006

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ 560,891	\$ 17,015
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 560,891	\$ 17,015

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

SHOALS COMMUNITY 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.

SHOALS COMMUNITY 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.

SHOALS COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL INFORMATION  
(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:

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. Long-Term Debt

The School Corporation has entered into various debts such as bonds for retirement and severance liability, common school loans for construction of new classrooms and facilities and a capital lease for building renovations. The outstanding principal at June 30, 2006, was \$1,840,000, \$1,721,729 and \$2,310,000, respectively.

SHOALS COMMUNITY SCHOOL CORPORATION  
EXAMINATION RESULT AND COMMENT

TRANSPORTATION FUND EXPENDITURES

A portion of the Superintendent's salary and teacher retirement benefits were paid from the Transportation Fund. A record of hours worked on transportation-related items was not presented for audit.

Indiana Code 20-40-6-6, School Transportation Fund, states in part: "The following costs are payable from the fund: (1) The salaries paid bus drivers, transportation supervisors, mechanics and garage employees, clerks, and other transportation-related employees . . ."

Indiana Code 20-40-6-6(b) states in part: "Percentages or parts of salaries of teaching personnel or principals are not attributable to transportation. However, parts of salaries of instructional aides who are assigned to assist with the school transportation program are attributable to transportation. The costs described in this subsection (other than instructional aide costs) may not be budgeted for payment or paid from the fund.

Indiana Code 5-11-9-4 requires in part: ". . . records be maintained showing which hours were worked each day by officers and employees . . . employed . . . in more than one (1) position by the same public agency . . ."

Some positions have been formally established by boards of school trustees, through job description, duties assigned, title, salary schedules, etc., as transportation related (for example, Assistant Superintendent-Transportation Director). We will not take audit exception, in these situations (other than positions excluded by statute), to direct transportation related employees having direct transportation related expenses being paid from the transportation fund if a cost allocation system based upon auditable statistics is established tracking costs attributable to the transportation program and therefore payable from the transportation fund. The use of time cards, time logs, or other means of accumulating auditable statistics upon which to base costs would have to be maintained. The time spent on such programs by persons serving in more than one program area must be specific if costs are to be separated. These costs cannot be accurately maintained on a percentage basis and requires the use of one of the methods mentioned above to provide auditable statistics and should cover all program areas in which a person serves or for which the service, materials, supplies, etc., are provided. (The School Administrator and Uniform Compliance Guidelines, Volume 157)

SHOALS COMMUNITY SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on December 13, 2006, with Dr. Anthony E. Nonte, Superintendent of Schools; Tony Cundiff, President of the School Board; and Lisa C. Elliott, Treasurer.