

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

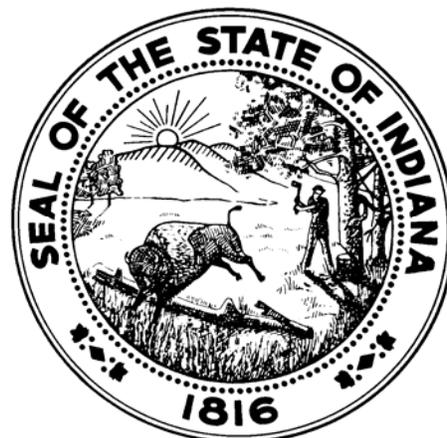
AUDIT REPORT

OF

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION

HUNTINGTON COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED
02/08/2007

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials.....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	3-4
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.....	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Cash and Investments	6-7
Statement of Cash Activities	8-9
Fund Financial Statements:	
Governmental Funds:	
Statement of Receipts, Disbursements, and Cash and Investment Balances – Governmental Funds.....	10-11
Fiduciary Funds:	
Statement of Receipts, Disbursements, and Changes in Cash and Investments – Fiduciary Funds.....	12-13
Statement of Cash and Investments – Fiduciary Funds	14-15
Notes to Financial Statements	16-26
Required Supplementary Information:	
Schedule of Funding Progress	27
Supplementary Information:	
Schedule of Long-Term Debt.....	28
Audit Results and Comments:	
Capital Asset Records	29
Fund Sources and Uses	29
Employment Contracts	29
Advance Payments	29-30
Compensation.....	30
Personnel Policies	30
Disbursement Documentation	30
Bank Account Reconciliations	31
Credit Cards.....	31-32
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	34-35
Schedule of Expenditures of Federal Awards.....	36-37
Notes to Schedule of Expenditures of Federal Awards	38
Schedule of Findings and Questioned Costs.....	39
Auditee Prepared Schedule:	
Summary Schedule of Prior Audit Findings.....	40
Exit Conference.....	41
Official Response	42-44

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Sandra Bailey Aimee N. Johnson	07-01-04 to 11-26-06 11-27-06 to 06-30-07
Superintendent of Schools	William E. Kirby Tracey R. Shafer (Interim) Tracey R. Shafer	07-01-02 to 08-12-05 08-15-05 to 10-23-05 10-24-05 to 06-30-07
President of the School Board	Marlin Doctor Richard Brubaker Robert J. Kyle	07-01-04 to 01-09-06 01-10-06 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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF HUNTINGTON COUNTY COMMUNITY
SCHOOL CORPORATION, HUNTINGTON COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Huntington County Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the 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 did not audit the financial statements of Huntington County Community School Corporation Employee Health Plan, a component unit of the School Corporation, as discussed in Note I A. The financial statements of this component unit were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they related to this unit, are based upon the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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 and investment 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, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated January 17, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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's 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Long-Term Debt is presented for additional analysis and is not a required part of the basic financial statements. The Schedule of Long-Term Debt has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

January 17, 2007



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

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

TO: THE OFFICIALS OF HUNTINGTON COUNTY COMMUNITY
SCHOOL CORPORATION, HUNTINGTON COUNTY, INDIANA

We have audited the financial statements of Huntington County Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 17, 2007

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 11,341,493
Restricted assets:	
Cash and investments	<u>2,290,949</u>
Total assets	<u>\$ 13,632,442</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 2,290,949
Unrestricted	<u>11,341,493</u>
Total net assets	<u>\$ 13,632,442</u>

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

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 12,079,572
Restricted assets:	
Cash and investments	<u>2,139,425</u>
Total assets	<u>\$ 14,218,997</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 2,139,425
Unrestricted	<u>12,079,572</u>
Total net assets	<u>\$ 14,218,997</u>

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

HUNTINGTON COUNTY COMMUNITY 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	\$ 20,939,338	\$ -	\$ 249,626	\$ (20,689,712)
Support services	27,076,891	2,082,836	803,417	(24,190,638)
Community services	498,666	-	-	(498,666)
Nonprogrammed charges	213,594	-	-	(213,594)
Debt service	13,962,921	-	-	(13,962,921)
Total governmental activities	\$ 62,691,410	\$ 2,082,836	\$ 1,053,043	(59,555,531)
General receipts:				
Property taxes				28,526,319
Other local sources				3,490,441
State aid				23,737,370
Grants and contributions not restricted				2,994,867
Bonds and loans				7,000,000
Sale of property, adjustments, and refunds				88,742
Investment earnings				160,145
Total general receipts				65,997,884
Change in cash and investments				6,442,353
Net assets - beginning				7,190,089
Net assets - ending				\$ 13,632,442

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

HUNTINGTON COUNTY COMMUNITY 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	\$ 20,460,427	\$ -	\$ 185,405	\$ (20,275,022)
Support services	28,038,887	2,078,379	887,210	(25,073,298)
Community services	488,630	-	-	(488,630)
Nonprogrammed charges	82,309	-	-	(82,309)
Debt service	12,705,053	-	-	(12,705,053)
Total governmental activities	\$ 61,775,306	\$ 2,078,379	\$ 1,072,615	(58,624,312)
General receipts:				
Property taxes				20,166,472
Other local sources				3,431,925
State aid				25,125,506
Grants and contributions not restricted				3,065,715
Bonds and loans				7,000,000
Sale of property, adjustments, and refunds				81,978
Investment earnings				339,271
Total general receipts				59,210,867
Change in cash and investments				586,555
Net assets - beginning				13,632,442
Net assets - ending				\$ 14,218,997

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

HUNTINGTON COUNTY COMMUNITY 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	\$ 14,901,187	\$ 3,403,206	\$ 7,291,463	\$ 5,687,720	\$ 558,614	\$ 2,414,762	\$ 34,256,952
Intermediate sources	1,421	-	-	-	-	1,369	2,790
State sources	23,964,810	-	-	-	-	348,643	24,313,453
Federal sources	-	-	-	-	-	3,471,826	3,471,826
Bonds and loans	6,000,000	500,000	500,000	-	-	-	7,000,000
Sale of property, adjustments and refunds	69,626	2,060	-	8,706	-	8,350	88,742
Intergovernmental transfers	330,052	39,591	-	-	-	580,971	950,614
Total receipts	45,267,096	3,944,857	7,791,463	5,696,426	558,614	6,825,921	70,084,377
Disbursements:							
Current:							
Instruction	19,555,249	-	-	-	-	1,432,536	20,987,785
Support services	15,119,929	2,754,873	-	4,059,497	454,444	4,996,200	27,384,943
Community services	495,424	-	-	-	-	3,242	498,666
Nonprogrammed charges	176,017	-	-	13,144	-	618,548	807,709
Debt services	5,320,255	1,091,000	7,551,666	-	-	-	13,962,921
Total disbursements	40,666,874	3,845,873	7,551,666	4,072,641	454,444	7,050,526	63,642,024
Excess (deficiency) of total receipts over (under) total disbursements	4,600,222	98,984	239,797	1,623,785	104,170	(224,605)	6,442,353
Cash and investments - beginning	1,237,596	750,821	1,812,027	1,786,717	119,097	1,483,831	7,190,089
Cash and investments - ending	<u>\$ 5,837,818</u>	<u>\$ 849,805</u>	<u>\$ 2,051,824</u>	<u>\$ 3,410,502</u>	<u>\$ 223,267</u>	<u>\$ 1,259,226</u>	<u>\$ 13,632,442</u>

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

HUNTINGTON COUNTY COMMUNITY 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	\$ 11,063,931	\$ 2,685,614	\$ 5,124,092	\$ 4,206,459	\$ 248,295	\$ 2,684,379	\$ 26,012,770
Intermediate sources	1,421	-	-	-	-	1,856	3,277
State sources	25,297,067	-	-	-	-	322,772	25,619,839
Federal sources	-	-	-	-	-	3,643,997	3,643,997
Bonds and loans	6,000,000	500,000	500,000	-	-	-	7,000,000
Sale of property, adjustments and refunds	36,110	17,790	-	28,078	-	-	81,978
Intergovernmental transfers	158,204	-	-	-	-	407,874	566,078
Total receipts	<u>42,556,733</u>	<u>3,203,404</u>	<u>5,624,092</u>	<u>4,234,537</u>	<u>248,295</u>	<u>7,060,878</u>	<u>62,927,939</u>
Disbursements:							
Current:							
Instruction	19,001,972	-	-	-	-	1,485,455	20,487,427
Support services	15,091,601	2,919,525	-	5,062,356	298,581	4,798,028	28,170,091
Community services	479,749	-	-	-	-	8,881	488,630
Nonprogrammed charges	120,633	9,543	54,316	15,038	964	289,689	490,183
Debt services	6,000,000	500,000	5,709,836	-	-	495,217	12,705,053
Total disbursements	<u>40,693,955</u>	<u>3,429,068</u>	<u>5,764,152</u>	<u>5,077,394</u>	<u>299,545</u>	<u>7,077,270</u>	<u>62,341,384</u>
Excess (deficiency) of total receipts over (under) total disbursements	1,862,778	(225,664)	(140,060)	(842,857)	(51,250)	(16,392)	586,555
Cash and investments - beginning	5,837,818	849,805	2,051,824	3,410,502	223,267	1,259,226	13,632,442
Cash and investments - ending	<u>\$ 7,700,596</u>	<u>\$ 624,141</u>	<u>\$ 1,911,764</u>	<u>\$ 2,567,645</u>	<u>\$ 172,017</u>	<u>\$ 1,242,834</u>	<u>\$ 14,218,997</u>

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

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2005

	Employee Health Plan Fund*	Pension Trust Funds	Private-Purpose Trust Funds
Additions:			
Local sources	\$ 5,030,210	\$ -	\$ 29,756
Bonds and loans	-	5,000,000	-
Sale of property, adjustments and refunds	-	-	110,545
	<u>5,030,210</u>	<u>5,000,000</u>	<u>140,301</u>
Deductions:			
Instruction	-	-	46,284
Support services	5,051,570	3,810,915	50,938
Nonprogrammed charges	-	-	1,000
	<u>5,051,570</u>	<u>3,810,915</u>	<u>98,222</u>
Excess (deficiency) of total additions over (under) total deductions	(21,360)	1,189,085	42,079
Cash and investments - beginning	<u>3,076,247</u>	<u>-</u>	<u>152,550</u>
Cash and investments - ending	<u>\$ 3,054,887</u>	<u>\$ 1,189,085</u>	<u>\$ 194,629</u>

*Includes a component unit that has a December 31 year end.

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

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

	Employee Health Plan Fund*	Pension Trust Funds	Private-Purpose Trust Funds
Additions:			
Local sources	\$ 5,224,297	\$ -	\$ 20,493
Sale of property, adjustments and refunds	-	-	52,915
Total additions	5,224,297	-	73,408
Deductions:			
Instruction	-	-	23,262
Support services	5,283,363	258,565	53,377
Nonprogrammed charges	-	-	2,500
Total deductions	5,283,363	258,565	79,139
Deficiency of total additions under total deductions	(59,066)	(258,565)	(5,731)
Cash and investments - beginning	3,054,887	1,189,085	194,629
Cash and investments - ending	\$ 2,995,821	\$ 930,520	\$ 188,898

*Includes a component unit that has a December 31 year end.

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

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

<u>Assets</u>	<u>Employee Health Plan Fund*</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ 3,054,887	\$ 1,189,085	\$ 194,629
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 3,054,887	\$ 1,189,085	\$ 194,629

*Includes a component unit that has a December 31 year end.

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

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 June 30, 2006

<u>Assets</u>	Employee Health Plan Fund*	Pension Trust Funds	Private-Purpose Trust Funds
Cash and investments	\$ 2,995,821	\$ 930,520	\$ 188,898
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 2,995,821	\$ 930,520	\$ 188,898

*Includes a component unit that has a December 31 year end.

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

HUNTINGTON COUNTY COMMUNITY 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 School Corporation's financial reporting entity is composed of the following:

Primary Government:	School Corporation
Blended Component Unit:	Huntington County Community School Corporation Employee Health Plan (Employee Health Plan)

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Blended Component Unit

A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the School Corporation's governing body or the component unit provides services entirely to the School Corporation. The component unit's funds are blended into those of the School Corporation by appropriate fund type to constitute the primary government presentation. The blended component unit is presented below:

<u>Component Unit</u>	<u>Description/Inclusion Criteria</u>	<u>Fund Included In</u>
Huntington County Community School Corporation Employee Health Plan	The primary government appoints a voting majority of the Employee Health Plan's board and is able to impose its will. Although it is legally separate from the School Corporation, the Employee Health Plan is reported as if it were a part of the School Corporation because it provides services entirely or almost entirely to the School Corporation.	Employee Health Plan Fund

Joint Venture

The School Corporation is a participant with Adams Central Community Schools, North Adams Community Schools, Northern Wells Community Schools, South Adams Schools, Southern Wells Community Schools, Jay School Corporation and Bluffton-Harrison Metropolitan School District in a joint venture to operate the Vocational Area 18 Cooperative which was created to provide occupational training to students. The Co-op's continued existence depends on continued funding by the School Corporations. Complete financial statements for the Co-op can be obtained from the Co-op's administrative office at One Tiger Trail, Bluffton, IN 46714.

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The School Corporation does not have any business-type activities.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Separate financial statements are provided for governmental 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.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, 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.

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

Additionally, the School Corporation reports the following fund types:

The employee health plan fund reports a trust arrangement under which the School Corporation transfers funds to cover the costs of medical benefits for employees.

The pension trust fund accounts for the activities of the postretirement/severance future benefit fund, which accumulate resources for pension benefit payments.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the type of individuals or activities for which it has been established.

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment 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.

The cash and investment 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.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

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

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any proprietary funds.

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 and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in 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 June 30 of the year collected.

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Compensated Absences

a. Sick Leave

School Corporation employees earn sick leave at rates from 3 days to 12 days per year. Unused sick leave may be accumulated to a maximum of 180 days for administrators, 150 days for certified personnel, and 127 days for all other employees. Fifty percent of accumulated sick leave is paid to 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 20 days per year based upon the number of years of service and employee classification. Vacation leave may be accumulated to a maximum of 30 days for administrators. Vacation leave does not accumulate for other employees.

c. Personal Leave

School Corporation employees earn personal leave at rates from 1 day to 4 days per year based upon employee classification. Unused personal leave transfers to accumulated sick leave.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts

Program Receipts

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.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Cash Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Cash Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Cash Activities.

II. Stewardship, Compliance and Accountability

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. All annual appropriations lapse at calendar year end.

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval 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 governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General 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.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. 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. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13.

Investment Policies

Indiana Code 5-13-9 authorizes the School Corporation to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the School Corporation and available for investment. The portfolio of an investment company

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the School Corporation may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The School Corporation does not have a formal investment policy for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The School Corporation must follow state statute and limit the stated final maturities of the investments to no more than two years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The School Corporation does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

Foreign Currency Risk

The School Corporation does not have a formal policy in regards to foreign currency risk.

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2005 and 2006, were as follows:

Transfer From	Transfer To	June 30, 2005	June 30, 2006
Capital Projects Fund	Transportation Fund	\$ 13,144	\$ -
General Fund	Other governmental	-	38,325
Debt Service Fund	Other governmental	-	54,316
Capital Projects Fund	Other governmental	-	15,038
Transportation Fund	Other governmental	-	9,543
School Bus Replacement Fund	Other governmental	-	964
Other governmental	General Fund	330,052	158,204
Other governmental	Transportation Fund	26,447	-
Other governmental	Other governmental	580,971	289,688
Totals		<u>\$ 950,614</u>	<u>\$ 566,078</u>

The School Corporation typically uses transfers for cash flow purposes according to various statutes.

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 to Employees

The School Corporation has chosen to establish a risk financing fund for risks associated with medical benefits to employees. The risk financing fund is accounted for in the Huntington County Community School Corporation Employee Health Plan Fund, a component unit of the School Corporation, where assets are set aside for claim settlements. A fiduciary fund has been included to report its activity. An excess policy through commercial insurance covers individual claims in excess of \$100,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all funds with payrolls and are available to pay claims, claim reserves, and administrative costs of the program.

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Holding Corporations

The School Corporation has entered into capital leases with the Huntington Countywide School Building Corporation and the Huntington Countywide School Building Corporation II (the lessors). The lessors were organized as not-for-profit corporations pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. Lease payments during the years ending June 30, 2005 and 2006 totaled \$4,242,000 and \$4,399,000, respectively.

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.

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 255,721
Interest on net pension obligation	(37,001)
Adjustment to annual required contribution	42,166
Annual pension cost	260,886
Contributions made	366,132
Decrease in net pension obligation	(105,246)
Net pension obligation, beginning of year	(510,363)
Net pension obligation, end of year	\$ (615,609)
Contribution rates:	
School Corporation	7.25%
Plan members	3%
Actuarial valuation date	07-01-05
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	75% of expected actuarial value plus 25% of market value

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	06-30-03	\$ 356,662	109%	\$ (395,672)
	06-30-04	257,027	145%	(510,363)
	06-30-05	260,886	142%	(615,609)

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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.

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 7% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$628,756, \$596,024, and \$559,775, respectively. The School Corporation contributed 100% of the required contributions for each of the fiscal years.

HUNTINGTON COUNTY COMMUNITY 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)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 4,942,994	\$ 5,403,847	\$ (460,853)	91%	\$ 4,425,985	(10%)
07-01-04	5,111,330	5,489,934	(378,604)	93%	4,495,552	(8%)
07-01-05	5,404,960	6,294,626	(889,666)	86%	4,748,412	(19%)

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Huntington Countywide School Building Corporation II	\$ 37,070,000	\$ 1,360,000
Huntington Countywide School Building Corporation	10,925,000	390,000
Notes and loans payable:		
Common School Fund Loans	3,274,643	380,744
Energy Savings Loans	1,110,439	418,448
Bonds payable:		
General obligation bonds:		
Taxable General Obligation Pension Bonds	<u>4,740,000</u>	<u>285,000</u>
Total governmental activities long-term debt	<u>\$ 57,120,082</u>	<u>\$ 2,834,192</u>

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

CAPITAL ASSET RECORDS

Capital asset records were not properly reported. Exceptions include listing capital assets at replacement value and misclassifying capital assets between "Improvements Other Than Buildings" and "Machinery and Equipment". A similar comment was included in prior Report B24593.

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)

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 Indiana Public School Corporations, Chapter 9)

FUND SOURCES AND USES

Pool rental was paid to Huntington University from the Capital Projects Fund for swim practice time for the High School swim team. The High School Athletic Fund did not reimburse the Capital Projects Fund.

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 Indiana Public School Corporations, Chapter 9)

EMPLOYMENT CONTRACTS

The following items were noted during the review of employment contracts:

- (1) The School Lunch Director was paid during the two year period ending June 30, 2006, without a contract.
- (2) Regular teacher contracts for the school years 2004-2005 and 2005-2006 were not signed by the school board.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

Indiana Code 20-28-6-2(a) states in part: "A contract entered into by a teacher and a school corporation must: (1) be in writing; (2) be signed by both parties; . . ."

ADVANCE PAYMENTS

Payroll was made during the school year ended June 30, 2006, to salaried School Corporation employees, paid on a bi-weekly basis, one week in advance of the payroll services. The first payroll of the 2005-2006 school year ended on July 15, but was paid on July 8.

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

COMPENSATION

The Special Education Director was paid \$1,000 for extra summer school duties and an elementary school principal was paid \$5,727 for administering the Jump Start summer school program. These amounts of compensation were not included in a teachers' contract or supplemental contract.

Indiana Code 20-28-6-2(a) states in part: "A contract entered into by a teacher and a school corporation must: . . . (3) contain the: . . . (C) total salary to be paid to the teacher during the school year; . . ."

PERSONNEL POLICIES

The School Corporation has personnel policies concerning various types of employee benefits. One benefit regards paid leave and the maximum amount of paid leave that can be accumulated. Various school corporation personnel were accumulating sick time in excess of the amount allowed according to the policy, as much as forty days beyond the maximum was noted. A second item regards the payment of unused vacation by administrative personnel. The current Superintendent and prior Assistant Superintendent for Business and Classified Staff were paid \$2,641 and \$2,404, respectively, during the 2005-2006 school year for vacation days that were not used during the 2004-2005 school year. The personnel policy for administrators does not authorize the payment of unused vacation time. Lastly, the personnel policy allows certified employees to stay on the School Corporation's health insurance program after retirement as long as the retired employee pays 100% of the cost of the health insurance premiums. The School Corporation has discovered that various employees have retired during the audit period and the School Corporation has continued to provide health insurance, paying 100% of the cost of the health insurance premiums. The School Corporation discovered in one particular case that \$9,916 was paid on behalf of two retired employees from the period of September 2, 2005 through October 31, 2006. The \$9,916 was repaid to the School Corporation on November 8, 2006.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

DISBURSEMENT DOCUMENTATION (Applies to Horace Mann Elementary 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)

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

BANK ACCOUNT RECONCILIATIONS (Applies to Crestview Middle School)

Depository reconciliations of the fund balances to the bank account balances were not completed on a timely basis and were inaccurate for the school year ending June 30, 2006. Unidentified charges and deposits were made to one of the extra-curricular accounts by the bank from October 2005 until February 2006 and not reimbursed to the extra-curricular account until September 2006, after the Superintendent of Schools requested the reimbursement. The Extra-Curricular Treasurer subsequently reimbursed an unidentified variance of \$11.87 on November 8, 2006.

IC 5-13-6-1(e) states: "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 Extra-Curricular Accounts, Chapter 7)

CREDIT CARDS (Applies to Huntington North High School)

The Athletic Department has two credit cards to use for purchasing supplies and to pay for travel and meal expenses. Three credit card payments were examined during the audit and all three payments were made without adequate supporting documentation.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the board.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

(7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.

(8) If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF HUNTINGTON COUNTY COMMUNITY
SCHOOL CORPORATION, HUNTINGTON COUNTY, INDIANA

Compliance

We have audited the compliance of Huntington County Community School Corporation (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006.

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 17, 2007

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 111,377	\$ 142,630
National School Lunch Program	10.555		698,758	728,503
Summer Food Service Program for Children	10.559		<u>10,419</u>	<u>13,196</u>
Total for federal grantor agency			<u>820,554</u>	<u>884,329</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Special Education Cluster				
Special Education - Grants to States	84.027			
		14203-029-PY02	14,084	-
		14203-029-DY08	5,345	-
		14204-029-SN01	1,535	-
		14204-029-PN01	7,361	-
		14204-029-PY02	435,132	5,201
		14204-046-DY01	10,332	74,668
		14205-029-PN01	1,373,438	231,991
		14205-029-SN01	24,297	2,581
		14205-029-PY02	-	136,269
		14205-029-DY01	-	14,187
		14206-029-PN01	<u>-</u>	<u>1,618,931</u>
Total for program			<u>1,871,524</u>	<u>2,083,828</u>
Special Education - Preschool Grants	84.173			
		45703-029-PY02	572	-
		45704-029-PY02	37,282	10,220
		45705-029-PN01	70,138	5,886
		45705-029-PY02	-	4,465
		45706-029-PN01	<u>-</u>	<u>48,924</u>
Total for program			<u>107,992</u>	<u>69,495</u>
Total for cluster			<u>1,979,516</u>	<u>2,153,323</u>
Pass-Through Fort Wayne Community Schools				
Adult Education - State Grant Program	84.002			
		FY 04-8011	7,526	-
		FY 05-8011	14,110	9,097
		FY 06-8011	-	30,062
Pass-Through Indiana Family and Social Services Administration				
Adult Education - State Grant Program	84.002	35-04-SY-1941	<u>7,186</u>	<u>-</u>
Total for program			<u>28,822</u>	<u>39,159</u>
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010			
		FY04-3625	126,599	-
		04-3625	6,628	-
		FY05-3625	534,739	46,156
		S010A040014	-	6,912
		S010A050014	-	1,255
		05-3625	-	11,565
		FY06-3625	<u>-</u>	<u>579,276</u>
Total for program			<u>667,966</u>	<u>645,164</u>

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

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education (continued)				
Vocational Education - Basic Grants to States	84.048	04-1353-3625	<u>252</u>	-
Safe and Drug-Free Schools and Communities - State Grants	84.186			
		02-080	5,182	-
		03-178	21,583	4,920
		04-163	-	<u>18,168</u>
Total for program			<u>26,765</u>	<u>23,088</u>
Eisenhower Professional Development State Grants	84.281			
		00-236	6,890	-
		01-133	<u>4,028</u>	<u>2,367</u>
Total for program			<u>10,918</u>	<u>2,367</u>
State Grants for Innovative Programs	84.298			
		02-218	18,672	-
		03-189	15,669	24,583
		04-196	-	<u>19,292</u>
Total for program			<u>34,341</u>	<u>43,875</u>
Education Technology State Grants	84.318			
		FY02-03	2,462	-
		FY03-04	<u>4,551</u>	<u>9,177</u>
Total for program			<u>7,013</u>	<u>9,177</u>
Reading Excellence	84.338	FY02-04	<u>203,057</u>	-
Title I Accountability Grants	84.348	03-3625	<u>1,788</u>	-
Improving Teacher Quality State Grants	84.367			
		02-226	152,657	-
		03-183	172,065	52,155
		04-258	-	<u>182,435</u>
Total for program			<u>324,722</u>	<u>234,590</u>
Total for federal grantor agency			<u>3,285,160</u>	<u>3,150,743</u>
Total federal awards expended			<u>\$ 4,105,714</u>	<u>\$ 4,035,072</u>

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

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Huntington County Community School Corporation (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2005 and 2006. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	For the Year Ended June 30, 2005	For the Year Ended June 30, 2006
Child Nutrition Cluster			
Food Commodities			
School Breakfast Program	10.553	\$ 17,062	\$ 17,019
National School Lunch Program	10.555	<u>109,390</u>	<u>87,751</u>
Total for cluster		<u>\$ 126,452</u>	<u>\$ 104,770</u>

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no
--	----

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
	Child Nutrition Cluster
	Special Education Cluster
84.010	Title I Grants to Local Educational Agencies
84.367	Improving Teacher Quality State Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	no
--	----

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

HUNTINGTON COUNTY COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on January 17, 2007, with Aimee N. Johnson, Treasurer; Tracey R. Shafer, Superintendent of Schools; Thomas M. Johnson, Assistant Superintendent of Business and Classified Staff; Sandra Bailey, former Treasurer; and Robert J. Kyle, President of the School Board. The official response has been made a part of this report and may be found on pages 42 through 44.



Huntington County Community School Corporation

1360 Warren Road ♦ Huntington, IN 46750-2192 ♦ Telephone (260) 356-7812 ♦ FAX (260)358-2216

Superintendent: Tracey R. Shafer

Assistant Superintendent for Business/Classified Staff: Thomas M. Johnson

Assistant to the Superintendent for Instruction: Charles R. Grable

January 29th, 2007

Mr. Bruce Hartman, State Examiner
Indiana State Board of Accounts
302 West Washington Street
Room E 418
Indianapolis, IN 46204-2765

OFFICIAL RESPONSE

Dear Mr. Hartman,

Please find below the official response to the audit of Huntington County Community School Corporation for the examined period of 07/01/04 to 06/30/06. It is the intent of the school corporation to comply fully with the Indiana Code. Included below in order is the disposition and resolution for each notation found in the audit. We thank you for the opportunity to respond and achieve full compliance with the State Board of Accounts.

Capital Asset Records

Disposition: We acknowledge notations in the report and intend to comply.

Resolution: The school corporation has contracted services with Wells Valuation Services so that professional services are utilized to come into compliance. Additionally, school board policy has been updated in the area of fixed assets.

Fund Sources and Uses

Disposition: We acknowledge notations in the report and intend to comply.

Resolution: Pool rental will cease to be paid from the Capital Projects Fund (CPF) and reimbursement to the CPF has been requested from the High School Athletic Fund.

Mission Statement

“Huntington County Community School Corporation provides education that ensures student achievement, promotes citizenship and encourages lifelong learning.”

Visit our website at ♦ www.hccsc.k12.in.us

Employment Contracts

Disposition: We acknowledge notations in the report and intend to comply.

Resolution:

- (1) The food service director was issued a contract for the 2006-2007 school year.
- (2) It appears that only the employee copy of the teacher contract was signed (stamped) by the board. Corrective action will be taken to ensure that all three copies of teacher contracts display the board's signature(s).

Advance Payments

Disposition: We acknowledge notations in the report and intend to comply.

Resolution: Necessary adjustments to the payroll cycle will be made in order that employees are paid after services had been rendered, except as authorized by statute. This will be noted in hiring procedures and at the beginning of a new contract year.

Compensation

Disposition: We acknowledge notations in the report and intend to comply.

Resolution: In the future, a supplemental contract will be issued when additional salary beyond the original contract is scheduled to be earned by a teacher.

Personnel Policies

Disposition: We acknowledge notations in the report and intend to comply.

Resolution:

- (1) The corporation will work toward developing uniform anniversary dates for employee groups (i.e. classified, certified, administration) in order that accumulated sick days can be more easily monitored.
- (2) The administration will work with the school board to develop administrative personnel policy that specifies the amount of vacation time that may be accumulated and/or compensated when vacation days are instead worked.
- (3) The insurance census was reviewed and monies were returned to the trust. A system of checks and balances is implemented between the personnel/benefits coordinator, corporation treasurer and third party provider to assist in oversight management.

Mission Statement

"Huntington County Community School Corporation provides education that ensures student achievement, promotes citizenship and encourages lifelong learning."

Visit our website at ♦ www.hccsc.k12.in.us

Disbursement Documentation (Horace Mann Elementary School)

Disposition: We acknowledge notations in the report and intend to comply.

Resolution: The new building administration will work to develop a uniform system of receiving and accounting for receipts and invoices.

Bank Account Reconciliation (Applies to Crestview Middle School)

Disposition: We acknowledge notations in the report and intend to comply.

Resolution: At the request of the Superintendent, the building Principal has implemented a monitoring system for the monthly reconciliation of the extra-curricular accounts as conducted by the school treasurer at Crestview Middle School.

Credit Cards

Disposition: We acknowledge notations in the report and intend to comply.

Resolution: The Athletic Department at Huntington North High School will discontinue use of the credit card account. Efforts will be made to collect proper supporting documents for all expenditures made by the athletic department.

Thank you again for the opportunity to respond and to work toward resolution of these notations.

Sincerely,



Tracey R. Shafer
Superintendent
Huntington County Community School Corporation

Mission Statement

“Huntington County Community School Corporation provides education that ensures student achievement, promotes citizenship and encourages lifelong learning.”

Visit our website at ♦ www.hccsc.k12.in.us