

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

AUDIT REPORT

OF

EAST NOBLE SCHOOL CORPORATION

NOBLE COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED

02/12/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Craig A. Ream	07-01-04 to 06-30-07
Superintendent of Schools	Dr. Jacqueline J. Beery Dr. H. Steve Sprunger	07-01-04 to 01-31-06 02-01-06 to 06-30-07
President of the School Board	Michael M. Yoder Stephen A. Pyle	07-01-04 to 06-30-05 07-01-05 to 06-30-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE EAST NOBLE SCHOOL CORPORATION, NOBLE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Noble 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 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 25, 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.

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.

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

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 Capital Assets and Schedule of Long-Term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have 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 them.

STATE BOARD OF ACCOUNTS

January 25, 2007



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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 THE EAST NOBLE SCHOOL CORPORATION, NOBLE COUNTY, INDIANA

We have audited the financial statements of the East Noble School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 25, 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 25, 2007

EAST NOBLE SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 7,515,094
Restricted assets:	
Cash and investments	<u>248,412</u>
Total assets	<u>\$ 7,763,506</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 248,412
Unrestricted	<u>7,515,094</u>
Total net assets	<u>\$ 7,763,506</u>

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

EAST NOBLE SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 11,928,854
Restricted assets:	
Cash and investments	<u>1,974,583</u>
Total assets	<u>\$ 13,903,437</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,974,583
Unrestricted	<u>11,928,854</u>
Total net assets	<u>\$ 13,903,437</u>

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

EAST NOBLE 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	\$ 12,271,364	\$ -	\$ 208,004	\$ (12,063,360)
Support services	17,011,762	1,144,954	507,017	(15,359,791)
Community services	359,368	-	-	(359,368)
Nonprogrammed charges	322,278	-	-	(322,278)
Debt service	7,056,379	-	-	(7,056,379)
Total governmental activities	\$ 37,021,151	\$ 1,144,954	\$ 715,021	(35,161,176)
General receipts:				
Property taxes				19,799,362
Other local sources				3,374,275
State aid				13,907,263
Grants and contributions not restricted				1,767,698
Bonds and loans				1,000,000
Sale of property, adjustments, and refunds				304,545
Investment earnings				110,561
Total general receipts				40,263,704
Change in cash and investments				5,102,528
Net assets - beginning				2,660,978
Net assets - ending				\$ 7,763,506

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

EAST NOBLE 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	\$ 12,194,776	\$ -	\$ 255,350	\$ (11,939,426)
Support services	18,874,462	1,162,713	615,134	(17,096,615)
Community services	336,326	-	-	(336,326)
Nonprogrammed charges	152,785	-	-	(152,785)
Debt service	4,902,503	-	-	(4,902,503)
Total governmental activities	\$ 36,460,852	\$ 1,162,713	\$ 870,484	(34,427,655)
General receipts:				
Property taxes				20,604,339
Other local sources				3,198,875
State aid				14,133,680
Grants and contributions not restricted				1,963,448
Sale of property, adjustments, and refunds				229,880
Investment earnings				437,364
Total general receipts				40,567,586
				Change in cash and investments 6,139,931
				Net assets - beginning 7,763,506
				\$ 13,903,437

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

EAST NOBLE 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	\$ 10,833,718	\$ 1,589,995	\$ 4,776,033	\$ 4,489,588	\$ 292,093	\$ 2,137,979	\$ 24,119,406
Intermediate sources	-	-	-	-	-	488	488
State sources	14,089,668	-	-	-	-	285,502	14,375,170
Federal sources	-	-	-	-	-	2,014,813	2,014,813
Bonds and loans	-	-	1,000,000	-	-	-	1,000,000
Sale of property, adjustments and refunds	16,146	37	-	224,231	-	8,550	248,964
Intergovernmental transfers	-	-	-	-	-	59,764	59,764
Total receipts	<u>24,939,532</u>	<u>1,590,032</u>	<u>5,776,033</u>	<u>4,713,819</u>	<u>292,093</u>	<u>4,507,096</u>	<u>41,818,605</u>
Disbursements:							
Current:							
Instruction	11,052,135	-	-	-	-	1,219,229	12,271,364
Support services	8,017,627	1,338,366	-	2,286,873	261,557	2,753,140	14,657,563
Community services	324,127	-	-	-	-	35,241	359,368
Nonprogrammed charges	1,784,114	-	-	-	-	277,287	2,061,401
Debt services	16,189	-	6,714,847	-	70,407	254,936	7,056,379
Total disbursements	<u>21,194,192</u>	<u>1,338,366</u>	<u>6,714,847</u>	<u>2,286,873</u>	<u>331,964</u>	<u>4,539,833</u>	<u>36,406,075</u>
Excess (deficiency) of total receipts over (under) total disbursements	3,745,340	251,666	(938,814)	2,426,946	(39,871)	(32,737)	5,412,530
Cash and investments - beginning	<u>(3,931,642)</u>	<u>(250,985)</u>	<u>1,227,265</u>	<u>3,550,737</u>	<u>24,779</u>	<u>1,192,451</u>	<u>1,812,605</u>
Cash and investments - ending	<u>\$ (186,302)</u>	<u>\$ 681</u>	<u>\$ 288,451</u>	<u>\$ 5,977,683</u>	<u>\$ (15,092)</u>	<u>\$ 1,159,714</u>	<u>\$ 7,225,135</u>

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

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ 5,412,530
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>(310,002)</u>
Change in cash and investments of governmental activities	<u>\$ 5,102,528</u>

EAST NOBLE 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	\$ 10,393,370	\$ 1,529,600	\$ 6,185,963	\$ 4,600,930	\$ 284,341	\$ 2,072,459	\$ 25,066,663
Intermediate sources	-	-	-	-	-	450	450
State sources	14,366,468	-	-	-	-	339,899	14,706,367
Federal sources	-	-	-	-	-	2,261,249	2,261,249
Sale of property, adjustments and refunds	8,840	222	128	6,795	-	46,659	62,644
Intergovernmental transfers	-	-	-	-	-	73,948	73,948
Total receipts	<u>24,768,678</u>	<u>1,529,822</u>	<u>6,186,091</u>	<u>4,607,725</u>	<u>284,341</u>	<u>4,794,664</u>	<u>42,171,321</u>
Disbursements:							
Current:							
Instruction	11,174,554	-	-	-	-	1,020,222	12,194,776
Support services	8,506,481	1,357,906	-	3,137,313	192,769	3,128,453	16,322,922
Community services	321,003	-	-	-	-	15,323	336,326
Nonprogrammed charges	1,909,420	-	-	-	-	172,015	2,081,435
Debt services	-	-	4,601,500	-	45,127	255,876	4,902,503
Total disbursements	<u>21,911,458</u>	<u>1,357,906</u>	<u>4,601,500</u>	<u>3,137,313</u>	<u>237,896</u>	<u>4,591,889</u>	<u>35,837,962</u>
Excess of total receipts over total disbursements	2,857,220	171,916	1,584,591	1,470,412	46,445	202,775	6,333,359
Cash and investments - beginning	(186,302)	681	288,451	5,977,683	(15,092)	1,159,714	7,225,135
Cash and investments - ending	<u>\$ 2,670,918</u>	<u>\$ 172,597</u>	<u>\$ 1,873,042</u>	<u>\$ 7,448,095</u>	<u>\$ 31,353</u>	<u>\$ 1,362,489</u>	<u>\$ 13,558,494</u>

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

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ 6,333,359
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	(193,428)
Change in cash and investments of governmental activities	<u>\$ 6,139,931</u>

EAST NOBLE SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
PROPRIETARY FUND
For The Year Ended June 30, 2005

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 309,257
Sale of property, adjustments and refunds	55,581
Payments from other funds	<u>1,679,359</u>
Total receipts	<u>2,044,197</u>
Disbursements:	
Support services	<u>2,354,199</u>
Changes in cash and investments	<u>(310,002)</u>
Cash and investments - beginning	<u>848,373</u>
Cash and investments - ending	<u><u>\$ 538,371</u></u>

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

EAST NOBLE SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
PROPRIETARY FUND
For The Year Ended June 30, 2006

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 336,174
Sale of property, adjustments and refunds	167,236
Payments from other funds	<u>1,854,702</u>
Total receipts	<u>2,358,112</u>
Disbursements:	
Support services	<u>2,551,540</u>
Changes in cash and investments	<u>(193,428)</u>
Cash and investments - beginning	<u>538,371</u>
Cash and investments - ending	<u><u>\$ 344,943</u></u>

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

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

	Pension Trust Funds
Additions:	
Local sources	\$ 5,272
Deductions:	
Support services	499,631
Nonprogrammed charges	90,846
Total deductions	590,477
Deficiency of total additions	
Under total deductions	(585,205)
Cash and investments - beginning	1,168,550
Cash and investments - ending	\$ 583,345

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

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

	Pension Trust Funds
Additions:	
Local sources	\$ 12,879
Deductions:	
Support services	225,918
Nonprogrammed charges	88,865
Total deductions	314,783
Deficiency of total additions	
Under total deductions	(301,904)
Cash and investments - beginning	583,345
Cash and investments - ending	\$ 281,441

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

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

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 583,345	\$ 96,155
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 583,345	

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

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

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 281,441	\$ 85,981
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 281,441	

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

EAST NOBLE 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.

These financial statements present the School Corporation (primary government). There are no significant component units which require inclusion.

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

Joint Venture

The School Corporation is a participant with interested school corporations in DeKalb, LaGrange, Noble, and Steuben Counties in a joint venture to operate the Four County Area Vocational Cooperative (Co-op) which was created to provide vocational instruction for children. The School Corporation is obligated by contract to remit an amount annually to supplement the Co-op. Complete financial statements for the Co-op can be obtained from the Co-op office at 510 South Second Street, Garrett, IN 46738.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes 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. However, there are no business-type activities to report at this time.

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. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

EAST NOBLE SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 internal service fund is a self-insurance fund which provides monies for the payment of health insurance claims for school corporation employees.

The pension trust funds account for bonds and payments anticipated to be made to employees on or after the termination of employment or to pay post-retirement or severance benefits held by the School Corporation in a trustee capacity.

Agency funds account for assets held by the School Corporation as an agent for various payroll withholding agencies and serve as control of accounts for certain cash transactions during the time they are a liability to the School Corporation.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary 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, while the fund financial statements for proprietary fund types would use the 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.

EAST NOBLE SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 enterprise 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.

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 6 to 11 days per year based upon classification and the number of years of service. Unused sick leave may be accumulated indefinitely. A portion 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. Vacation leave does not accumulate from year to year.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 2 days per year. Personal leave does not accumulate from year to year.

4. Capital Assets

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

EAST NOBLE SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary 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.

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

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. 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 Activities and Net Assets – Cash and Investment Basis, 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.

EAST NOBLE SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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 Activities and Net Assets – Cash and Investment Basis 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 Activities and Net Assets – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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 or highway use taxes are received 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.

B. Cash and Investment Balance Deficits

At June 30, 2005 and 2006, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance guidelines as referenced in state statute:

Fund	2004-2005	2005-2006
General	\$ (186,302)	\$ -
Title 1	(1,217)	-
Special Education	(37,757)	-
Retirement/Severance Bond Debt Service	(40,039)	-
School Bus Replacement	(15,092)	-

EAST NOBLE SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

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. At June 30, 2006, the bank balance held at Campbell and Fetter Bank in the amount of \$14,285,206 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-School Corporation's name. The remaining 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. As of June 30, 2006, the School Corporation had the following investment:

Investment Type	Primary Government Market Value
Repurchase Agreements	\$ 14,285,206

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 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

EAST NOBLE SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. At June 30, 2006, the School Corporation held an investment in a repurchase agreement in the amount of \$14,285,206 which is held by the counterparty's trust department or agent but not in the School Corporation's name.

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.

Investment Type	Investment Maturities (in Years)		
	Less Than 1	1-2	More Than 2
Repurchase Agreements	\$ 14,285,206	\$ -	\$ -

B. Interfund Transfers

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

Transfer From	Transfer To	2004-2005	2005-2006
Other nonmajor	Other nonmajor	\$ 59,764	\$ 73,948

EAST NOBLE SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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

C. Restatements and Reclassifications

For the two year period ending June 30, 2006, a change was made to the financial statements to more appropriately reflect financial activity of the School Corporation. The following schedule presents a reclassified beginning balance by opinion unit. In the prior report the Debt Service major fund included two separate funds: Debt Service Fund and the Retirement/Severance Bond Fund. For the current report the Retirement/Severance Bond Fund was reclassified as an Other Governmental Fund.

Statement	Debt Service Balance as Reported June 30, 2004	Reclassify Retirement/ Severance Bond Fund to "Other"	Debt Service Balance as Reported July 1, 2004
Statement of Receipts, Disbursements, and Cash and Investment Balances Governmental Funds	\$ 1,097,322	\$ (129,943)	\$ 1,227,265

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 Self Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$60,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each affected fund and are reported as quasi-external interfund transactions.

EAST NOBLE SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Holding Corporations

The School Corporation has entered into capital leases with East Noble School Building Corporation and East Noble Facilities School Building Corporation (the lessors). The lessors were organized as a not-for-profit corporations pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessors have been determined to be a related party of the School Corporation. Lease payments for the years ended June 30, 2005 and 2006, totaled \$2,778,000 and \$2,761,500, respectively for the East Noble School Building Corporation. Lease payments for the years ended June 30, 2005 and 2006, totaled \$915,500 and \$1,832,000, respectively for East Noble Facilities School Building Corporation.

C. Subsequent Events

The School Corporation has approved a project to construct a new building for Wayne Center Elementary. The project will cost approximately \$13,645,000 and will be financed by issuing general obligation bonds through a holding corporation and possibly common school fund loans and capital projects expenditures.

D. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment medical benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 55 with at least 30 years of service. Currently, 33 retirees meet these eligibility requirements. The School Corporation provides 100% of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the years ended June 30, 2006 and 2005, disbursements of \$88,746 and \$92,029, respectively were recognized for postemployment benefits.

E. 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:

EAST NOBLE SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Funding Policy and Annual Pension Cost

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 188,435
Interest on net pension obligation	(40,950)
Adjustment to annual required contribution	46,665
Annual pension cost	194,150
Contributions made	259,045
Decrease in net pension obligation	(64,895)
Net pension obligation, beginning of year	(564,822)
Net pension obligation, end of year	\$ (629,717)
Contribution rates:	
School Corporation	6.25%
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%

EAST NOBLE SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 140,417	195%	\$ (458,421)
	06-30-04	174,372	161%	(564,822)
	06-30-05	194,150	149%	(629,717)

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.

Plan members are required to contribute 3% of their salary and the School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 7.0% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$378,912, \$339,322, and \$303,358, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

EAST NOBLE SCHOOL CORPORATION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 2,017,444	\$ 1,979,249	\$ 38,195	102%	\$ 3,384,878	1%
07-01-04	2,190,504	2,220,460	(29,956)	99%	3,642,363	(1%)
07-01-05	2,399,148	2,743,342	(344,194)	87%	3,894,329	(9%)

EAST NOBLE SCHOOL CORPORATION
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

The school corporation does not have any infrastructure assets.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 3,092,366
Buildings	64,460,471
Improvements other than buildings	902,495
Machinery and equipment	<u>3,618,765</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 72,074,097</u>

EAST NOBLE SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
<u>Capital leases:</u>		
Avilla 2002	\$ 7,965,000	\$ 375,000
ENHS 2003	7,034,500	245,000
Northside 2004	10,265,000	335,000
KMS & ENHS 2005	15,060,000	610,000
Bus Leases	60,596	33,599
2003 Technology	63,934	30,542
Fiber Improvements	149,064	-
2006 Technology	<u>202,682</u>	<u>-</u>
Total capital leases	40,800,776	1,629,141
<u>Bonds payable:</u>		
General obligation bonds:		
2003 Pension Obligation	<u>1,595,000</u>	<u>90,000</u>
Total long-term debt	<u>\$ 42,395,776</u>	<u>\$ 1,719,141</u>

EAST NOBLE SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

CAPITAL ASSET RECORDS

Capital asset records had the following deficiencies:

1. Some items were incorrectly posted to the records or were left off such as a posting error for the high school gym addition which was entered as \$44,000,000 instead of \$4,400,000 and buildings constructed under capital lease were not on the records totaling approximately \$46,000,000.
2. Records were not available for deletions.
3. Some assets were incorrectly categorized. Some building amounts were included as land instead of buildings and workstations for the corporate office were categorized as improvements instead of machinery and equipment.

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)

DISBURSEMENTS

The following deficiencies were found during the review of the accounts payable vouchers:

1. A receipt of goods and services was not recorded on most of the vouchers reviewed nor was there a copy of a signed purchase order attached.
2. Items promotional in nature were purchased from accounts other than a promotion account. Currently the School Corporation does not have a promotion account established.
3. Late fees were paid.

Indiana Code 5-11-10-1.6(c) provides: "The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board having jurisdiction over allowance of payment of the claim."

EAST NOBLE SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

This subsection does not prohibit a school corporation, with prior approval of the board having jurisdiction over allowance of payment of the claim, from making payment in advance of receipt of services as allowed by guidelines developed under IC 20-20-13-10. We are of the audit position IC 5-11-10-1.6(c)(2) may be complied with by attaching to the Accounts Payable Voucher Form 523, the receiving copy of the Purchase Order Form 98, signed by the person receiving the goods or services. (The School Administrator and Uniform Compliance Guidelines, June 2006)

Indiana Code 20-26-5-4(3) states: "To appropriate from the school corporation's general fund an amount, not to exceed the greater of three thousand dollars (\$3,000) per budget year or one dollar (\$1) per pupil, not to exceed twelve thousand five hundred dollars (\$12,500), based on the school corporation's previous year's ADM to promote the best interests of the school corporation through:

- (A) the purchase of meals, decorations, memorabilia, or awards;
- (B) provision for expenses incurred in interviewing job applicants; or
- (C) developing relations with other governmental units."

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)

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit. Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

USE OF FORM SA-1, CLAIM FOR PAYMENT (Applies to East Noble High School, Kendallville Middle School, Avilla K-8, LaOtto K-8, Rome City K-8, Wayne Center Elementary, South Side Elementary, and North Side Elementary)

All the schools had deficiencies, in varying degrees, in their Form SA-1, Claim for Payment, preparation.

Claim forms did not contain all information necessary to constitute a valid claim:

1. Proper Itemization
 - a. Original itemized Invoice to support payment
 - b. Lists of participants in meals, activities, prizes, etc. . . .
2. "Person authorized to purchase" signature for fund;
3. Treasurer's signature certifying the "unobligated balance" in fund to spend;

EAST NOBLE SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

4. Signature for acknowledgment of the "receipt of goods and services";
5. Treasurer's signature verifying that "all was audited by them prior to payment."

The form is to be executed in full and signed by the person authorized to purchase for the particular activity concerned. Before the activity is permitted to use the Purchase Order and Accounts Payable Voucher (SA-1), the extra-curricular account treasurer must determine if there is sufficient balance in the fund of the activity to make payment upon receipt of the merchandise. The treasurer is required to certify as to the unobligated balance. Shipments received by an activity must be verified with the invoice and voucher (duplicate copy) as to quantity and price by the person who made the purchase and received the items. The person receiving the shipment indicates on the voucher that they have received and checked the shipment and the voucher is to be forwarded to the treasurer who makes the payment after signing the certification required on the form SA-1. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

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

OVERDRAWN YEARBOOK (PUBLICATIONS) FUND (Applies to East Noble High School)

East Noble High School has the following deficit amounts in their Publication Fund for yearbook publication fees.

1. Accumulated outstanding 2004 yearbook publication fees of \$5,668.05 as of June 30, 2004, and a cash balance of \$545.11, leaving a cumulative net deficit of \$5,122.94.
2. Accumulated outstanding 2005 yearbook publication fees of \$14,776.78 as of June 30, 2005, and a cash balance of \$6,337.11, leaving a cumulative net deficit of \$8,439.67.
3. Accumulated outstanding 2006 yearbook publication fees of \$13,591.68 as of June 30, 2006, and a cash balance of \$2,522.50, leaving a cumulative net deficit of \$11,069.18.

Overdrafts may not be created or exist in any fund. The extra-curricular treasurer should advise the activity sponsor and student treasurer periodically, preferably monthly, of the current balance in the fund of their activity. Therefore, comparisons can be made and differences reconciled before transactions become past due or particulars are difficult to recall. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

GRANT FUNDS - STATE TOBACCO GRANT (Applies to East Noble High School)

A \$1,000 grant for a Tobacco Survey was received to East Noble High School's Extra-Curricular account. \$500.00 of these grant funds were received into the Staff Pop Fund, a teacher-related 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 Extra-Curricular Accounts, Chapter 7)

EAST NOBLE SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental unit maybe the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Indiana Code 20-26-4-1 concerning duties of the School Corporation Treasurer, states in part: "The treasurer is the official custodian of all funds of the school corporation and is responsible for the proper safe-guarding and accounting for all the funds . . ." Therefore, all grant monies and properly authorized fees at an individual building should be transferred to the School Corporation Central Office on a timely and regular basis for receipting into the appropriate school corporation fund. The School Corporation Attorney should provide written guidance concerning whether fees are appropriate in regards to Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

CURRICULAR EXPENDITURES (Kendallville Middle School and North Side Elementary)

There are many payments that are not extra-curricular related, being disbursed from the extra-curricular funds:

1. Kendallville Middle School's General fund payments for Lab Tech tables, supplies for school registration, cell phone bills, etc. . . .
2. North Side Elementary's Student Activities Fund for classroom items.

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

All disbursements for educational purposes must be made from school corporation funds and not from extra-curricular funds. (See General Fund, Student Activity Fund and Investments and Investment Income Fund) These include disbursements for building equipment, repairs and maintenance; educational and library materials, supplies and equipment; meeting and conference expense of employees; copiers; and, the repair and maintenance of same. Curricular and extra-curricular, though associated, are totally separate functions and each has a purpose and authorizing statute and must be treated separately. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

GRANT FUNDS, PTO FUNDS, AND OTHER OUTSIDE ORGANIZATION FUNDS –
(Applies to East Noble High School, Avilla K-8, LaOtto K-8, and North Side Elementary)

Grant Funds and/or PTO were recorded and retained in the extra-curricular records.

All financial transactions related to the School Corporation should be accounted for in the School Corporation records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8) (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

Indiana Code 20-26-4-1 concerning duties of the School Corporation Treasurer, states in part: "The treasurer is the official custodian of all funds of the school corporation and is responsible for the proper safe-guarding and accounting for all the funds . . ." Therefore, all grant monies and properly authorized fees at an individual building should be transferred to the School Corporation Central Office on a timely and regular basis

EAST NOBLE SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

for receipting into the appropriate school corporation fund. The School Corporation Attorney should provide written guidance concerning whether fees are appropriate in regards to Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

Indiana Code 20-41-1-7 states in part: "The treasurer has charge of the custody and disbursement of any funds . . . incurred in conducting any athletic, social, or other school function (other than functions conducted solely by any organization of parents and teachers) . . ." Therefore, activities and organizations which are not extra-curricular in nature should be responsible for their own accounting and cash handling systems. The extra-curricular account should not collect, receipt, remit, or disburse outside organizations monies. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

Indiana Code 20-5-7-2 states in part: "The treasurer shall have charge of the custody and disbursement of any funds . . . incurred in conducting any athletic, social, or other school function (other than functions conducted solely by any organization of parents and teachers) . . ." Therefore, activities and organizations which are not extra-curricular in nature should be responsible for their own accounting and cash handling systems. The extra-curricular account should not collect, receipt, remit, or disburse outside organizations monies. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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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 THE EAST NOBLE SCHOOL CORPORATION, NOBLE COUNTY, INDIANA

Compliance

We have audited the compliance of the East Noble 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 25, 2007

EAST NOBLE 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		\$ 58,008	\$ 65,640
National School Lunch Program	10.555		494,691	506,598
			<u>552,699</u>	<u>572,238</u>
Total for federal grantor agency				
<u>U.S. DEPARTMENT OF LABOR</u>				
Pass-Through Indiana Department of Education School-to-Work		17.249	-	165
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education Special Education Cluster				
Special Education - Grants to States	84.027			
		14203-067-DY08	2,241	-
		14204-067-PN01	128,289	-
		14205-067-PN01	613,537	165,021
		14205-067-SN01	8,405	2,399
		14205-067-DY01	-	8,498
		14206-067-PN01	-	682,202
			<u>752,472</u>	<u>858,120</u>
Total for program				
Special Education - Preschool Grants	84.173			
		45704-067-PN01	5,425	-
		45705-067-PN01	17,041	5,539
		45706-067-PN01	-	18,979
			<u>22,466</u>	<u>24,518</u>
Total for program				
Total for cluster			<u>774,938</u>	<u>882,638</u>
Title I Grants to Local Educational Agencies	84.010			
		03-6060	90,609	-
		04-6060	304,664	68,080
		05-6060	1,217	293,249
			<u>396,490</u>	<u>361,329</u>
Total for program				

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

EAST NOBLE 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 (continued)</u>				
Pass-Through Indiana Department of Education (continued)				
Safe and Drug Free Schools and Communities - State Grants	84.186			
		02-184	871	-
		04-166	11,321	3,810
		05-202	-	4,728
Total for program			<u>12,192</u>	<u>8,538</u>
Even Start - State Educational Agencies	84.213			
		FY 03-1018	36,851	-
		FY 04-1018	124,122	17,496
		FY 05-1018	-	114,763
Total for program			<u>160,973</u>	<u>132,259</u>
State Grants for Innovative Programs	84.298			
		02-290	149	-
		02-299	25,615	-
		03-262	23,569	1,084
		04-193	8,926	10,950
		05-248	-	4,911
Total for program			<u>58,259</u>	<u>16,945</u>
Education Technology State Grants	84.318			
		02-6060	8,273	-
		03-6060	2,901	4,652
		04-6060	-	7,614
Total for program			<u>11,174</u>	<u>12,266</u>
English Language Acquisition Grants	84.365A			
			-	7,048
Improving Teacher Quality Grants	84.367			
		03-258	125,814	-
		04-263	-	105,620
		05-215	-	4,972
Total for program			<u>125,814</u>	<u>110,592</u>
Total for federal grantor agency			<u>1,539,840</u>	<u>1,524,567</u>
Total federal awards expended			<u>\$ 2,092,539</u>	<u>\$ 2,104,018</u>

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

EAST NOBLE 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 the East Noble 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	2005	2006
School Breakfast Program	10.553	\$ 9,517	\$ 9,720
National School Lunch Program	10.555	80,906	73,727

EAST NOBLE 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:

Name of Federal Program or Cluster

Child Nutrition Cluster
Special Education Cluster

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

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

EAST NOBLE SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

EAST NOBLE SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on January 25, 2007, with Dr. H. Steve Sprunger, Superintendent of Schools; Craig A. Ream, Treasurer; Mary C. Casselman, Bookkeeper; and Kathy Grawcock, Payroll Clerk. The officials concurred with our audit findings.