

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

AUDIT REPORT

OF

SOUTH ADAMS SCHOOLS

ADAMS COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED
02/15/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jay R. Lahr	07-01-04 to 06-30-07
Superintendent of Schools	Constance E. Bailey Cathy Egolf	07-01-04 to 06-30-06 07-01-06 to 06-30-07
President of the School Board	Arlene Amstutz Tony Mellencamp	07-01-04 to 06-30-06 07-01-06 to 06-30-07



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

TO: THE OFFICIALS OF SOUTH ADAMS SCHOOLS, ADAMS COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Adams Schools (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 23, 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 23, 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 SOUTH ADAMS SCHOOLS, ADAMS COUNTY, INDIANA

We have audited the financial statements of South Adams Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 23, 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.

We noted certain immaterial instances of noncompliance that we have discussed with the management of the School Corporation on January 23, 2007. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

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 any one 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 23, 2007

SOUTH ADAMS SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 4,004,552
Restricted assets:	
Cash and investments	<u>238,808</u>
Total assets	<u>\$ 4,243,360</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 238,808
Unrestricted	<u>4,004,552</u>
Total net assets	<u>\$ 4,243,360</u>

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

SOUTH ADAMS SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 4,679,845
Restricted assets:	
Cash and investments	<u>239,528</u>
Total assets	<u>\$ 4,919,373</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 239,528
Unrestricted	<u>4,679,845</u>
Total net assets	<u>\$ 4,919,373</u>

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

SOUTH ADAMS SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 4,182,288	\$ -	\$ 68,788	\$ (4,113,500)
Support services	6,615,159	327,563	165,176	(6,122,420)
Community services	122,997	-	-	(122,997)
Nonprogrammed charges	569,893	-	-	(569,893)
Debt service	427,550	-	-	(427,550)
Total governmental activities	\$ 11,917,887	\$ 327,563	\$ 233,964	(11,356,360)
General receipts:				
Property taxes				6,305,622
Other local sources				795,902
State aid				5,495,906
Grants and contributions not restricted				1,037,524
Sale of property, adjustments, and refunds				57,545
Investment earnings				75,396
Total general receipts				13,767,895
				Change in cash and investments 2,411,535
				Net assets - beginning 1,831,825
				\$ 4,243,360

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

SOUTH ADAMS SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 4,283,190	\$ -	\$ 49,924	\$ (4,233,266)
Support services	6,843,037	333,485	191,542	(6,318,010)
Community services	149,566	-	-	(149,566)
Nonprogrammed charges	843,731	-	-	(843,731)
Debt service	431,085	-	-	(431,085)
Total governmental activities	\$ 12,550,609	\$ 333,485	\$ 241,466	(11,975,658)
General receipts:				
Property taxes				4,779,428
Other local sources				667,089
State aid				5,742,975
Grants and contributions not restricted				1,259,712
Sale of property, adjustments, and refunds				17,381
Investment earnings				185,086
Total general receipts				12,651,671
Change in cash and investments				676,013
Net assets - beginning				4,243,360
Net assets - ending				\$ 4,919,373

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

SOUTH ADAMS SCHOOLS
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	\$ 3,936,005	\$ 1,053,909	\$ 592,253	\$ 1,408,789	\$ 43,159	\$ 470,172	\$ 7,504,287
Intermediate sources	196	-	-	-	-	-	196
State sources	5,550,589	-	-	-	-	100,656	5,651,245
Federal sources	-	-	-	-	-	1,116,149	1,116,149
Sale of property, adjustments and refunds	51,355	6,190	-	-	-	-	57,545
Intergovernmental transfers	-	-	-	308,892	-	656	309,548
Total receipts	9,538,145	1,060,099	592,253	1,717,681	43,159	1,687,633	14,638,970
Disbursements:							
Current:							
Instruction	3,558,569	-	-	-	-	623,719	4,182,288
Support services	3,596,977	640,485	-	1,403,204	56,226	918,267	6,615,159
Community services	114,894	-	-	-	-	8,103	122,997
Nonprogrammed charges	777,095	78,414	-	-	-	23,932	879,441
Debt services	-	-	427,550	-	-	-	427,550
Total disbursements	8,047,535	718,899	427,550	1,403,204	56,226	1,574,021	12,227,435
Excess (deficiency) of total receipts over (under) total disbursements	1,490,610	341,200	164,703	314,477	(13,067)	113,612	2,411,535
Cash and investments - beginning	525	-	74,105	1,197,312	146,494	413,389	1,831,825
Cash and investments - ending	<u>\$ 1,491,135</u>	<u>\$ 341,200</u>	<u>\$ 238,808</u>	<u>\$ 1,511,789</u>	<u>\$ 133,427</u>	<u>\$ 527,001</u>	<u>\$ 4,243,360</u>

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

SOUTH ADAMS SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Transportation Operating	Rainy Day	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 2,857,150	\$ 795,946	\$ -	\$ 431,805	\$ 1,313,311	\$ 114,287	\$ 452,393	\$ 5,964,892
Intermediate sources	196	-	-	-	-	-	-	196
State sources	5,778,566	-	-	-	-	-	186,614	5,965,180
Federal sources	-	-	-	-	-	-	1,278,973	1,278,973
Sale of property, adjustments and refunds	16,778	603	-	-	-	-	-	17,381
Intergovernmental transfers	-	-	900,000	-	-	-	-	900,000
Total receipts	<u>8,652,690</u>	<u>796,549</u>	<u>900,000</u>	<u>431,805</u>	<u>1,313,311</u>	<u>114,287</u>	<u>1,917,980</u>	<u>14,126,622</u>
Disbursements:								
Current:								
Instruction	3,549,361	-	-	-	-	-	733,829	4,283,190
Support services	3,746,078	604,755	-	-	1,317,664	114,646	1,059,894	6,843,037
Community services	125,320	-	-	-	-	-	24,246	149,566
Nonprogrammed charges	1,692,466	-	-	-	-	-	51,265	1,743,731
Debt services	-	-	-	431,085	-	-	-	431,085
Total disbursements	<u>9,113,225</u>	<u>604,755</u>	<u>-</u>	<u>431,085</u>	<u>1,317,664</u>	<u>114,646</u>	<u>1,869,234</u>	<u>13,450,609</u>
Excess (deficiency) of total receipts over (under) total disbursements	(460,535)	191,794	900,000	720	(4,353)	(359)	48,746	676,013
Cash and investments - beginning	<u>1,491,135</u>	<u>341,200</u>	<u>-</u>	<u>238,808</u>	<u>1,511,789</u>	<u>133,427</u>	<u>527,001</u>	<u>4,243,360</u>
Cash and investments - ending	<u>\$ 1,030,600</u>	<u>\$ 532,994</u>	<u>\$ 900,000</u>	<u>\$ 239,528</u>	<u>\$ 1,507,436</u>	<u>\$ 133,068</u>	<u>\$ 575,747</u>	<u>\$ 4,919,373</u>

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

SOUTH ADAMS SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2005

	Pension Trust Funds
Additions:	
Transfers	\$ 150,000
Deductions:	
Support services	2,025
Excess of total additions over total deductions	147,975
Cash and investments - beginning	95,000
Cash and investments - ending	\$ 242,975

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

SOUTH ADAMS SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2006

	Pension Trust Funds
Additions:	
Transfers	\$ 360,000
Deductions:	
Support services	2,650
Excess of total additions over total deductions	357,350
Cash and investments - beginning	242,975
Cash and investments - ending	\$ 600,325

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

SOUTH ADAMS SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>
Cash and investments	\$ <u>242,975</u>
 <u>Net Assets</u>	
Held in trust for employee benefits and other purposes	\$ <u>242,975</u>

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

SOUTH ADAMS SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
JUNE 30, 2006

<u>Assets</u>	<u>Pension Trust Funds</u>
Cash and investments	\$ <u>600,325</u>
 <u>Net Assets</u>	
Held in trust for employee benefits and other purposes	\$ <u>600,325</u>

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

SOUTH ADAMS SCHOOLS
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 (primary government) is the financial reporting entity.

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 Adams Central Community Schools, North Adams Community Schools, Northern Wells Community Schools, Bluffton-Harrison M.S.D., and Southern Wells Community Schools in a joint venture to operate Adams-Wells Special Services Cooperative (Co-op) which was created to provide instruction for handicapped children. 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 Co-op's administrative offices at 925 North Main Street, Bluffton, IN 46714.

The School Corporation is a participant with Adams Central Community Schools, North Adams Community Schools, Northern Wells Community Schools, Bluffton-Harrison M.S.D., Southern Wells Community Schools, Jay School Corporation and Huntington County Community School Corporation in a joint venture to operate the Vocational Area 18 Cooperative (Co-op) 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 Co-op's administrative offices at One Tiger Trail, Bluffton, IN 46714.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the 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.

SOUTH ADAMS SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 rainy day fund is to account for transfers of unused and unencumbered funds in accordance with Indiana Code 36-1-8-5 and a locally adopted resolution. The fund is subject to the same appropriation process as funds that receive tax money.

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 pension trust fund accounts for the activities of the retirement/severance future benefits fund, which accumulates resources for pension benefit payments.

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.

SOUTH ADAMS SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at rates from 6 days to 10 days per year. Unused sick leave may be accumulated to a maximum of 182 days. Accumulated sick leave up to 50 days 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 15 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 rates from 2 days to 4 days per year. Personal leave does not accumulate from year to year.

SOUTH ADAMS SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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.

SOUTH ADAMS SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. 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.

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.

SOUTH ADAMS SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 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 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.

SOUTH ADAMS SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

B. Interfund Transfers

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

<u>Transfer From</u>	<u>Transfer To</u>	<u>June 30, 2005</u>	<u>June 30, 2006</u>
General	Capital Projects	\$ 230,478	\$ -
General	Rainy Day	-	900,000
General	Other governmental	656	-
Transportation Operating	Capital Projects	<u>78,414</u>	<u>-</u>
Totals		<u>\$ 309,548</u>	<u>\$ 900,000</u>

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

SOUTH ADAMS SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Medical Benefits to Employees

In 1980, the School Corporation joined with other governmental entities to form the School Employee's Benefit Trust, a public entity risk pool currently operating as a common risk management and insurance program for 14 member governmental entities. The purpose of the risk pool is to provide a medium for the funding and administration of medical benefits to employees. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$150,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$150,000 limit.

B. Holding Corporation

The School Corporation has entered into a capital lease with South Adams Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the year ended June 30, 2006, totaled \$430,935.

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.

SOUTH ADAMS SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 77,670
Interest on net pension obligation	(2,630)
Adjustment to annual required contribution	2,998
Annual pension cost	78,038
Contributions made	78,873
Decrease in net pension obligation	(835)
Net pension obligation, beginning of year	(36,282)
Net pension obligation, end of year	\$ (37,117)
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%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 105,404	68%	\$ (22,631)
	06-30-04	64,008	121%	(36,282)
	06-30-05	78,038	123%	(37,117)

SOUTH ADAMS SCHOOLS
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 \$108,646, \$100,993, and \$95,803, respectively. The School Corporation contributed 100% of the required contribution for each of the fiscal years.

SOUTH ADAMS SCHOOLS
 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	\$ 1,660,017	\$ 1,705,826	\$ (45,809)	97%	\$ 1,216,199	(4%)
07-01-04	1,679,308	1,851,162	(171,854)	91%	1,283,971	(13%)
07-01-05	1,741,451	1,795,922	(54,471)	97%	1,153,038	(5%)

SOUTH ADAMS SCHOOLS
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.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 267,529
Buildings	9,355,260
Machinery and equipment	<u>2,211,650</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 11,834,439</u>

SOUTH ADAMS SCHOOLS
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT

June 30, 2006

CAPITAL LEASES

The School Corporation has entered into the following capital leases:

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
South Adams Building Corporation	\$ 1,000,000	\$ 385,000

SOUTH ADAMS SCHOOLS
AUDIT RESULT AND COMMENT

AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS

Records presented for audit to support the Average Daily Membership (ADM) claimed by the School Corporation were not certified by the respective building principal.

Officials should maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM. The building level official (Principal, Assistant Principal, etc.) responsible for reporting ADM to the School Corporation Central Office, should provide a written certification of ADM to properly document responsibility. The certification should at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

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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 SOUTH ADAMS SCHOOLS, ADAMS COUNTY, INDIANA

Compliance

We have audited the compliance of South Adams Schools (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 its major federal program for the years ended June 30, 2005 and 2006. The School Corporation's major federal program is 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 its major federal program 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 its major federal program 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

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 23, 2007

SOUTH ADAMS SCHOOLS
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		\$ -	\$ 7,896
National School Lunch Program	10.555		<u>180,297</u>	<u>170,024</u>
Total for federal grantor agency			<u>180,297</u>	<u>177,920</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010			
		04-0035	93,015	-
		05-0035	599,044	161,876
		06-0035	<u>-</u>	<u>562,569</u>
Total for program			<u>692,059</u>	<u>724,445</u>
Migrant Education - State Grant Program	84.011			
		FY03-04/RM-2	706	-
		FY04-05/RM-15	40,789	-
		FY05-06/RM-19	<u>-</u>	<u>36,479</u>
Total for program			<u>41,495</u>	<u>36,479</u>
Pass-Through North Adams Community Schools				
Vocational Education - Basic Grants to States	84.048			
		03-04	15,156	-
		04-05	3,786	14,223
Pass-Through Area 18 Career and Technical Education				
Vocational Education - Basic Grants to States	84.048			
		05-06	<u>-</u>	<u>557</u>
Total for program			<u>18,942</u>	<u>14,780</u>
Pass-Through Indiana Department of Education				
Safe and Drug Free Schools and Communities - State Grants	84.186			
		03-014	4,611	-
		04-021	17,599	174
		05-076	<u>-</u>	<u>16,537</u>
Total for program			<u>22,210</u>	<u>16,711</u>

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

SOUTH ADAMS SCHOOLS
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)				
State Grants for Innovative Programs	84.298			
		02-152	22	-
		03-121	13,741	40,193
		04-143	8,448	48,872
		05-142	-	12,095
Total for program			<u>22,211</u>	<u>101,160</u>
Education Technology State Grants	84.318			
		03-04	4,844	841
		04-05	-	2,200
		05-06	-	4,262
Total for program			<u>4,844</u>	<u>7,303</u>
Rural Education	84.358			
		04-05	-	45,269
		05-06	-	266
Total for program			<u>-</u>	<u>45,535</u>
English Language Acquisition Grants	84.365			
		03-04	319	-
		04-05	20,720	168
		05-06	-	16,441
Total for program			<u>21,039</u>	<u>16,609</u>
Improving Teacher Quality State Grants	84.367			
		03-015	23,398	-
		04-003	92,750	22,258
		05-010	-	105,726
Total for program			<u>116,148</u>	<u>127,984</u>
Total for federal grantor agency			<u>938,948</u>	<u>1,091,006</u>
Total federal awards expended			<u>\$ 1,119,245</u>	<u>\$ 1,268,926</u>

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

SOUTH ADAMS SCHOOLS
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 South Adams Schools (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
Child nutrition cluster:			
Food commodities:			
National school lunch program	10.555	\$ 32,221	\$ 34,425

SOUTH ADAMS SCHOOLS
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 Program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Educational Agencies

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.

SOUTH ADAMS SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

SOUTH ADAMS SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on January 23, 2007, with Cathy Egolf, Superintendent of Schools; and Jay R. Lahr, Treasurer.