

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

AUDIT REPORT
OF

SOUTH MONTGOMERY COMMUNITY
SCHOOL CORPORATION
MONTGOMERY COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED
02/19/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Karen Simpson	07-01-04 to 06-30-07
Superintendent of Schools	Dr. J. Bret Lewis	07-01-04 to 06-30-07
President of the School Board	David Vice	07-01-04 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 SOUTH MONTGOMERY COMMUNITY
SCHOOL CORPORATION, MONTGOMERY COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Montgomery Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We 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 18, 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 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 18, 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 SOUTH MONTGOMERY COMMUNITY
SCHOOL CORPORATION, MONTGOMERY COUNTY, INDIANA

We have audited the financial statements of the South Montgomery Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 18, 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 18, 2007

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 14,071,752
Restricted assets:	
Cash and investments	<u>35,661</u>
Total assets	<u>\$ 14,107,413</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 35,661
Unrestricted	<u>14,071,752</u>
Total net assets	<u>\$ 14,107,413</u>

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

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 7,759,720
Restricted assets:	
Cash and investments	<u>(5,195)</u>
Total assets	<u>\$ 7,754,525</u>
<u>Net Assets</u>	
Restricted for:	
Debt service	\$ (5,195)
Unrestricted	<u>7,759,720</u>
Total net assets	<u>\$ 7,754,525</u>

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

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 7,026,324	\$ -	\$ 83,741	\$ (6,942,583)
Support services	15,668,906	701,175	172,360	(14,795,371)
Community services	128,843	-	-	(128,843)
Nonprogrammed charges	363,924	-	-	(363,924)
Debt service	10,435,180	-	-	(10,435,180)
Total governmental activities	\$ 33,623,177	\$ 701,175	\$ 256,101	(32,665,901)
General receipts:				
Property taxes				14,855,748
Other local sources				1,542,182
State aid				5,667,088
Grants and contributions not restricted				887,387
Bonds and loans				5,000,000
Sale of property, adjustments, and refunds				643,021
Investment earnings				64,615
Total general receipts				28,660,041
Change in cash and investments				(4,005,860)
Net assets - beginning				18,113,273
Net assets - ending				\$ 14,107,413

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

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 7,191,233	\$ -	\$ 113,221	\$ (7,078,012)
Support services	14,519,253	729,111	249,324	(13,540,818)
Community services	134,665	-	-	(134,665)
Nonprogrammed charges	366,711	-	-	(366,711)
Debt service	5,676,799	-	-	(5,676,799)
Total governmental activities	\$ 27,888,661	\$ 729,111	\$ 362,545	(26,797,005)
General receipts:				
Property taxes				10,563,335
Other local sources				1,059,897
State aid				5,795,025
Grants and contributions not restricted				783,762
Bonds and loans				2,000,000
Sale of property, adjustments, and refunds				124,004
Investment earnings				109,478
Intergovernmental transfers				8,616
				20,444,117
				(6,352,888)
				14,107,413
				\$ 7,754,525

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

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

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Construction	Other	Totals
Receipts:								
Local sources	\$ 7,897,136	\$ 1,905,643	\$ 3,821,494	\$ 2,607,932	\$ 191,645	\$ -	\$ 739,482	\$ 17,163,332
State sources	5,736,596	-	-	-	-	-	139,335	5,875,931
Federal sources	11,091	-	-	-	-	-	941,098	952,189
Bonds and loans	4,000,000	-	1,000,000	-	-	-	-	5,000,000
Sale of property, adjustments and refunds	<u>23,388</u>	<u>6,247</u>	<u>-</u>	<u>7,730</u>	<u>-</u>	<u>588,112</u>	<u>-</u>	<u>625,477</u>
Total receipts	<u>17,668,211</u>	<u>1,911,890</u>	<u>4,821,494</u>	<u>2,615,662</u>	<u>191,645</u>	<u>588,112</u>	<u>1,819,915</u>	<u>29,616,929</u>
Disbursements:								
Current:								
Instruction	6,265,143	-	-	-	-	-	761,181	7,026,324
Support services	4,496,499	1,205,412	-	1,767,267	122,650	7,118,762	958,316	15,668,906
Community services	125,624	-	-	-	-	-	3,219	128,843
Nonprogrammed charges	287,949	-	-	-	-	-	75,975	363,924
Debt services	<u>5,543,287</u>	<u>-</u>	<u>4,891,893</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,435,180</u>
Total disbursements	<u>16,718,502</u>	<u>1,205,412</u>	<u>4,891,893</u>	<u>1,767,267</u>	<u>122,650</u>	<u>7,118,762</u>	<u>1,798,691</u>	<u>33,623,177</u>
Excess (deficiency) of total receipts over (under) total disbursements	949,709	706,478	(70,399)	848,395	68,995	(6,530,650)	21,224	(4,006,248)
Cash and investments - beginning	<u>2,340,864</u>	<u>231,755</u>	<u>106,060</u>	<u>248,173</u>	<u>125,204</u>	<u>14,474,576</u>	<u>553,246</u>	<u>18,079,878</u>
Cash and investments - ending	<u>\$ 3,290,573</u>	<u>\$ 938,233</u>	<u>\$ 35,661</u>	<u>\$ 1,096,568</u>	<u>\$ 194,199</u>	<u>\$ 7,943,926</u>	<u>\$ 574,470</u>	<u>\$ 14,073,630</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	\$ (4,006,248)
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>388</u>
Change in cash and investments of governmental activities	<u>\$ (4,005,860)</u>

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

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Construction	Other	Totals
Receipts:								
Local sources	\$ 5,663,077	\$ 1,384,322	\$ 3,453,809	\$ 1,012,509	\$ 53,077	\$ -	\$ 894,593	\$ 12,461,387
State sources	5,848,278	-	-	-	-	-	267,255	6,115,533
Federal sources	5,500	-	-	-	-	-	831,398	836,898
Bonds and loans	2,000,000	-	-	-	-	-	-	2,000,000
Sale of property, adjustments and refunds	36,593	3,450	-	7,476	-	65,387	-	112,906
Intergovernmental transfers	8,616	-	-	-	-	-	-	8,616
Total receipts	<u>13,562,064</u>	<u>1,387,772</u>	<u>3,453,809</u>	<u>1,019,985</u>	<u>53,077</u>	<u>65,387</u>	<u>1,993,246</u>	<u>21,535,340</u>
Disbursements:								
Current:								
Instruction	6,400,856	-	-	-	-	-	790,377	7,191,233
Support services	4,901,464	1,260,287	-	1,662,625	61,383	5,657,683	975,811	14,519,253
Community services	132,761	-	-	-	-	-	1,904	134,665
Nonprogrammed charges	356,711	-	-	-	-	-	10,000	366,711
Debt services	2,033,107	-	3,489,112	-	-	-	154,580	5,676,799
Total disbursements	<u>13,824,899</u>	<u>1,260,287</u>	<u>3,489,112</u>	<u>1,662,625</u>	<u>61,383</u>	<u>5,657,683</u>	<u>1,932,672</u>	<u>27,888,661</u>
Excess (deficiency) of total receipts over (under) total disbursements	(262,835)	127,485	(35,303)	(642,640)	(8,306)	(5,592,296)	60,574	(6,353,321)
Cash and investments - beginning	3,290,573	938,233	35,661	1,096,568	194,199	7,943,926	574,470	14,073,630
Cash and investments - ending	<u>\$ 3,027,738</u>	<u>\$ 1,065,718</u>	<u>\$ 358</u>	<u>\$ 453,928</u>	<u>\$ 185,893</u>	<u>\$ 2,351,630</u>	<u>\$ 635,044</u>	<u>\$ 7,720,309</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	\$ (6,353,321)
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>433</u>
Change in cash and investments of governmental activities	<u>\$ (6,352,888)</u>

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

	Internal Service Fund
Receipts:	
Local sources	\$ 388
Disbursements:	
Total disbursements	-
Changes in cash and investments	388
Cash and investments - beginning	33,395
Cash and investments - ending	\$ 33,783

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

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

	Internal Service Fund
Receipts:	
Local sources	\$ 433
Disbursements:	
Total disbursements	-
Changes in cash and investments	433
Cash and investments - beginning	33,783
Cash and investments - ending	\$ 34,216

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

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

	<u>Pension Trust Funds</u>
Additions:	
Local sources	\$ 41,236
Bonds and loans	<u>3,150,000</u>
Total additions	<u>3,191,236</u>
Deductions:	
Support services	504,731
Nonprogrammed charges	<u>2,233</u>
Total deductions	<u>506,964</u>
Excess of total additions over total deductions	2,684,272
Cash and investments - beginning	<u>-</u>
Cash and investments - ending	<u><u>\$ 2,684,272</u></u>

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

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

<u>Assets</u>	<u>Agency Funds</u>
Cash and investments	\$ <u>45,432</u>

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

SOUTH MONTGOMERY COMMUNITY 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	\$ 2,684,272	\$ 35,775
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 2,684,272	

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

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

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 Attica Consolidated School Corporation, Covington Community School Corporation, Crawfordsville Community School Corporation, North Montgomery Community School Corporation, North Vermillion Community School Corporation, Southeast Fountain School Corporation, Metropolitan School District of Warren County, and Turkey Run Community School Corporation in a joint venture to operate the West Central Indiana Special Services Cooperative which was created to provide instruction to handicapped children. The School Corporation is obligated for its share of the debts of the West Central Indiana Special Services Cooperative. Complete financial statements for the West Central Indiana Special Services Cooperative can be obtained from the joint venture's administrative office at 808 West Pike Street, Crawfordsville, IN 47933.

The School Corporation is a participant with Attica Consolidated School Corporation, Covington Community School Corporation, Crawfordsville Community School Corporation, North Montgomery Community School Corporation, Southeast Fountain School Corporation, Metropolitan School District of Warren County, and Western Boone Community School Corporation in a joint venture to operate the West Central Indiana Vocational Cooperative which was created to teach students vocational-technical education. The School Corporation is obligated for its share of debts of the West Central Indiana Vocational Cooperative. Complete financial statements for the West Central Indiana Vocational Cooperative can be obtained from the joint venture's administrative office at One Athenian Drive, Crawfordsville, IN 47933.

Related Organizations

The School Corporation's officials are also responsible for appointing the members of the boards of other organizations, but the School Corporation's accountability for these organizations does not extend beyond making the appointments. The School Corporation appoints one board member to the Ladoga/Clark Township Public Library Board and one member to the Waveland/Brown Township Public Library Board.

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. These statements distinguish between governmental and business-type activities.

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS

Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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.

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.

The construction fund is to be used expressly for revenues and expenses associated with the upgrading of the Junior/Senior High School.

Additionally, the School Corporation reports the following fund types:

There is one internal service fund for self-insurance. The School Corporation began utilizing commercial coverage for insurance benefits January 1, 2003. The self-insurance fund is maintained at present to cover contingent liabilities that might arise from the self-insurance period.

The pension trust funds account for the activities of the Retirement/Severance Bond Fund and the VEBA Medical Trust Fund, which accumulate resources for pension benefit payments.

Agency funds account for the payroll clearing accounts.

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.

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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. Due to problems with reassessment, property taxes for 2004 were payable in one installment due November 10, 2004. Property taxes for 2005 were payable on June 20, 2005 and November 10, 2005.

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 10 to 12 days per year based on the time of service. Unused sick leave may be accumulated to a maximum of 180 days. 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 10 days to 15 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

c. Personal Leave

School Corporation employees earn personal leave at the rate of 2 days per year. Noncertified personnel are authorized 2 days per school year except those employed for only 9 months, who are authorized 1 day. Personal time not used reverts to sick leave.

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.

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. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. 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.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

F. Internal and Interfund Balances and Activities

Fund Financial Statements

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

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:

<u>Fund</u>	<u>June 30, 2006</u>
Retirement Bond Fund	\$ <u>5,553</u>

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements.

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

III. Detailed Notes on All Funds

A. 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. Balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

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

Transfer From	Transfer To	2005-2006
Other governmental	General Fund	\$ 8,616

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

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; 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.

B. Holding Corporation

The School Corporation has entered into a capital lease with Southmont School 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 years totaled \$3,642,647 and \$2,774,108, respectively.

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment early retirement 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 19 years of service. Currently, 22 retirees meet these eligibility requirements. The School Corporation pays 100% of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$91,786 were recognized for postemployment benefits.

SOUTH MONTGOMERY COMMUNITY 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.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 105,730
Buildings	29,826,710
Improvements other than buildings	19,785,000
Machinery and equipment	<u>6,483,672</u>
 Total governmental activities, capital assets not being depreciated	 <u><u>\$ 56,201,112</u></u>

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Waveland School	\$ 117,000	\$ 117,000
Southmont #1	2,825,747	271,140
Southmont #2	25,245,000	75,000
Tax Anticipation Warrants	2,000,000	2,000,000
Veteran's Memorial	13,500	3,000
Common School Loan	192,029	43,924
Bonds payable:		
General obligation bonds:		
Pension Bond	3,090,000	155,000
Total governmental activities long-term debt	<u>\$ 33,483,276</u>	<u>\$ 2,665,064</u>

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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
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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 SOUTH MONTGOMERY COMMUNITY
SCHOOL CORPORATION, MONTGOMERY COUNTY, INDIANA

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

STATE BOARD OF ACCOUNTS

January 18, 2007

SOUTH MONTGOMERY 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. S. DEPARTMENT OF AGRICULTURE				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	FY 04-05 FY 05-06	\$ 38,669 -	\$ - 47,840
Total for program			38,669	47,840
National School Lunch Program	10.555	FY 04-05 FY 05-06	148,662 -	- 178,167
Total for program			148,662	178,167
Total for federal grantor agency			187,331	226,007
U. S. DEPARTMENT OF EDUCATION				
Pass-Through Crawfordsville Community School Corporation				
Special Education Cluster				
Special Education Grants to States	84.027	FY 04-05 FY 05-06	437,054 -	- 373,610
Total for program			437,054	373,610
Special Education Preschool	84.173	FY 04-05 FY 05-06	13,659 -	- 10,000
Total for program			13,659	10,000
Total for cluster			450,713	383,610
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010	Project 04-5845 Project 05-5845 Project 06-5845	57,129 96,482 -	- 124,863 169,266
Total for program			153,611	294,129
Pass-Through Indiana Department of Education				
Vocational Education-Basic Grants to States	84.048	FY 04-05 FY 05-06	11,091 -	- 5,500
Total for program			11,091	5,500
Pass-Through Indiana Department of Education				
Safe and Drug Free Schools and Communities-State Grants	84.186	FY 04-05 FY 05-06	14,520 -	- 223
Total for program			14,520	223

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

SOUTH MONTGOMERY 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. S. DEPARTMENT OF EDUCATION (continued)				
Pass-Through Indiana Workforce Development Tech Prep Education	84.243	FY 05-06	-	25,000
Pass-Through Indiana Department of Education Eisenhower Professional Development State Grants	84.281	Project 01-258 FY 04-05	2,170 2,865	- 656
Total for program			5,035	656
Pass-Through Indiana Department of Education State Grants for Innovative Programs	84.298	Project 02-262 Project 02-228 Project 03-234 Project 03-226 Project 04-057	2,035 10,301 1,630 - 3,765	180 11 1,860 7,371 3,696
Total for program			17,731	13,118
Pass-Through Indiana Department of Education Education Technology State Grants	84.318	FY 02-03 FY 03-04	2,754 960	- 2,880
Total for program			3,714	2,880
Pass-Through Indiana Department of Education English Language Acquisition Grants	84.365	FY 04-05	213	-
Pass-Through Indiana Department of Education Improving Teacher Quality State Grants	84.367	Project 03-292 Project 04-035 FY 03-04	39,419 19,710 47,340	15,901 35,545 -
Total for program			106,469	51,446
Total for federal grantor agency			763,097	776,562
Total federal awards expended			<u>\$ 950,428</u>	<u>\$ 1,002,569</u>

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

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

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

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

II. Noncash Assistance

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

Program Title	Federal CFDA Number	2004-2005	2005-2006
National School Lunch Program	10.555	\$ 15,588	\$ 16,050
School Breakfast Program	10.553	4,049	4,406

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weaknesses identified? No
 Reportable conditions identified that are not considered to be material weaknesses? none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:
 Material weaknesses identified? no
 Reportable conditions identified that are not considered to be material weaknesses? none reported

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies 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.

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

SOUTH MONTGOMERY COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on January 18, 2007, with Dr. J. Bret Lewis, Superintendent of Schools; Eric Brewer, Assistant Superintendent of Schools; David Vice, President of the School Board; Karen Simpson, Treasurer; Kay Richardson, former Food Service Director; and Rhonda Wright, Deputy Treasurer. Our audit disclosed no material items that warrant comment at this time.