

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

AUDIT REPORT

OF

WHITKO COMMUNITY SCHOOL CORPORATION

KOSCIUSKO COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED

02/23/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer/Director of Financial Operations	Philip R. Menzie	07-01-04 to 06-30-07
Superintendent of Schools	Dr. Jeffrey Hendrix	07-01-04 to 06-30-07
President of the School Board	J. David Tranter Hal Trump	07-01-04 to 06-30-05 07-01-05 to 06-30-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE WHITKO COMMUNITY SCHOOL
CORPORATION, KOSCIUSKO COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Whitko 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 December 6, 2006, 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 Debt are presented for additional analysis and are not required parts of the basic financial statements. The Schedule of Capital Assets and Schedule of 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

December 6, 2006



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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 WHITKO COMMUNITY SCHOOL
CORPORATION, KOSCIUSKO COUNTY, INDIANA

We have audited the financial statements of the Whitko Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated December 6, 2006. 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

December 6, 2006

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 3,071,718
Restricted assets:	
Cash and investments	<u>636,267</u>
Total assets	<u>\$ 3,707,985</u>
<u>Net Assets</u>	
Restricted for:	
Debt service	\$ 636,267
Unrestricted	<u>3,071,718</u>
Total net assets	<u>\$ 3,707,985</u>

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

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 5,214,272
Restricted assets:	
Cash and investments	<u>978,800</u>
Total assets	<u>\$ 6,193,072</u>
<u>Net Assets</u>	
Restricted for:	
Debt service	\$ 978,800
Unrestricted	<u>5,214,272</u>
Total net assets	<u>\$ 6,193,072</u>

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

WHITKO 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	\$ 5,591,141	\$ -	\$ 112,109	\$ (5,479,032)
Support services	9,308,899	739,400	242,613	(8,326,886)
Community services	151,832	-	-	(151,832)
Nonprogrammed charges	105,423	-	-	(105,423)
Debt service	7,450,953	-	-	(7,450,953)
Total governmental activities	\$ 22,608,248	\$ 739,400	\$ 354,722	(21,514,126)
General receipts:				
Property taxes				8,120,610
Other local sources				1,504,586
State aid				7,728,785
Grants and contributions not restricted				830,077
Bonds and loans				3,543,427
Sale of property, adjustments, and refunds				101,910
Investment earnings				55,573
Total general receipts				21,884,968
Change in cash and investments				370,842
Net assets - beginning				3,337,143
Net assets - ending				\$ 3,707,985

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

WHITKO 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	\$ 5,724,500	\$ -	\$ 86,161	\$ (5,638,339)
Support services	11,917,948	754,017	263,141	(10,900,790)
Community services	141,079	-	-	(141,079)
Nonprogrammed charges	97,277	-	-	(97,277)
Debt service	5,357,940	-	-	(5,357,940)
Total governmental activities	\$ 23,238,744	\$ 754,017	\$ 349,302	(22,135,425)
General receipts:				
Property taxes				7,804,140
Other local sources				1,447,781
State aid				8,000,398
Grants and contributions not restricted				755,147
Bonds and loans				1,881,255
Sale of property, adjustments, and refunds				4,636,768
Investment earnings				95,023
Total general receipts				24,620,512
Change in cash and investments				2,485,087
Net assets - beginning				3,707,985
Net assets - ending				\$ 6,193,072

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

WHITKO 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	\$ 4,379,873	\$ 771,521	\$ 2,284,389	\$ 1,592,921	\$ 264,124	\$ -	\$ 927,339	\$ 10,220,167
Intermediate sources	343	-	-	-	-	-	337	680
State sources	7,829,488	-	-	-	-	-	126,081	7,955,569
Federal sources	-	-	-	-	-	-	958,016	958,016
Bonds and loans	2,354,643	279,875	268,606	506,166	134,137	-	-	3,543,427
Sale of property, adjustments and refunds	51,565	1,408	-	1,300	-	-	22,348	76,621
Intergovernmental transfers	192	100,000	-	-	-	-	14,385	114,577
Total receipts	14,616,104	1,152,804	2,552,995	2,100,387	398,261	-	2,048,506	22,869,057
Disbursements:								
Current:								
Instruction	5,303,332	-	-	-	-	-	287,809	5,591,141
Support services	3,592,734	731,299	-	1,543,455	200,236	-	1,369,385	7,437,109
Community services	130,927	-	-	-	-	-	20,905	151,832
Nonprogrammed charges	1,710,739	499	101,493	1,032	176	-	92,183	1,906,122
Debt services	3,626,522	288,833	2,637,653	611,801	190,875	-	95,269	7,450,953
Total disbursements	14,364,254	1,020,631	2,739,146	2,156,288	391,287	-	1,865,551	22,537,157
Excess (deficiency) of total receipts over (under) total disbursements	251,850	132,173	(186,151)	(55,901)	6,974	-	182,955	331,900
Cash and investments - beginning	1,276,079	64,932	761,225	487,297	53,768	80,370	513,516	3,237,187
Cash and investments - ending	<u>\$ 1,527,929</u>	<u>\$ 197,105</u>	<u>\$ 575,074</u>	<u>\$ 431,396</u>	<u>\$ 60,742</u>	<u>\$ 80,370</u>	<u>\$ 696,471</u>	<u>\$ 3,569,087</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	\$ 331,900
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>38,942</u>
Change in cash and investments of governmental activities	<u>\$ 370,842</u>

WHITKO 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	\$ 4,057,176	\$ 790,325	\$ 2,160,069	\$ 1,767,104	\$ 251,636	\$ 17,047	\$ 869,304	\$ 9,912,661
Intermediate sources	343	-	-	-	-	-	762	1,105
State sources	8,072,181	-	-	-	-	-	113,213	8,185,394
Federal sources	-	-	-	-	-	-	919,452	919,452
Bonds and loans	869,408	260,060	24,706	591,923	135,158	-	-	1,881,255
Sale of property, adjustments and refunds	180,969	738	-	-	-	4,383,120	23,046	4,587,873
Intergovernmental transfers	-	50,489	-	-	-	-	59,788	110,277
Total receipts	13,180,077	1,101,612	2,184,775	2,359,027	386,794	4,400,167	1,985,565	25,598,017
Disbursements:								
Current:								
Instruction	5,418,289	-	-	-	-	-	306,211	5,724,500
Support services	3,867,330	728,766	14,335	1,520,972	221,103	2,264,386	1,491,062	10,107,954
Community services	131,476	-	-	-	-	-	9,603	141,079
Nonprogrammed charges	1,723,620	-	50,489	-	-	-	139,567	1,913,676
Debt services	2,401,454	294,068	1,761,649	615,209	190,291	-	95,269	5,357,940
Total disbursements	13,542,169	1,022,834	1,826,473	2,136,181	411,394	2,264,386	2,041,712	23,245,149
Excess (deficiency) of total receipts over (under) total disbursements	(362,092)	78,778	358,302	222,846	(24,600)	2,135,781	(56,147)	2,352,868
Cash and investments - beginning	1,527,929	197,105	575,074	431,396	60,742	80,370	696,471	3,569,087
Cash and investments - ending	<u>\$ 1,165,837</u>	<u>\$ 275,883</u>	<u>\$ 933,376</u>	<u>\$ 654,242</u>	<u>\$ 36,142</u>	<u>\$ 2,216,151</u>	<u>\$ 640,324</u>	<u>\$ 5,921,955</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	\$ 2,352,868
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>132,219</u>
Change in cash and investments of governmental activities	<u>\$ 2,485,087</u>

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

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 199,321
Sale of property, adjustments and refunds	31,411
Transfers	<u>1,680,000</u>
Total receipts	<u>1,910,732</u>
Disbursements:	
Support services	<u>1,871,790</u>
Changes in cash and investments	38,942
Cash and investments - beginning	<u>99,956</u>
Cash and investments - ending	<u>\$ 138,898</u>

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

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

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 193,318
Sale of property, adjustments and refunds	48,895
Transfers	<u>1,700,000</u>
Total receipts	<u>1,942,213</u>
Disbursements:	
Support services	<u>1,809,994</u>
Changes in cash and investments	132,219
Cash and investments - beginning	<u>138,898</u>
Cash and investments - ending	<u><u>\$ 271,117</u></u>

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

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

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ 33,648	\$ 89,612
Sale of property, adjustments and refunds	-	2,771
Total additions	33,648	92,383
Deductions:		
Instruction	-	112,726
Support services	67,577	7,608
Community services	-	3,184
Nonprogrammed charges	-	2,971
Total deductions	67,577	126,489
Deficiency of total additions under total deductions	(33,929)	(34,106)
Cash and investments - beginning	1,716,152	153,064
Cash and investments - ending	\$ 1,682,223	\$ 118,958

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

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

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ 63,380	\$ 94,343
Sale of property, adjustments and refunds	-	4
Total additions	63,380	94,347
Deductions:		
Instruction	-	93,601
Support services	78,870	5,664
Community services	-	743
Nonprogrammed charges	-	100
Total deductions	78,870	100,108
Deficiency of total additions under total deductions	(15,490)	(5,761)
Cash and investments - beginning	1,682,223	118,958
Cash and investments - ending	\$ 1,666,733	\$ 113,197

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

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

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 1,682,223	\$ 118,958	\$ 88,635
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 1,682,223	\$ 118,958	

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

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

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 1,666,733	\$ 113,197	\$ 88,666
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 1,666,733	\$ 113,197	

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

WHITKO COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

The School Corporation's financial reporting entity is composed of the following:

Primary Government: Whitko Community School Corporation

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 four other school corporations in a joint venture to operate North Central Indiana Special Education Cooperative (NCI) which was created to implement jointly operated services for the education of students with disabilities. NCI's continued existence depends on continued funding through a federal grant program. Participating school corporations employ personnel and provide facilities for local special education programs housed within its boundaries. Member school corporations are assessed their share of the program administrative costs. No other fees are assessed member school corporations for the operation of this program, unless personnel or facilities are shared with another member school corporation. The School Corporation may be obligated for the debts of the Consortium should they not be covered by the grant. As of June 30, 2006, NCI had \$546,208 payable to member school corporations. This balance resulted from selling the administration building and other resources. The School Corporation's share of this balance was \$258,753. Complete financial statements for NCI can be obtained from its administrative office at One Administration Drive, Warsaw, Indiana, 46581.

The School Corporation is a participant with Columbia City Schools, Smith-Green School Corporation and the Whitley County Court System in a joint venture to operate the Youth Improvement Center, an alternative education program, which was created to offer alternative education for applicable students. The School Corporation is obligated by contract to remit \$8,160 for the first five students and \$1,632 for each student over five annually to supplement the Youth Improvement Center. The Youth Improvement Center's continued existence depends on continued funding by the School Corporation. Complete financial statements for the Youth Improvement Center can be obtained from the Youth Improvement Center at 201 W Market St., Columbia City, Indiana, 46725.

The School Corporation is a participant with several other school corporations in a joint venture to operate the Northern Indiana Education Services Center (NIESC) which was created to provide educational services for the school corporations. The School Corporation is obligated by contract to remit a fee based upon a formula per ADM annually to supplement the NIESC. NIESC's continued existence depends on continued funding by the School Corporation. Complete financial statements for NIESC can be obtained from its administrative office at 56535 Magnetic Drive, Mishawaka, Indiana, 46545.

WHITKO COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

The School Corporation is a participant with two other school corporations in a joint venture to operate the Warsaw Area Career Center (WACC) which was created to provide vocational education to its students. The School Corporation is obligated by contract to remit a fee based upon a formula per ADM annually to supplement WACC. WACC's continued existence depends on continued funding by the School Corporation. Complete financial statements for WACC can be obtained from its administrative office at 1 Administration Drive, Warsaw, Indiana, 46580.

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 has no business type activities.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. 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 accounts for planned construction, replacement or remodeling of school corporation buildings.

WHITKO COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Additionally, the School Corporation reports the following fund types:

The internal service fund accounts for the receipts and disbursements of the self-insured medical and dental insurance coverage for all employees.

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

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the individuals.

Agency funds account for assets held by the School Corporation as an agent for other governmental units and students and serve as control of accounts for certain cash transactions during the time they are a liability to the School Corporation.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The School Corporation has elected not to follow subsequent private-sector guidance.

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 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.

WHITKO COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

School corporation employees earn sick leave at the rate of 7 days per year and certified employees earn 10 days in the first year of employment. Unused sick leave may be accumulated to a maximum of 35 to 50 days for noncertified employees depending upon the employee classification and 130 days for certified employees. Accumulated sick leave is paid to certified employees hired prior to July 1, 2000, through cash payments upon termination of employment.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service and employee classification. Vacation leave does not accumulate from year to year.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 2 to 5 days per year based upon employee classification. Unused personal leave may be accumulated to a maximum of 4 days for teachers and 5 days for administrators. Accumulated personal leave is not paid to employees upon termination of employment.

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.

WHITKO COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Long-Term Debt

Long-term debts arising from cash basis transactions of governmental and proprietary funds are 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 and (2) operating grants and contributions. 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.

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.

WHITKO COMMUNITY SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Fund Financial Statements

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

Government-Wide Financial Statements

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

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, 2006, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

Fund	2005	2006
Afternoons Rock Grant	\$ -	\$ 108

WHITKO COMMUNITY SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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

III. Detailed Notes on All Funds

A. Deposits

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.

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>2005</u>	<u>2006</u>
General Fund	Other governmental	\$ 192	\$ -
General Fund	Internal Service	1,680,000	1,700,000
Debt Service	Transportation Operating	100,000	50,489
Other governmental	Other governmental	<u>14,385</u>	<u>59,788</u>
Totals		<u>\$ 1,794,577</u>	<u>\$ 1,810,277</u>

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

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There are no significant reductions in insurance by major category of risk.

WHITKO COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Medical Benefits to Employees, Retirees, and Dependents

The School Corporation has chosen to establish a risk financing fund for risks associated with employee and retiree health claims. The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$100,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all funds with payrolls and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon calculations using trends in actual claims experience.

B. Holding Corporations

The School Corporation has entered into capital leases with the Whitko Middle School Building Corporation, the Whitko Community School Corporation Remodeling Building Corporation, and the Whitko High School Building Corporation (the lessors). The lessors were organized as not-for-profit corporations pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the year totaled \$995,000.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation with at least fifteen years of service. Currently, three retirees meet these eligibility requirements. The retirees provide 100% of the premium and the School Corporation pays for the covered health benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$13,551 were recognized for postemployment benefits.

I. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. 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.

WHITKO COMMUNITY SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 48,953
Interest on net pension obligation	(5,488)
Adjustment to annual required contribution	6,254
Annual pension cost	49,719
Contributions made	54,727
Decrease in net pension obligation	(5,008)
Net pension obligation, beginning of year	(75,691)
Net pension obligation, end of year	\$ (80,699)
Contribution rates:	
School Corporation	4%
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

WHITKO COMMUNITY SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Actuarial Assumptions	PERF
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	\$ 60,821	115%	\$ (55,744)
	06-30-04	44,914	144%	(75,691)
	06-30-05	49,719	122%	(80,699)

b. Whitko Community School Corporation Certified Employees 401(a) Pension Plan

Plan Description

In accordance with the provisions of SEA 199 passed by the Indiana State Legislature in 2001 and the agreement with the teachers labor union dated August 1, 2005, the School Corporation has established a 401(a) pension plan administered by VALIC Financial Advisors, Inc., as authorized by Indiana Code 5-10-1.1-1(2). The plan provides retirement benefits to plan members. The Plan Administrator can provide information on this plan upon request. That information may be obtained by contacting:

VALIC Financial Advisors, Inc.
 630 W. Carmel Dr., Suite 140
 Carmel, In 46032

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the School Corporation and the Plan Administrator. Currently the School Corporation will match any tax deferred employee contributions to the plan up to a maximum of one half of one per cent (00.5%) of the teacher's base salary. During this audit period, additions to the plan consisted of both employee and employer contributions in accordance with the above formula.

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

WHITKO COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$186,033, \$184,869, and \$192,033, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

WHITKO COMMUNITY SCHOOL CORPORATION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
01-07-03	\$ 1,199,301	\$ 1,031,574	\$ 167,727	116%	\$ 1,133,377	15%
01-07-04	1,220,048	1,091,049	128,999	112%	1,161,047	11%
01-07-05	1,263,054	1,278,249	(15,195)	99%	1,141,967	(1%)

WHITKO 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	\$ 142,800
Buildings	41,376,242
Improvements other than buildings	751,514
Machinery and equipment	<u>4,403,487</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 46,674,043</u>

WHITKO COMMUNITY SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF DEBT

June 30, 2006

Description	Ending Balance	Due Within One Year
Governmental Activities:		
Short-Term:		
Tax Anticipation Warrants		
General Fund	637,597	637,597
Debt Service Fund	24,706	24,706
Capital Projects Fund	482,880	482,880
Transportation Operating Fund	212,726	212,726
School Bus Replacement Fund	<u>67,579</u>	<u>67,579</u>
 Total Short-Term	 <u>1,425,488</u>	 <u>1,425,488</u>
Long-Term Debt:		
Capital leases:		
Whitko Middle School	\$ 6,190,000	\$ 815,000
Remodeling Lease	2,450,000	265,000
Whitko High School Additions and Renovations	15,835,000	-
Notes and loans payable	43,750	43,750
Bonds payable:		
General obligation bonds:		
Teacher's Pension Bonds	<u>1,825,000</u>	<u>-</u>
 Total Long-Term	 <u>26,343,750</u>	 <u>1,123,750</u>
 Total	 <u>\$ 27,769,238</u>	 <u>\$ 2,549,238</u>

WHITKO COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

CASH RECEIPTS NOT DEPOSITED PROPERLY (Applies to Whitko Middle School)

Examination disclosed that the Extra-Curricular Treasurer cashed checks for students instead of depositing intact all monies in the same form as received. Personal checks from employees were also cashed. School Lunch receipts in the form of checks included payment for other fees due from the student. The Extra-Curricular Treasurer cashed the check and gave the lunch fee to the School Lunch Director who collects for the school lunch program. The Extra-Curricular Treasurer does not handle school lunch money.

Indiana Code 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."

DEPOSITS NOT MADE WITHIN A REASONABLE TIME (Applies to Whitko Middle School)

Receipts were not always deposited within a reasonable time. Receipts, in some instances, were held for periods in excess of two weeks before depositing. Deposits in a two month period were taken to the bank twice in each month.

Indiana Code 20-41-1-9 states in part: ". . . receipts shall be deposited without unreasonable delay."

EXTRA-CURRICULAR ACCOUNT EDUCATIONAL FEES (Applies to All Schools)

Educational fees and textbook rental fees were receipted to and retained in many separate funds for the Extra-Curricular Account. Funds for computer usage, science, testing, physical education, art and performance art fees were set-up. These educational fees were collected, receipted, and disbursed from the individual Schools. The fees were forwarded to the School Corporation's General Fund to be receipted as miscellaneous revenue.

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

All educational functions are the specific responsibility of the governing body (board of school trustees, etc.) of the school corporation acting on its behalf (IC 20-26-5-4). This includes providing the facilities and equipment. All monies received for educational purposes, including those related to educational programs or facilities must be receipted to school corporation funds.

If a student in a vocational (shop, home economics, etc.) class, voluntarily begins a project for which special materials are necessary and which will result in a product which the student will take home for personal use, an amount equal to the actual cost of the special materials may be collected from the student and receipted to a fund in the extra curricular account for the specific purpose of providing the special materials. Any extra curricular fund established for this purpose should contain no balance at the end of the school year, since the collections from students equals the expenditures for the materials. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

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 THE WHITKO COMMUNITY SCHOOL
CORPORATION, KOSCIUSKO COUNTY, INDIANA

Compliance

We have audited the compliance of the Whitko 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. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2006-1.

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)

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School Corporation's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Finding No. 2006-1.

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 the 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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

December 6, 2006

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

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
U. S. DEPARTMENT OF AGRICULTURE				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 22,354	\$ 26,211
National School Lunch Program	10.555		210,796	206,633
Total for federal grantor agency			<u>233,150</u>	<u>232,844</u>
U. S. DEPARTMENT OF EDUCATION				
Pass-Through Warsaw Community Schools				
Special Education Cluster (IDEA)				
Special Education - Grants to States				
	84.027	14203-045-PY08	1,818	-
		14204-045-PN01	14,577	-
		14204-045-PY02	14,385	-
		14205-045-DY02	-	2,203
		14205-045-SN01	317,508	65,605
		14205-045-SN01	2,830	2,017
		14206-045-PN01	-	304,329
		14205-045-PY02	-	12,249
Total for program			<u>351,118</u>	<u>386,403</u>
Special Education - Preschool				
	84.173	47705-045-PY02	-	5,056
		45705-045-PN01	7,265	837
		FT2006 Carryover	-	104
Total for program			<u>7,265</u>	<u>5,997</u>
Total for cluster			<u>358,383</u>	<u>392,400</u>
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies				
	84.010	01-4455	79	-
		04-4455	10,392	-
		05-4455	194,479	55,878
		06-4455	-	225,628
		Part D Delinquent FY 2005	26,520	16,739
		Part D Delinquent FY 2006	-	31,719
Total for program			<u>231,470</u>	<u>329,964</u>
Improving Teacher Quality, Education Tech. Title II, Part D				
	84.138	FY 2005	799	3,336
Safe and Drug Free Schools and Communities - State Grants				
	84.186	01-175	19	-
		03-084	6,675	2,315
		04-217	-	7,417
Total for program			<u>6,694</u>	<u>9,732</u>
State Grants for Innovative Programs				
	84.298	03-110	5,464	-
		04-200	2,345	-
		05-042	-	6,330
Total for program			<u>7,809</u>	<u>6,330</u>
English Language Acquisition Grants				
	84.365	FY 2005	291	429
		FY 2006	-	1,107
Total for program			<u>291</u>	<u>1,536</u>
Improving Teacher Quality State Grants				
	84.367	FY 2004	80,011	-
		FY 2005	28,191	54,158
		FY 2006	-	27,574
Total for program			<u>108,202</u>	<u>81,732</u>
Total for federal grantor agency			<u>713,648</u>	<u>825,030</u>
Total federal awards expended			<u>\$ 946,798</u>	<u>\$ 1,057,874</u>

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

WHITKO 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 Whitko 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. Subrecipients

Of the federal expenditures presented in the schedule, the School Corporation provided federal awards to subrecipients as follows for the years ended June 30, 2005 and 2006:

Program Title	Federal CFDA Number	2005	2006
Title I Grants to Local Educational Agencies	84.010	<u>\$ 26,520</u>	<u>\$ 48,458</u>

III. 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
National School Lunch Program	10.555	<u>\$ 42,177</u>	<u>\$ 35,294</u>

WHITKO 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?	yes

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	Special Education (IDEA) Cluster 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? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-1, PERIOD OF AVAILABILITY

Federal Agency: Department of Education
 Federal Programs: Special Education - Grants to States and Title I grants to Local Educational Agencies
 CFDA Numbers: 84.027 and 84.010
 Federal Award Numbers: Special Education – Grants to States, 14205-045-SN01: Title I Grants to Local Educational Agencies, 05-4455, Part D Delinquent FY 2005 and Part D Delinquent FY 2006
 Pass-Through Entity – Indiana Department of Education

WHITKO COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Grants had expenditures and closeout of the funds outside of the period of availability.

Special Education - Grants to States FY 2005 had \$5,910 expenditures and adjustments made as late as May 31, 2006, and the transfer of \$13,429.65 was made February 28, 2006. Closeout of the Fund for FY 2005 was September 30, 2005.

Title I grants to Local Educational Agencies 05-4455 transferred \$36,394.39, the carryover amount, to the FY 2006 Grant Fund on October 30, 2005. The School Corporation did receive the waiver to carryover to FY 2006 an amount greater than 15%.

Title I grants, Part D, Delinquent FY 2005 had FY 2006 grant activity posted and adjustments posted to the Fund as late as April 2006. The closeout transfer of FY 2005 to FY 2006 occurred June 30, 2006. All activity in the Fund should have ended September 30, 2005.

Title I grants, Part D, Delinquent FY 2006 was not closed until November 30, 2006, with the transfer of \$11,687.06 to FY 2007.

34CFR 80.23 states:

"Period of availability of funds:

(a) General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

(b) Liquidation of obligations. A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee."

Failure to monitor cash balances and posting of expenses can lead to expenditures not being posted to the proper appropriations for which they were budgeted and to inaccurate reporting. Failure to transfer funds timely can lead to unknown funding available.

We recommended School Officials initiate procedures to establish controls and monitor the matching of expenditures and appropriations and to make fiscal yearend transfers timely.

WHITKO COMMUNITY SCHOOL CORPORATION

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PHILIP R. MENZIE, RSBO
DIRECTOR OF FINANCIAL OPERATIONS

October 17, 2006

Finding Number 2004-1

Original SBA Audit Report Number B25028

Fiscal Year(s) 2003 & 2004

Auditee Contact Person Philip R. Menzie 

Title of Contact Person Director of Financial Operations

Phone Number (574) 594-2658

Status of Finding

Oversight for our Title grants (as well as other grants) has been assigned to Ms. Ruth Jones, Pierceton Elementary Principal. Ms. Jones and her staff monitor the expenditures on a monthly basis for appropriateness. If expenditures have been assigned to incorrect categories, corrections are made when the error is noted. If expenditure categories differ more than the allowed amount, we would file for an amendment for that grant period.

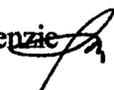
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PHILIP R. MENZIE, RSBO
DIRECTOR OF FINANCIAL OPERATIONS

December 5, 2006

TO: State Board of Accounts
FROM: Phil Menzie 
RE: Finding No. 2006-1

In response to your above-referenced audit finding, in future years, we will monitor expenditures during the period of availability for our grants much more closely. We will make every effort to post expenses to the proper grant year and to transfer any carryover amounts prior to the end of the period. Payroll postings will be monitored at the beginning of each school year to get the expenditures in the grant fund that has been set up for the new year.

"Excellence for All"

WHITKO COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on January 11, 2007, with Philip R. Menzie, Treasurer/
Director of Financial Operations; Dr. Jeffrey Hendrix, Superintendent of Schools; and Hal Trump, President of
the School Board. The officials concurred with our audit findings.