

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

AUDIT REPORT  
OF  
NORTH DAVIESS COMMUNITY SCHOOLS  
DAVIESS COUNTY, INDIANA  
July 1, 2004 to June 30, 2006



**FILED**  
02/26/2007



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Glenda O'Connor	07-01-04 to 06-30-07
Superintendent of Schools	Robert W. Bell	07-01-04 to 06-30-07
President of the School Board	Greg Bechtel Darin Holder	07-01-04 to 06-30-06 07-01-06 to 06-30-07



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE NORTH DAVIESS COMMUNITY SCHOOLS, DAVIESS COUNTY, INDIANA

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated January 11, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

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

The Schedule of Funding Progress as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

January 11, 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 NORTH DAVIESS COMMUNITY SCHOOLS, DAVIESS COUNTY, INDIANA

We have audited the financial statements of the North Daviess Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 11, 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 11, 2007

NORTH DAVIESS COMMUNITY SCHOOLS  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 2,780,711
Restricted assets:	
Cash and investments	<u>18,094</u>
Total assets	<u>\$ 2,798,805</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 18,094
Unrestricted	<u>2,780,711</u>
Total net assets	<u>\$ 2,798,805</u>

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

NORTH DAVIESS COMMUNITY SCHOOLS  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 3,328,043
Restricted assets:	
Cash and investments	<u>61,585</u>
Total assets	<u>\$ 3,389,628</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 61,585
Unrestricted	<u>3,328,043</u>
Total net assets	<u>\$ 3,389,628</u>

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

NORTH DAVIESS COMMUNITY SCHOOLS  
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	\$ 3,142,831	\$ -	\$ 51,985	\$ (3,090,846)
Support services	5,945,038	390,757	172,038	(5,382,243)
Community services	110,919	-	-	(110,919)
Nonprogrammed charges	905,712	-	-	(905,712)
Debt service	1,287,263	-	-	(1,287,263)
	<u>\$ 11,391,763</u>	<u>\$ 390,757</u>	<u>\$ 224,023</u>	<u>(10,776,983)</u>
Total government activities				
General receipts:				
Property taxes				6,310,473
Other local sources				774,374
State aid				3,853,763
Grants and contributions not restricted				946,996
Sale of property, adjustments, and refunds				864
Investment earnings				56,151
				<u>11,942,621</u>
				Change in cash and investments
				1,165,638
				Net assets - beginning
				1,633,167
				Net assets - ending
				<u>\$ 2,798,805</u>

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

NORTH DAVIESS COMMUNITY SCHOOLS  
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	\$ 3,319,230	\$ -	\$ 41,032	\$ (3,278,198)
Support services	5,376,020	245,223	300,972	(4,829,825)
Community services	124,985	-	-	(124,985)
Nonprogrammed charges	610,667	-	-	(610,667)
Debt service	1,378,411	-	-	(1,378,411)
<b>Total government activities</b>	<b><u>\$ 10,809,313</u></b>	<b><u>\$ 245,223</u></b>	<b><u>\$ 342,004</u></b>	<b><u>(10,222,086)</u></b>
General receipts:				
Property taxes				4,677,355
Other local sources				717,741
State aid				4,486,122
Grants and contributions not restricted				731,416
Sale of property, adjustments, and refunds				77,710
Investment earnings				<u>122,565</u>
<b>Total general receipts</b>				<b><u>10,812,909</u></b>
<b>Change in cash and investments</b>				<b>590,823</b>
<b>Net assets - beginning</b>				<b><u>2,798,805</u></b>
<b>Net assets - ending</b>				<b><u>\$ 3,389,628</u></b>

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

NORTH DAVIESS COMMUNITY SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2005

	General	Transportation Operating	Local Rainy Day Fund	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
<b>Receipts:</b>								
Local sources	\$ 3,327,297	\$ 837,171	\$ -	\$ 1,577,202	\$ 1,210,565	\$ -	\$ 541,911	\$ 7,494,146
Intermediate sources	35,951	-	-	-	-	-	300	36,251
State sources	3,907,699	-	-	-	-	-	76,812	3,984,511
Federal sources	64	-	-	-	-	-	1,041,565	1,041,629
Sale of property, adjustments and refunds	664	-	-	-	-	-	200	864
Intergovernmental transfers	65,112	-	350,000	-	-	-	36,657	451,769
<b>Total receipts</b>	<b>7,336,787</b>	<b>837,171</b>	<b>350,000</b>	<b>1,577,202</b>	<b>1,210,565</b>	<b>-</b>	<b>1,697,445</b>	<b>13,009,170</b>
<b>Disbursements:</b>								
<b>Current:</b>								
Instruction	2,638,063	-	-	-	-	-	504,768	3,142,831
Support services	3,377,415	458,735	-	-	909,809	41,499	1,157,580	5,945,038
Community services	109,698	-	-	-	-	-	1,221	110,919
Nonprogrammed charges	899,752	353,883	-	7,227	71,066	-	25,553	1,357,481
Debt services	-	-	-	1,196,500	-	-	90,763	1,287,263
<b>Total disbursements</b>	<b>7,024,928</b>	<b>812,618</b>	<b>-</b>	<b>1,203,727</b>	<b>980,875</b>	<b>41,499</b>	<b>1,779,885</b>	<b>11,843,532</b>
Excess (deficiency) of total receipts over (under) total disbursements	311,859	24,553	350,000	373,475	229,690	(41,499)	(82,440)	1,165,638
Cash and investments - beginning	898,920	320,248	190,000	(355,381)	150,151	43,913	385,316	1,633,167
Cash and investments - ending	<u>\$ 1,210,779</u>	<u>\$ 344,801</u>	<u>\$ 540,000</u>	<u>\$ 18,094</u>	<u>\$ 379,841</u>	<u>\$ 2,414</u>	<u>\$ 302,876</u>	<u>\$ 2,798,805</u>

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

NORTH DAVIESS COMMUNITY SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2006

	General	Transportation Operating	Local Rainy Day Fund	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 2,500,781	\$ 665,983	\$ -	\$ 1,248,439	\$ 886,324	\$ -	\$ 455,856	\$5,757,383
Intermediate sources	3,507	414	-	-	-	-	506	4,427
State sources	4,520,251	-	-	-	-	-	185,863	4,706,114
Federal sources	-	-	-	-	-	-	854,502	854,502
Sale of property, adjustments and refunds	-	-	-	-	77,425	-	285	77,710
Intergovernmental transfers	45,221	-	260,000	-	-	-	63,400	368,621
Total receipts	<u>7,069,760</u>	<u>666,397</u>	<u>260,000</u>	<u>1,248,439</u>	<u>963,749</u>	<u>-</u>	<u>1,560,412</u>	<u>11,768,757</u>
Disbursements:								
Current:								
Instruction	2,877,247	-	-	-	-	-	441,983	3,319,230
Support services	2,959,435	545,038	-	-	1,022,866	-	848,681	5,376,020
Community services	120,903	-	-	-	-	-	4,082	124,985
Nonprogrammed charges	593,160	265,094	-	16,263	6,443	-	98,328	979,288
Debt services	-	-	-	1,195,500	-	-	182,911	1,378,411
Total disbursements	<u>6,550,745</u>	<u>810,132</u>	<u>-</u>	<u>1,211,763</u>	<u>1,029,309</u>	<u>-</u>	<u>1,575,985</u>	<u>11,177,934</u>
Excess (deficiency) of total receipts over (under) total disbursements	519,015	(143,735)	260,000	36,676	(65,560)	-	(15,573)	590,823
Cash and investments - beginning	<u>1,210,779</u>	<u>344,801</u>	<u>540,000</u>	<u>18,094</u>	<u>379,841</u>	<u>2,414</u>	<u>302,876</u>	<u>2,798,805</u>
Cash and investments - ending	<u>\$ 1,729,794</u>	<u>\$ 201,066</u>	<u>\$ 800,000</u>	<u>\$ 54,770</u>	<u>\$ 314,281</u>	<u>\$ 2,414</u>	<u>\$ 287,303</u>	<u>\$3,389,628</u>

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

NORTH DAVIESS COMMUNITY SCHOOLS  
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	\$ -	\$ 4,019
Bonds and loans	1,429,700	-
Total additions	1,429,700	4,019
Deductions:		
Instruction	-	3,215
Support services	1,429,700	-
Total deductions	1,429,700	3,215
Excess of total additions over total deductions	-	804
Cash and investments - beginning	-	408
Cash and investments - ending	\$ -	\$ 1,212

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

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

	Private-Purpose Trust Funds
Additions:	
Local sources	\$ 4,093
Deductions:	
Instruction	3,567
Excess of total additions over total deductions	526
Cash and investments - beginning	1,212
Cash and investments - ending	\$ 1,738

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

NORTH DAVIESS COMMUNITY SCHOOLS  
 STATEMENT OF CASH AND INVESTMENTS  
 FIDUCIARY FUNDS  
 June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ <u>          -</u>	\$ <u>      1,212</u>
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ <u>          -</u>	\$ <u>      1,212</u>

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

NORTH DAVIESS COMMUNITY SCHOOLS  
STATEMENT OF CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
June 30, 2006

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ <u>1,738</u>
<u>Net Assets</u>	
Held in trust for employee benefits and other purposes	\$ <u>1,738</u>

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

NORTH DAVIESS COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Primary Government: North Daviess Community Schools

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 34 other schools in a joint venture to operate Southern Indiana Education Center (SIEC) which was created to operate and maintain the educational service center in order to allow participating schools to cooperate and share certain programs and services. The School Corporation is obligated by contract to remit annually a fee for membership in an amount determined by the governing board of the SIEC. The School Corporation is obligated for the debts of the SIEC. Complete financial statements for the SIEC can be obtained from Southwest Dubois County School Corporation at P.O. Box 396, Huntingburg, IN 47542.

The School Corporation is a participant with eight other schools in a joint venture to operate the Southern Indiana School Trust which was created to provide a program of group insurance.

The School Corporation is a participant with eleven other schools in a joint venture to operate the Twin Rivers Vocational Area which was created to develop and operate vocational education for students of the participating schools. The School Corporation is obligated by contract to remit annually a prorated amount based upon each participating school corporations' enrollment. The Twin Rivers Vocational Area uses its surplus resources to provide vocational education for participating schools. The School Corporation is obligated for the debts of the Twin Rivers Vocational Area. Complete financial statements for the Twin Rivers Vocational Area can be obtained from Twin Rivers Vocational Area, 301 E. South Street, Washington, IN 47501.

The School Corporation is a participant with three other schools in a joint venture to operate the Daviess-Martin Special Education Cooperative which was created to develop and operate special education programs for students within the jurisdiction of the participating school corporations. The School Corporation is obligated by contract to remit annually a prorated amount based upon each participating schools enrollment to supplement the Cooperative. The Cooperative uses its surplus resources to undertake special projects for the School Corporation. The Cooperative's continued existence depends on continued funding by the School Corporation. The School Corporation is obligated for the debts of the Cooperative. Complete financial statements for the Daviess-Martin Special Education Cooperative can be obtained from the Cooperative at 9 W. Main Street, Washington, IN 47401.

NORTH DAVIESS COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 a board member of the Odon-Winkelpleck Library.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

NORTH DAVIESS COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Additionally, the School Corporation reports the following fund types:

The pension trust funds account for the activities of the Retirement/Severance Bonds, which accumulate resources for pension benefit payments.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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 or internal service 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.

NORTH DAVIESS COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

Certified personnel earn sick leave at the rate of 20 days per year. Unused sick leave may be accumulated to a maximum of 255 days for certified personnel.

b. Vacation Leave

Nonteaching or administrative School Corporation employees earn vacation leave at rates from 5 days to 15 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

c. Personal Leave

Certified personnel earn personal leave at the rate of 5 days per year. Unused leave may be accumulated to a maximum of 10 days for certified personnel. Unused personal leave beyond the maximum accumulation is transferred to sick leave.

d. Noncertified Leave

Noncertified personnel earn 15 days per year. Leave may be accumulated to a maximum of 100 days. Employees are paid \$20 per day up to the 100 days upon retirement.

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.

NORTH DAVIESS COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

- 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.

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

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

Government-Wide Financial Statements

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

NORTH DAVIESS COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

1. Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities and Net Assets – Cash and Investment Basis.
2. Primary government and component unit activity and balances – Resource flows between the primary government and the discretely-presented component units are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

II. Stewardship, Compliance and Accountability

Budgetary Information

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

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied 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.

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

NORTH DAVIESS COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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	\$ 15,610	\$ 31,776
Transportation Operating	Rainy Day Fund	350,000	260,000
	Other governmental	3,883	5,094
Debt Service	Other governmental	7,227	9,979
Capital Projects	General Fund	65,112	6,443
	Other governmental	5,954	-
All others	General Fund	-	28,108
	Debt Service	-	7,227
	Capital Projects	-	5,954
	Transportation Operating	-	3,883
	Other governmental	3,983	10,157
Totals		<u>\$ 451,769</u>	<u>\$ 368,621</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; 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 North Daviess 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 ended June 30, 2005 and 2006, were \$1,194,000 and \$1,795,000, respectively.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health 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 15 years of service. Currently, 12 retirees meet

NORTH DAVIESS COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

these eligibility requirements. The School Corporation pays a flat amount towards health insurance premiums. The amount varied depending on the master contract in effect when the employee retired. For the contribution into the retirement account, the School Corporation pays a flat amount per year as set in the master contract. During the year ended June 30, 2006, disbursements of \$63,000 were recognized for postemployment benefits.

I. Pension Plans

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

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

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

Funding Policy and Annual Pension Cost

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

NORTH DAVIESS COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 27,526
Interest on net pension obligation	(639)
Adjustment to annual required contribution	728
Annual pension cost	27,615
Contributions made	26,532
Increase in net pension obligation	1,083
Net pension obligation, beginning of year	(8,811)
Net pension obligation, end of year	\$ (7,728)
Contribution rates:	
School Corporation	8%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

NORTH DAVIESS COMMUNITY SCHOOLS  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-03	\$ 25,611	121%	\$ (4,062)
	06-30-04	22,889	121%	(8,811)
	06-30-05	27,615	116%	(7,728)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund  
 150 West Market Street  
 Indianapolis, IN 46204  
 Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 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 \$131,829, \$108,525, and \$101,940, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

NORTH DAVIESS COMMUNITY SCHOOLS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 87,406	\$ 114,114	\$ (26,708)	77%	\$ 316,788	(8%)
07-01-04	107,260	163,675	(56,415)	66%	366,001	(15%)
07-01-05	128,443	215,109	(86,666)	60%	394,415	(22%)

NORTH DAVIESS COMMUNITY SCHOOLS  
AUDIT RESULT AND COMMENT

OVERDRAWN FUND BALANCES (Applies to High School/Middle School ECA)

The Boys Basketball, Boys Track, Agriculture, and Business Professions of America funds were all reduced below zero during the 2004-2005 school year. The Band, Jr. High Student Council, and Industrial Arts funds were all reduced below zero during the 2005-2006 school year.

The balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE NORTH DAVIESS COMMUNITY SCHOOLS, DAVIESS COUNTY, INDIANA

Compliance

We have audited the compliance of the North Daviess Community Schools (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to 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 11, 2007

NORTH DAVIESS COMMUNITY SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 40,275	\$ 29,335
National School Lunch Program	10.555		136,199	131,626
Total for cluster			176,474	160,961
Total for Federal Grantor Agency			176,474	160,961
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies				
FY 03-04	84.010	03-1375	110,269	-
FY 04-05		04-1375	321,025	106,192
FY 05-06		05-1375	-	314,345
Total for program			431,294	420,537
Safe and Drug Free Schools and Communities - State Grants				
FY 04-05	84.186	04-244	13,600	-
FY 05-06		05-269	-	18,907
Total for program			13,600	18,907
State Grants for Innovative Programs				
SY 04-05	84.298	04-035	4,096	1,456
SY 05-06		05-003	-	1,573
Total for program			4,096	3,029
Education Technology State Grants				
SY 04-05	84.318		254,940	-
SY 05-06			-	99,112
Total for program			254,940	99,112
English Language Acquisition Grants				
SY 04-05	84.365		18,260	-
SY 05-06			-	24,268
Total for program			18,260	24,268
Improving Teacher Quality State Grants				
FY 04-05	84.367	04-006	165,978	-
FY 05-06		05-003	-	91,716
Total for program			165,978	91,716
Total for federal grantor agency			888,168	657,569
Total federal awards expended			\$ 1,064,642	\$ 818,530

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

NORTH DAVIESS COMMUNITY SCHOOLS  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

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

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

II. Noncash Assistance

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

Program Title	Federal CFDA Number	2005	2006
Child nutrition cluster	10.555	\$ 12,775	\$ 9,217

NORTH DAVIESS COMMUNITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

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

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

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

Identification of Major Programs:

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

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

NORTH DAVIESS COMMUNITY SCHOOLS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

NORTH DAVIESS COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on January 11, 2007, with Glenda O'Connor, Treasurer; and Robert W. Bell, Superintendent of Schools. The officials concurred with our audit finding.