

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

AUDIT REPORT

OF

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION

HARRISON COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED
02/26/2007

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials.....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	3-4
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.....	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Cash and Investments	6-7
Statement of Cash Activities	8-9
Fund Financial Statements:	
Governmental Funds:	
Statement of Receipts, Disbursements, and Cash and Investment Balances – Governmental Funds.....	10-11
Fiduciary Funds:	
Statement of Receipts, Disbursements, and Changes in Cash and Investments – Fiduciary Funds.....	12-13
Statement of Cash and Investments – Fiduciary Funds.....	14-15
Notes to Financial Statements	16-25
Required Supplementary Information:	
Schedule of Funding Progress	26
Supplementary Information:	
Schedule of Capital Assets.....	27
Schedule of Long-Term Debt.....	28
Audit Results and Comments:	
Band Uniforms Purchased From Capital Projects Fund	29
Overdrawn Fund Balances	29
Honors Diplomas – Incorrect Reporting to the State	29
Supplemental Audit of Federal Awards:	
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	32-33
Schedule of Expenditures of Federal Awards.....	34-35
Notes to Schedule of Expenditures of Federal Awards	36
Schedule of Findings and Questioned Costs.....	37-38
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings.....	39
Corrective Action Plan.....	40-41
Exit Conference.....	42

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Pamela L. Seipel	07-01-04 to 06-30-07
Superintendent of Schools	Dr. Neyland G. Clark	07-01-04 to 06-30-09
President of the School Board	Michael A. McGraw Jeffery L. Brown	01-01-04 to 12-31-06 01-01-07 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE SOUTH HARRISON COMMUNITY
SCHOOL CORPORATION, HARRISON COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Harrison 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 presents 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 24, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

January 24, 2007



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE SOUTH HARRISON COMMUNITY
SCHOOL CORPORATION, HARRISON COUNTY, INDIANA

We have audited the financial statements of the South Harrison Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 24, 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 instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

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 24, 2007

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 4,708,724
Restricted assets:	
Cash and investments	<u>980,010</u>
Total assets	<u>\$ 5,688,734</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 980,010
Unrestricted	<u>4,708,724</u>
Total net assets	<u>\$ 5,688,734</u>

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

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 10,014,501
Restricted assets:	
Cash and investments	<u>3,265,704</u>
Total assets	<u>\$ 13,280,205</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 3,265,704
Unrestricted	<u>10,014,501</u>
Total net assets	<u>\$ 13,280,205</u>

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

SOUTH HARRISON 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	\$ 10,444,473	\$ -	\$ 176,638	\$ (10,267,835)
Support services	14,521,826	968,829	430,001	(13,122,996)
Community services	339,111	-	-	(339,111)
Nonprogrammed charges	1,437,272	-	-	(1,437,272)
Debt service	<u>7,486,324</u>	<u>-</u>	<u>-</u>	<u>(7,486,324)</u>
Total governmental activities	<u>\$ 34,229,006</u>	<u>\$ 968,829</u>	<u>\$ 606,639</u>	<u>(32,653,538)</u>
General receipts:				
Property taxes				10,975,842
Other local sources				2,441,057
State aid				10,982,561
Grants and contributions not restricted				2,645,626
Bonds and loans				3,800,000
Sale of property, adjustments, and refunds				183,314
Investment earnings				122,431
Transfers:				
Intergovernmental				<u>756,734</u>
Total general receipts and transfers				<u>31,907,565</u>
Change in cash and investments				(745,973)
Net assets - beginning				<u>6,434,707</u>
Net assets - ending				<u>\$ 5,688,734</u>

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

SOUTH HARRISON 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	\$ 10,007,370	\$ -	\$ 132,434	\$ (9,874,936)
Support services	15,316,358	968,955	479,554	(13,867,849)
Community services	325,124	-	-	(325,124)
Nonprogrammed charges	1,449,816	-	-	(1,449,816)
Debt service	8,714,091	-	-	(8,714,091)
Total governmental activities	\$ 35,812,759	\$ 968,955	\$ 611,988	(34,231,816)
General receipts:				
Property taxes				18,462,962
Other local sources				5,145,882
State aid				11,487,235
Grants and contributions not restricted				1,836,212
Bonds and loans				3,800,000
Sale of property, adjustments, and refunds				221,934
Investment earnings				330,938
Transfers:				
Intergovernmental				538,124
Total general receipts and transfers				41,823,287
Change in cash and investments				7,591,471
Net assets - beginning				5,688,734
Net assets - ending				\$ 13,280,205

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

SOUTH HARRISON 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	Other	Totals
Receipts:							
Local sources	\$ 5,963,972	\$ 1,301,221	\$ 3,022,750	\$ 2,902,746	\$ 126,012	\$ 1,190,594	\$ 14,507,295
Intermediate sources	-	-	-	-	-	863	863
State sources	11,158,615	-	-	-	-	213,996	11,372,611
Federal sources	-	-	-	-	-	2,862,216	2,862,216
Bonds and loans	3,300,000	500,000	-	-	-	-	3,800,000
Sale of property, adjustments and refunds	277	-	-	-	-	183,037	183,314
Intergovernmental transfers	174,971	-	-	-	-	581,763	756,734
Total receipts	<u>20,597,835</u>	<u>1,801,221</u>	<u>3,022,750</u>	<u>2,902,746</u>	<u>126,012</u>	<u>5,032,469</u>	<u>33,483,033</u>
Disbursements:							
Current:							
Instruction	9,380,459	-	-	-	-	1,064,014	10,444,473
Support services	7,111,567	1,530,689	-	2,691,558	235,668	2,952,344	14,521,826
Community services	326,417	-	-	-	-	12,694	339,111
Nonprogrammed charges	702,868	-	-	-	-	734,404	1,437,272
Debt services	3,000,000	400,000	4,086,324	-	-	-	7,486,324
Total disbursements	<u>20,521,311</u>	<u>1,930,689</u>	<u>4,086,324</u>	<u>2,691,558</u>	<u>235,668</u>	<u>4,763,456</u>	<u>34,229,006</u>
Excess (deficiency) of total receipts over (under) total disbursements	76,524	(129,468)	(1,063,574)	211,188	(109,656)	269,013	(745,973)
Cash and investments - beginning	376,259	94,441	2,043,584	2,617,917	328,668	973,838	6,434,707
Cash and investments - ending	<u>\$ 452,783</u>	<u>\$ (35,027)</u>	<u>\$ 980,010</u>	<u>\$ 2,829,105</u>	<u>\$ 219,012</u>	<u>\$ 1,242,851</u>	<u>\$ 5,688,734</u>

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

SOUTH HARRISON 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	Other	Totals
Receipts:							
Local sources	\$ 9,500,802	\$ 2,038,806	\$ 7,299,785	\$ 4,436,460	\$ 220,659	\$ 1,409,546	\$ 24,906,058
Intermediate sources	1,649	-	-	-	-	1,031	2,680
State sources	11,618,935	-	-	-	-	136,558	11,755,493
Federal sources	-	-	-	-	-	2,179,941	2,179,941
Bonds and loans	3,300,000	500,000	-	-	-	-	3,800,000
Sale of property, adjustments and refunds	3,040	-	-	-	-	218,894	221,934
Intergovernmental transfers	-	17,443	-	-	-	520,681	538,124
Total receipts	<u>24,424,426</u>	<u>2,556,249</u>	<u>7,299,785</u>	<u>4,436,460</u>	<u>220,659</u>	<u>4,466,651</u>	<u>43,404,230</u>
Disbursements:							
Current:							
Instruction	8,895,395	-	-	-	-	1,111,975	10,007,370
Support services	7,528,757	1,588,460	-	2,582,478	169,535	3,447,128	15,316,358
Community services	313,076	-	-	-	-	12,048	325,124
Nonprogrammed charges	1,146,642	-	100,000	17,443	-	185,731	1,449,816
Debt services	3,300,000	500,000	4,914,091	-	-	-	8,714,091
Total disbursements	<u>21,183,870</u>	<u>2,088,460</u>	<u>5,014,091</u>	<u>2,599,921</u>	<u>169,535</u>	<u>4,756,882</u>	<u>35,812,759</u>
Excess (deficiency) of total receipts over (under) total disbursements	3,240,556	467,789	2,285,694	1,836,539	51,124	(290,231)	7,591,471
Cash and investments - beginning	452,783	(35,027)	980,010	2,829,105	219,012	1,242,851	5,688,734
Cash and investments - ending	<u>\$ 3,693,339</u>	<u>\$ 432,762</u>	<u>\$ 3,265,704</u>	<u>\$ 4,665,644</u>	<u>\$ 270,136</u>	<u>\$ 952,620</u>	<u>\$ 13,280,205</u>

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

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

	Private-Purpose Trust Funds
Additions:	
Local sources	\$ 76,688
Intermediate sources	65,199
State sources	9,792
Sale of property, adjustments and refunds	1,044,600
Total additions	1,196,279
Deductions:	
Instruction	339,996
Support services	975,774
Community services	4,689
Total deductions	1,320,459
Deficiency of total additions under total deductions	(124,180)
Cash and investments - beginning	3,703,338
Cash and investments - ending	\$ 3,579,158

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

SOUTH HARRISON 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	\$ -	\$ 134,082
Intermediate sources	-	35,680
State sources	-	750
Bonds and loans	6,906,900	-
Sale of property, adjustments and refunds	-	1,038,000
Total additions	6,906,900	1,208,512
Deductions:		
Instruction	-	307,891
Support services	20,346	623,403
Community services	-	744
Total deductions	20,346	932,038
Excess of total additions over total deductions	6,886,554	276,474
Cash and investments - beginning	-	3,579,158
Cash and investments - ending	\$ 6,886,554	\$ 3,855,632

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

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

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ <u>3,579,158</u>
<u>Net Assets</u>	
Held in trust for employee benefits and other purposes	\$ <u>3,579,158</u>

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

SOUTH HARRISON 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>
Cash and investments	\$ <u>6,886,554</u>	\$ <u>3,855,632</u>
 <u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ <u>6,886,554</u>	\$ <u>3,855,632</u>

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

SOUTH HARRISON 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: South Harrison 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 Ventures

The School Corporation is a participant with North Harrison Community School Corporation and Lanesville Community School Corporation in a joint venture to operate the Harrison County Exceptional Learners Cooperative (Co-op) which was created to provide instruction for handicapped children. The Co-op is funded by a federal program (Special Education – State Grants, CFDA No. 84.027) and the participating schools. All proceeds of this federal program were received by the South Harrison Community School Corporation. The Co-op's continued existence depends on a continued funding by this federal program and the participating schools. Complete financial activity for the Co-op is presented in the governmental funds on the financial statements of the South Harrison Community School Corporation (Other Governmental Funds). The School Corporation has posted Co-op expenses to various funds. At June 30, 2006, these funds had deficit balances of \$649,334. This deficit existed primarily because the School Corporation had not billed and collected funding from the participating schools. By December 31, 2006, this deficit had decreased to \$101,772.

The School Corporation is a participant along with several other local school corporations in a joint venture to operate the Wilson Education Center (Center) which was created to perform educational planning on a cooperative basis and to assist in meeting specific educational needs of the participating school districts which could be more effectively provided by an education service center than by the school corporations themselves. The School Corporation is obligated by contract to remit a membership fee based on the Corporation's total enrollment. The membership fee is established annually by the Center's Board of Directors. The membership fees paid by each participating school corporation are only a small portion of the funding used to operate the Center. Complete financial information for the Wilson Education Center can be obtained from the Center's administrative offices at 11440 Highway 62, Charlestown, IN 47111.

The School Corporation is a participant with several other local school corporations in the vocational services provided by the Charles Allen Prosser Vocational and Technical Training Center (Center). The Administrative Advisory committee, which provides recommendations for the operations of the

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

Center, consists of a representative from each participating School Corporation. The Board that governs the financing and operations of the Center is the Board of School Trustees of the New Albany-Floyd County Consolidated School Corporation. The operating expenses of the Center are computed on a per student cost and each participating School Corporation is billed on the number of students attending the Center. The financial activity of the Center is presented as part of the General Fund of the New Albany-Floyd County Consolidated School Corporation.

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.

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

Additionally, the School Corporation reports the following fund types:

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

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the School Corporation's employees and students.

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.

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

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

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

3. Compensated Absences

a. Sick Leave

Certified personnel earn sick leave at the rate of 12 days the first year and 10 days in each succeeding year. Unused sick leave may be accumulated to a maximum of 120 days.

Noncertified personnel earn sick leave at the rate of 7 days per year for 9 month employees and 8 days per year for 12 month employees. Unused sick leave may be accumulated to a maximum of 80 days for full-time employees and 40y days for part-time employees. Accumulated sick leave is paid to employees through cash payments upon retirement.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 10 days to 20 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 3 personal days and 1 emergency day per year. Noncertified personnel earn two personal days and one emergency day per year. Unused personal days accumulate as sick leave.

4. Capital Assets

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

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

It is the School Corporation’s policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

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

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Cash and Investments and the 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

Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

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

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statements of Cash and Investments and the 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 Activities and Net Assets – Cash and Investment Basis

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

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

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Cash and Investment Balance Deficits

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

Fund	2005	2006
Special Education Co-op Joint Services	\$ (234,957)	\$ (557,492)
Special Education Co-op Part B	(163,349)	(82,586)

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

B. Interfund Transfers

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

Transfer From	Transfer To	2005	2006
General fund	Other governmental	\$ 76,866	\$ 310,650
Capital projects fund	Transportation operating	-	17,443
Debt service fund	Other governmental	-	100,000
Other governmental	General fund	174,971	-
	Other governmental	504,897	110,031
Totals		\$ 756,734	\$ 538,124

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

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

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 Corporations

The School Corporation has entered into capital leases with South Harrison Community School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. Lease payments during the audit period totaled \$8,818,187.

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 on or after attaining age 55 with at least 30 years of service. Currently, 43 retirees meet these eligibility requirements. The School Corporation and retirees provide 44% to 66% and 34% to 56%, respectively, of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$144,000 were recognized for postemployment benefits.

D. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

SOUTH HARRISON 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	\$ 159,665
Interest on net pension obligation	(9,396)
Adjustment to annual required contribution	10,708
Annual pension cost	160,977
Contributions made	170,263
Decrease in net pension obligation	(9,286)
Net pension obligation, beginning of year	(129,606)
Net pension obligation, end of year	\$ (138,892)
Contribution rates:	
School Corporation	6%
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

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

<u>Actuarial Assumptions</u>	<u>PERF</u>
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

<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	\$ 170,588	91%	\$ (100,557)
06-30-04	135,374	121%	(129,606)
06-30-05	160,977	126%	(138,892)

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

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

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 \$409,908, \$356,692, and \$288,791, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

SOUTH HARRISON 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)	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	\$ 2,335,377	\$ 2,416,279	\$ (80,902)	97%	\$ 2,531,355	(3%)
07-01-04	2,406,943	2,727,716	(320,773)	88%	2,589,222	(12%)
07-01-05	2,542,681	2,939,423	(396,742)	87%	2,681,855	(15%)

SOUTH HARRISON 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	\$ 255,294
Buildings	73,912,533
Improvements other than buildings	730,446
Machinery and equipment	6,787,901
Construction in progress	<u>31,274,003</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 112,960,177</u>

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Capital leases:		
New Middletown Elementary	\$ 2,375,000	\$ 115,000
Corydon Central Junior High School	12,430,000	620,000
Heth Washington/South Central Project	13,910,000	460,000
Corydon Central High School and Corydon Elementary School	27,440,000	840,000
Bonds payable:		
General obligation bonds:		
Pension bonds - Retirement and Severance payments	<u>7,000,000</u>	<u>60,000</u>
Total long-term debt	<u>\$ 63,155,000</u>	<u>\$ 2,095,000</u>

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

BAND UNIFORMS PURCHASED FROM CAPITAL PROJECTS FUND

\$38,000 was disbursed in December 2005, for the purchase of band uniforms from the Capital Projects Fund.

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Payments or transfers which are not authorized by statute, ordinance, resolution, or court order must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OVERDRAWN FUND BALANCES

There were several funds which had overdrawn cash balances during the audit period.

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 Indiana Public School Corporations, Chapter 9)

HONORS DIPLOMAS - INCORRECT REPORTING TO THE STATE

The information presented for audit indicates the number of students receiving academic honors diplomas as reported by the School Corporation to the Indiana Department of Education on Form DOE-GR, Graduate Report, were incorrect for the school years ending June 30, 2005 and 2006, as follows:

<u>School Year</u>	<u>Academic Honors Count Reported On DOE-GR</u>	<u>Actual Figures</u>	<u>Difference</u>
2004-2005	41	42	1
2005-2006	46	47	1

School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment applicable to the School Corporation because of incorrect reporting. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE SOUTH HARRISON COMMUNITY
SCHOOL CORPORATION, HARRISON COUNTY, INDIANA

Compliance

We have audited the compliance of the South Harrison 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 item 2006-2.

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 24, 2007

SOUTH HARRISON 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>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 99,526	\$ 106,533
National School Lunch Program	10.555		<u>341,402</u>	<u>383,527</u>
Total for federal grantor agency			<u>440,928</u>	<u>490,060</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Special Education Cluster (IDEA)				
Special Education - Grants to States				
FY 03-04 C/O	84.027		-	-
FY 03-04 C/O		14204-028-PY02	278,245	-
FY 04-05		14203-028-DY08	5,523	-
FY 04-05		14205-028-PN01	1,098,878	-
FY 04-05		14205-028-SN01	18,813	775
FY 04-05 C/O		14205-028-PY01	-	127,491
FY 05-06		14206-048-PN01	-	1,000,000
FY 05-06		14206-028-SN01	-	<u>19,188</u>
Total for program			<u>1,401,459</u>	<u>1,147,454</u>
Special Education - Preschool Grants				
FY 04-05	84.173		76,564	3,305
FY 05-06		45705-028-PN01	-	5,907
FY 05-06		45706-028-PN01	-	-
Total for program			<u>76,564</u>	<u>9,212</u>
Total for cluster			<u>1,478,023</u>	<u>1,156,666</u>
Title 1 Grants to Local Educational Agencies				
FY 03-04 CSR	84.010	04-3190	17,066	-
FY 04-05 CSR		05-3190	94,417	100,489
FY 05-06 CSR		06-3190	-	137,654
FY 04-05 (2)		05-3190	3,223	169
FY 05-06 (2)		06-3190	-	6,664
FY 03-04 CSR		04-3190	94,795	-
FY 04-05		05-3190	216,333	81,519
FY 05-06		06-3190	-	<u>184,730</u>
Total for program			<u>425,834</u>	<u>511,225</u>
Pass-Through New Albany-Floyd County Consolidated School Corporation				
Vocational Education - Basic Grants to States				
FY 04-05	84.048	04-4700-45-2400	21,681	-
FY 05-06		05-4700-45-2400	-	21,403
Total for program			<u>21,681</u>	<u>21,403</u>
Pass-Through Indiana Family and Social Services Administration				
Rehabilitation Services - Vocational Rehabilitation Grants to States				
FY 04-05	84.126	31-4-VF-1975-01	41,070	-
Pass-Through Indiana Department of Education				
Safe and Drug Free Schools and Communities - State Grants				
SY 2002-2004	84.186	02-219	13,387	-
SY 2003-2005		03-238	5,074	8,992
Total for program			<u>18,461</u>	<u>8,992</u>

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

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF EDUCATION (continued)</u>				
Pass-Through Indiana Department of Education (continued)				
Education for Homeless Children and Youth	84.196			
FY 03-04			613	-
FY 04-05			<u>34,703</u>	<u>3,173</u>
Total for program			<u>35,316</u>	<u>3,173</u>
State Grants for Innovative Programs	84.298			
SY 02-03		02-296	611	-
SY 03-04		03-255	<u>16,241</u>	<u>3,916</u>
Total for program			<u>16,852</u>	<u>3,916</u>
Education Technology State Grants	84.318			
SY 03-04			15,086	-
SY 04-05			<u>-</u>	<u>2,706</u>
Total for program			<u>15,086</u>	<u>2,706</u>
Improving Teacher Quality State Grants	84.367			
SY 2003-2004		03-132	91,108	30,081
SY 2004-2005		04-084	<u>-</u>	<u>91,515</u>
Total for program			<u>91,108</u>	<u>121,596</u>
Total for federal grantor agency			<u>2,143,431</u>	<u>1,829,677</u>
Total federal awards expended			<u>\$ 2,584,359</u>	<u>\$ 2,319,737</u>

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

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

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the South Harrison 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 Unittypes shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Noncash Assistance

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

Program Title	Federal CFDA Number	2005	2006
Child Nutrition Cluster			
Food Commodities			
School Breakfast Program	10.553	\$ 7,287	\$ 9,570
National School Lunch Program	10.555	24,807	34,181

SOUTH HARRISON 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?	yes

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?	yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Special Education Cluster Title 1 Grants to Local Educational Agencies

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

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

FINDING 2006-1, OVERDRAWN FUND BALANCES

South Harrison Community School Corporation is a participant with North Harrison Community School Corporation and Lanesville Community School Corporation in a joint venture to operate the Harrison County Exceptional Learners Cooperative (Co-op). The Co-op was created to provide instruction for handicapped children. The Co-op is funded by federal grants and funds provided by the participating School Corporations.

The Joint Service Agreement states that South Harrison Community School Corporation will be the Administering Corporation. The Superintendent’s Governing Board minutes state that “Each participating corporation’s share will be divided into four payments. The first payment shall be due and payable after August 1 and prior to August 15. The second payment shall be due and payable after October 1 and prior to October

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

15. The third payment shall be deemed due and payable after January 1 and prior to January 15. The remaining one-fourth shall be due and payable at the end of the fiscal year upon billing by the Legal Educational Agency" (Administering Corporation).

The School Corporation has posted Co-op expenses to various funds. The funds had deficit balances at June 30, 2006, totaling \$649,334.49 that primarily resulted from the participating schools not having paid their share of the Co-op's expenses. The deficit balance had been reduced to \$101,772.40 at December 31, 2006, primarily because the South Harrison Community School Corporation paid their share of 2005-2006 expenses of \$537,621.77 and an estimated amount of \$306,687.64 for 2006-2007. North Harrison Community School paid \$164,521.35 in January 2007 as their share for the 2005-2006 school year.

The School Corporation should comply with the Co-op agreement by billing each participating school corporation timely to prevent deficit balances from existing. Each participating school corporation should also budget sufficient monies to pay their share of the Co-op's expenses.

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 Indiana Public School Corporations, Chapter 9)

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-2, CASH MANAGEMENT

Federal Agency: U.S. Department of Education
Federal Program: Title 1 Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Numbers: 05-3190, 06-3190
Pass-Through Entity: Indiana Department of Education

The School Corporation maintained cash balances in excess of current needs for 21 of the 24 months during the period audited for the Title 1 Grants to Local Educational Agencies.

34 CFR 80.20(b)(7) states in part: "Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursements by grantees and sub-grantees must be followed whenever advance payment procedures are used...Grantees must monitor cash draw downs by their sub-grantees to assure that they conform substantially to the same standards of timing and amount as apply to the grantees."

Failure to adhere to this requirement could cause the School Corporation to be deemed ineligible to receive federal awards in the future.

We recommended that the School Corporation design and properly monitor procedures that would ensure that federal funds be disbursed in a timely manner.

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



315 South Harrison Drive, Corydon, IN 47112 • Phone (812) 738-2168 • Fax (812) 738-2158

*Dr. Neyland G. Clark
Superintendent*

Indiana State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, Indiana 46204-2738

*Jeff Hauswald
Assistant Superintendent*

Re: Official Response - Corrective Action Plan: Exceptional Learners Cooperative

*Carolyn Wallace CPA
Director of
Business Operations*

Section II - Finding Number 2006-1. Overdrawn Fund Balances

*Linda Burnham
Director of Technology*

South Harrison Community School Corporation continues to closely monitor fund balances associated with the Harrison County Exceptional Learners Cooperative. Final billings have been paid in full by all participating corporations through the 2005-2006 school year. Due to several years of transition, the amounts payable from each of the participating corporations have significantly fluctuated from year to year. These transitions are now stabilizing and projected billings are becoming more accurate. Thus, it is anticipated that beginning with the budget cycle 2007-2008, interim billings can be prepared and each of the corporations will have budgeted adequate funding within their general operations for their share of the cooperative expenses.

*Bruce Kulwicki
Director of Exceptional
Learners*

Further, cash management requests for grant receipts are being aligned to a month-by-month projection that aligns to actual and projected expenditure patterns. Past practice has been to receive these funds in equal payments that do not create excessive cash balances. However, sometimes, negative balances are generated.

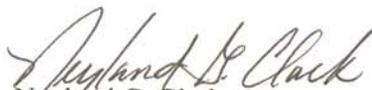
*Sam Day
Transportation
Coordinator*

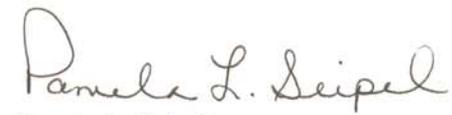
In summary, the corrective actions set forth above along with continued monitoring, should assure that compliance with all reporting requirements will be achieved.

*Jill Timberlake
Director of
Title I Program*

Respectfully submitted,

*The mission of South
Harrison Community
School Corporation is to
create an environment
which develops, nurtures
and reinforces the
success of students as
well as all people served
by the corporation.
Further, through the
shared involvement of
home, community and
school, our purpose is to
develop and provide
quality work to prepare
each student to think,
reason and participate in
a diverse society as a
lifelong, self-directed
learner.*


Neyland G. Clark
Superintendent


Pamela L. Seipel
Treasurer

*An Equal Opportunity
Employer*



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Indiana State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, Indiana 46204-2738

Re: Official Response - Corrective Action Plan: Title I

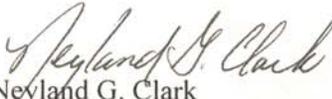
Section III - Finding Number 2006-2. Cash Management

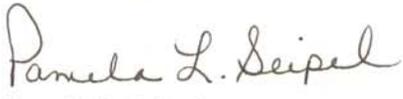
South Harrison Community School Corporation will review the procedures for the submission of cash management requests associated with Federal Title 1 Grants. These requests are being aligned to a month-by-month projection that aligns to actual and projected expenditure patterns. Past practice has been to receive these funds in equal payments over the term of the grant period. Further, the Federal No Child Left Behind Act imposed new requirements that funds be held aside in the event that schools within our corporation do not meet Adequate Yearly Progress. This requirement, coupled with the practice of equal payment projections, caused the excessive cash balance.

As directed by the Indiana Department of Education, a waiver request has been submitted to permit these excess funds as a one-time exception. Also submitted to the Indiana Department of Education is an amended request to allow these funds to be expended in a manner that is within the intent of the Federal Title 1 program. South Harrison is awaiting a response from the Indiana Department of Education concerning this request. South Harrison will promptly comply with the direction set forth by the Indiana Department of Education concerning the waiver request.

In summary, the corrective action set forth above along with continued monitoring, should assure that compliance with all reporting requirements will be achieved.

Respectfully submitted,


Neyland G. Clark
Superintendent


Pamela L. Seipel
Treasurer

SOUTH HARRISON COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2007, with Dr. Neyland G. Clark, Superintendent of Schools; Pamela L. Seipel, Treasurer; and Jeffery L. Brown, President of the School Board. The officials concurred with our audit findings.