

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

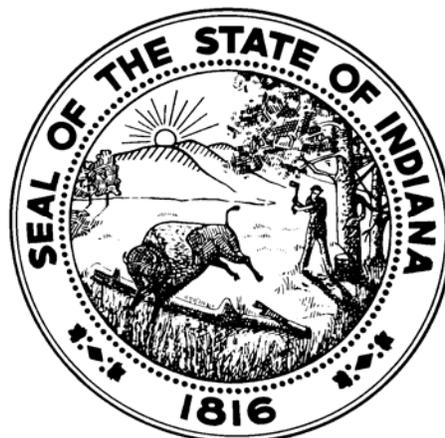
AUDIT REPORT

OF

WARSAW COMMUNITY SCHOOLS

KOSCIUSKO 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
Proprietary Fund:	
Statement of Receipts, Disbursements, and Changes in Cash and Investments – Proprietary Fund.....	12-13
Fiduciary Funds:	
Statement of Receipts, Disbursements, and Changes in Cash and Investments – Fiduciary Funds.....	14-15
Notes to Financial Statements	16-29
Required Supplementary Information:	
Schedule of Funding Progress	30
Supplementary Information:	
Schedule of Capital Assets.....	31
Schedule of Long-Term Debt.....	32
Audit Results and Comments:	
Vacation Accrual.....	33
Textbook Rental Deposits.....	33
Condition of Records	33
Financial Report.....	33-34
Investments	34
Internal Controls	35
Disbursement Documentation	35
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	38-39
Schedule of Expenditures of Federal Awards.....	40-41
Notes to Schedule of Expenditures of Federal Awards	42
Schedule of Findings and Questioned Costs.....	43
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings.....	44
Exit Conference.....	45
Official Response	46

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Elizabeth Harkness Erica M. Purvis	07-01-04 to 09-30-05 10-01-05 to 06-30-07
Superintendent of Schools	Dr. David McGuire Ralph Bailey (Interim) Dr. Robert Haworth	07-01-04 to 08-01-05 08-02-05 to 06-30-06 07-01-06 to 07-01-09
President of the School Board	Craig Allenbach Ron Yeiter	01-01-04 to 12-31-04 01-01-05 to 12-31-06



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 WARSAW COMMUNITY SCHOOLS, KOSCIUSKO COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Warsaw 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 December 12, 2006, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

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

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt are presented for additional analysis and are not required parts 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

December 12, 2006



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 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 WARSAW COMMUNITY SCHOOLS, KOSCIUSKO COUNTY, INDIANA

We have audited the financial statements of the Warsaw Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated December 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

STATE BOARD OF ACCOUNTS

December 12, 2006

WARSAW COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 28,889,247
Restricted assets:	
Cash and investments	<u>1,991,994</u>
Total assets	<u>\$ 30,881,241</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,991,994
Unrestricted	<u>28,889,247</u>
Total net assets	<u>\$ 30,881,241</u>

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

WARSAW COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 19,601,200
Restricted assets:	
Cash and investments	<u>2,058,478</u>
Total assets	<u>\$ 21,659,678</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 2,058,478
Unrestricted	<u>19,601,200</u>
Total net assets	<u>\$ 21,659,678</u>

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

WARSAW 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	\$ 21,073,508	\$ -	\$ 266,881	\$ (20,806,627)
Support services	40,761,303	392,505	981,603	(39,387,195)
Community services	307,945	-	-	(307,945)
Nonprogrammed charges	200,532	-	-	(200,532)
Debt service	9,306,824	-	-	(9,306,824)
Total governmental activities	\$ 71,650,112	\$ 392,505	\$ 1,248,484	(70,009,123)
General receipts:				
Property taxes				37,719,102
Other local sources				11,779,732
State aid				19,232,215
Grants and contributions not restricted				4,590,751
Bonds and loans				4,867,733
Sale of property, adjustments, and refunds				257,286
Investment earnings				360,163
Total general receipts				78,806,982
Change in cash and investments				8,797,859
Net assets - beginning				22,083,382
Net assets - ending				\$ 30,881,241

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

WARSAW 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	\$ 21,667,886	\$ -	\$ 198,780	\$ (21,469,106)
Support services	40,808,993	444,519	1,191,434	(39,173,040)
Community services	311,949	-	-	(311,949)
Nonprogrammed charges	2,858,136	-	-	(2,858,136)
Debt service	<u>9,229,022</u>	<u>-</u>	<u>-</u>	<u>(9,229,022)</u>
Total governmental activities	<u>\$ 74,875,986</u>	<u>\$ 444,519</u>	<u>\$ 1,390,214</u>	<u>(73,041,253)</u>
General receipts:				
Property taxes				26,035,924
Other local sources				6,281,519
State aid				21,493,457
Grants and contributions not restricted				4,096,091
Bonds and loans				1,732,393
Sale of property, adjustments, and refunds				1,053,792
Investment earnings				769,833
Intergovernmental transfers				<u>2,356,681</u>
				Total general receipts and intergovernmental transfers <u>63,819,690</u>
				Change in cash and investments (9,221,563)
				Net assets - beginning <u>30,881,241</u>
				Net assets - ending <u>\$ 21,659,678</u>

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

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

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 23,792,427	\$ 2,745,758	\$ 7,298,435	\$ 8,096,548	\$ 570,790	\$ 2,643,974	\$ 45,147,932
Intermediate sources	2,449	-	-	-	-	-	2,449
State sources	19,448,736	-	-	-	-	388,656	19,837,392
Federal sources	-	-	-	-	-	5,234,057	5,234,057
Bonds and loans	4,867,733	-	-	-	-	-	4,867,733
Sale of property, adjustments and refunds	62,938	271	-	165,714	-	16,507	245,430
Interfund transfers	453,341	-	-	-	-	392,303	845,644
Total receipts	48,627,624	2,746,029	7,298,435	8,262,262	570,790	8,675,497	76,180,637
Disbursements:							
Current:							
Instruction	19,322,936	-	-	-	-	1,750,572	21,073,508
Support services	15,717,871	2,062,632	-	12,788,303	578,831	5,710,815	36,858,452
Community services	287,947	-	-	-	-	19,998	307,945
Nonprogrammed charges	289,510	-	200,532	-	-	290,731	780,773
Debt services	4,999,903	-	4,011,037	-	-	561,287	9,572,227
Total disbursements	40,618,167	2,062,632	4,211,569	12,788,303	578,831	8,333,403	68,592,905
Excess (deficiency) of total receipts over (under) total disbursements	8,009,457	683,397	3,086,866	(4,526,041)	(8,041)	342,094	7,587,732
Cash and investments - beginning	(3,576,422)	282,685	(1,089,841)	17,248,411	260,544	1,100,718	14,226,095
Cash and investments - ending	\$ 4,433,035	\$ 966,082	\$ 1,997,025	\$ 12,722,370	\$ 252,503	\$ 1,442,812	\$ 21,813,827

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

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ 7,587,732
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	1,210,127
Change in cash and investments of governmental activities	<u>\$ 8,797,859</u>

WARSAW COMMUNITY SCHOOLS
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	\$ 16,337,815	\$ 1,816,537	\$ 4,303,553	\$ 5,824,701	\$ 398,018	\$ 2,436,004	\$ 31,116,628
Intermediate sources	2,319	-	-	-	-	-	2,319
State sources	21,654,492	-	-	-	-	395,477	22,049,969
Federal sources	-	-	-	-	-	4,929,793	4,929,793
Bonds and loans	1,732,393	-	-	-	-	-	1,732,393
Sale of property, adjustments and refunds	45,949	2,726	-	587,960	-	390,963	1,027,598
Interfund transfers	5,851	31,385	-	-	-	695,255	732,491
Total receipts	<u>39,778,819</u>	<u>1,850,648</u>	<u>4,303,553</u>	<u>6,412,661</u>	<u>398,018</u>	<u>8,847,492</u>	<u>61,591,191</u>
Disbursements:							
Current:							
Instruction	19,886,746	-	-	-	-	1,781,140	21,667,886
Support services	13,646,016	2,077,466	-	14,804,957	146,506	5,787,325	36,462,270
Community services	297,009	-	-	-	-	14,940	311,949
Nonprogrammed charges	2,581,683	54,459	133,176	125,824	230	401,996	3,297,368
Debt services	4,867,733	-	4,109,467	-	-	545,081	9,522,281
Total disbursements	<u>41,279,187</u>	<u>2,131,925</u>	<u>4,242,643</u>	<u>14,930,781</u>	<u>146,736</u>	<u>8,530,482</u>	<u>71,261,754</u>
Excess (deficiency) of total receipts over (under) total disbursements	(1,500,368)	(281,277)	60,910	(8,518,120)	251,282	317,010	(9,670,563)
Cash and investments - beginning	4,433,035	966,082	1,997,025	12,722,370	252,503	1,442,812	21,813,827
Cash and investments - ending	<u>\$ 2,932,667</u>	<u>\$ 684,805</u>	<u>\$ 2,057,935</u>	<u>\$ 4,204,250</u>	<u>\$ 503,785</u>	<u>\$ 1,759,822</u>	<u>\$ 12,143,264</u>

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

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ (9,670,563)
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>449,000</u>
Change in cash and investments of governmental activities	<u>\$ (9,221,563)</u>

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

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 5,101,122
Sale of property, adjustments and refunds	<u>11,856</u>
Total receipts	<u>5,112,978</u>
Disbursements:	
Support services	<u>3,902,851</u>
Changes in cash and investments	1,210,127
Cash and investments - beginning	<u>5,002,343</u>
Cash and investments - ending	<u><u>\$ 6,212,470</u></u>

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

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

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 2,412,848
Sale of property, adjustments and refunds	26,194
Intergovernmental transfers	<u>2,356,681</u>
Total receipts	<u>4,795,723</u>
Disbursements:	
Support services	<u>4,346,723</u>
Changes in cash and investments	449,000
Cash and investments - beginning	<u>6,212,470</u>
Cash and investments - ending	<u><u>\$ 6,661,470</u></u>

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

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

	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Funds</u>
Additions:		
Local sources	\$ -	\$ 156,620
State sources	-	111,064
Sale of property, adjustments and refunds	<u>-</u>	<u>28,074</u>
Total additions	<u>-</u>	<u>295,758</u>
Deductions:		
Instruction	-	178,481
Support services	64,288	106,006
Nonprogrammed charges	<u>237,424</u>	<u>759</u>
Total deductions	<u>301,712</u>	<u>285,246</u>
Excess (deficiency) of total additions over (under) total deductions	(301,712)	10,512
Cash and investments - beginning	<u>994,546</u>	<u>1,361,246</u>
Cash and investments - ending	<u>\$ 692,834</u>	<u>\$ 1,371,758</u>

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

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

	Pension Trust Fund	Private-Purpose Trust Funds
Additions:		
Local sources	\$ -	\$ 226,183
Intermediate sources	-	740
State sources	-	144,933
Sale of property, adjustments and refunds	-	35,962
Transfers	-	539
	-	408,357
Deductions:		
Instruction	-	217,359
Support services	74,077	142,112
Nonprogrammed charges	-	5,672
	74,077	365,143
Excess (deficiency) of total additions over (under) total deductions	(74,077)	43,214
Cash and investments - beginning	692,834	1,371,758
Cash and investments - ending	\$ 618,757	\$ 1,414,972

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

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

<u>Assets</u>	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 692,834	\$ 1,371,758	\$ 470,884
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	<u>\$ 692,834</u>	<u>\$ 1,371,758</u>	

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

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

<u>Assets</u>	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 618,757	\$ 1,414,972	\$ 475,270
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	<u>\$ 618,757</u>	<u>\$ 1,414,972</u>	

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

WARSAW 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: Warsaw 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 Ventures

The School Corporation is a participant with Tippecanoe Valley Community Schools and Whitko Community School Corporation in a joint venture to operate the Alternative Instruction Method (AIM) which was created to provide alternative schooling. The School Corporation is obligated by contract to remit fees charged for slots available to the School Corporation annually to supplement AIM whose continued existence depends on continued funding by the School Corporation. Complete financial statements for AIM can be obtained from the administrative office at 1802 East Winona Avenue, Warsaw, Indiana, 46580.

The School Corporation is a participant with Tippecanoe Valley Community Schools and Whitko Community School Corporation in a joint venture to operate the Warsaw Area Career Center (Center) which was created to provide vocational education to its students. The School Corporation is obligated by contract to remit an amount annually based on a formula per ADM to supplement the Center whose continued existence depends on continued funding by the School Corporation. Complete financial statements for the Center can be obtained from the administrative office at 1 Tiger Lane, Warsaw, Indiana, 46580.

The School Corporation is a participant with numerous school corporations in a joint venture to operate Region 8 Education Service Center (Region 8) which was created to provide education services to its members. The School Corporation is obligated by contract to remit annually an amount based on a formula per ADM to supplement Region 8 whose continued existence depends on continued funding by the School Corporation. Complete financial statements for Region 8 can be obtained from the administrative office at 107 North Walnut Street, Columbia City, Indiana, 46725.

The School Corporation is a participant with four other school corporations in a joint venture to operate North Central Indiana Special Education Cooperative (NCI) which was created to implement jointly operated services for the education of students with disabilities. NCI's continued existence depends on continued funding through a federal grant program. Participating school corporations employ personnel and provide facilities for local special education programs housed within its boundaries. Member school corporations are assessed their share of the program administrative costs. No other fees are assessed member school corporations for the operation of this program, unless personnel or facilities are shared with another member school corporation. The School Corporation

WARSAW COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

may be obligated for the debts of the Consortium should they not be covered by the grant. As of June 30, 2006, NCI had \$546,208 payable to member school corporations. This balance resulted from selling the administration building and other sources. The School Corporation's share of this balance was \$258,753. Complete financial statements for NCI can be obtained from its administrative office at One Administration Drive, Warsaw, Indiana, 46581.

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.

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.

Additionally, the School Corporation reports the following fund types:

The internal service fund accounts for health benefit costs provided to employees and to retirees.

WARSAW COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

The pension trust fund accounts for the activities of the retirement bond fund which accumulates resources for pension benefit payments.

The private-purpose trust funds report trust arrangements under which principal and income benefit individuals.

Agency funds account for assets held by the School Corporation as an agent for payroll deductions payable to other governments and to providers of employee benefits.

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 funds.

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

WARSAW COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rates of 10 to 12 days per year, depending on the employee classification and also depending on whether the employee works 10, 11 or 12 months during the year. Unused sick leave may be accumulated to a maximum of 185 days. Accumulated sick leave is not paid to employees.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees working 12 months a year earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of 5 days. Accumulated vacation leave must be used by September 1 of the next year. Accumulated vacation leave is paid to employees through cash payments upon termination of employment.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year. Unused personal leave may be added to accumulated sick leave or reimbursed at various rates, depending on the employee classification. Unused personal leave is paid to employees upon termination of employment.

4. Capital Assets

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

5. Long-Term Debt

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

6. Equity Classification

Government-Wide Statements

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

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

WARSAW COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds 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 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

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

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Cash and Investments and Statement of Cash Activities.

II. Stewardship, Compliance and Accountability

Budgetary Information

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

WARSAW COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At June 30, 2006, the bank balance held at Wells Fargo Bank Corporate Trust Department in the amount of \$17,467 was uncollateralized. The remaining bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of June 30, 2006, the School Corporation had the following investments:

Investment Type	Primary Government Market Value
Repurchase Agreements	\$ 20,979,875
Corporate Stock	<u>67,299</u>
Total	<u><u>\$ 21,047,174</u></u>

WARSAW COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Investment Policies

Indiana Code 5-13-9 authorizes the School Corporation to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the School Corporation and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the School Corporation may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The School Corporation does not have a formal investment policy for custodial credit risk for investments. At June 30, 2006, the School Corporation held investments in corporate stocks and repurchase agreements in the amount of \$21,047,174. Of these investments \$20,979,875 were repurchase agreements held by the counterparty's trust department but not in the School Corporation's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The School Corporation does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

WARSAW COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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	\$ 247,970	\$ 245,015
Debt Service Fund	General Fund	200,532	-
	Transportation Operating Fund	-	31,385
	Other governmental	-	54,668
Other governmental	General Fund	252,809	5,851
	Other governmental	144,333	395,572
Totals		<u>\$ 845,644</u>	<u>\$ 732,491</u>

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

C. Restatements and Reclassifications

For the year ended June 30, 2006, certain changes have been made to the financial statements to more appropriately reflect financial activity of the School Corporation. The following schedule presents a summary of restated beginning balances by opinion unit. Certain funds were reclassified from other governmental funds to private purpose trust funds. A prior period adjustment was made to recognize employee medical insurance payroll withholdings previously recognized in the agency funds. These employee medical insurance payroll withholdings were subsequently transferred into the self-insurance fund, an internal service fund and governmental activity.

Opinion Unit	Balance as Reported June 30, 2004	Fund Reclassification	Prior Period Adjustment	Balance as Restated July 1, 2004
Governmental activities	\$ 17,734,740	\$ (1,361,246)	\$ 2,854,944	\$ 19,228,438
Aggregate remaining funds	-	1,361,246	-	1,361,246

IV. Other Information

A. Risk Management

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

WARSAW COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Medical Benefits to Employees, Retirees, and Dependents

The School Corporation has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents. The risk financing fund is accounted for in the Self Insurance Fund, an internal service fund,) where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$100,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each affected fund and are reported as quasi-external interfund transactions.

B. Holding Corporations

The School Corporation has entered into capital leases with the Warsaw Community High School Building Corporation and Warsaw Multi-School Building Corporation (the lessors). The lessors were 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 lessors have been determined to be related parties of the School Corporation. Lease payments during the years ending June 30, 2005, and June 30, 2006, totaled \$3,919,000 and \$3,996,000, respectively.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment medical and dental 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 20 years of service and 15 years of participation in a retirement plan. Currently, 19 retirees meet these eligibility requirements. The retirees provide 100% of the calculated annual premium costs for these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the calendar year ended December 31, 2005 (the most recent date that data is available), net disbursements of \$49,206 were recognized for postemployment benefits.

D. Pension Plans

1. Agent Multiple-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.

WARSAW COMMUNITY SCHOOLS
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.

Information to segregate the assets/liabilities and the actuarial study figures between the School Corporation and the Utilities is not available.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 243,019
Interest on net pension obligation	(10,921)
Adjustment to annual required contribution	12,445
Annual pension cost	244,543
Contributions made	255,460
Decrease in net pension obligation	(10,917)
Net pension obligation, beginning of year	(150,633)
Net pension obligation, end of year	\$ (161,550)
Contribution rates:	
School Corporation	5.13%
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

WARSAW COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 299,469	73%	\$ (155,474)
	06-30-04	236,193	98%	(150,633)
	06-30-05	244,543	108%	(161,550)

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

WARSAW COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Costs

Plan members are required to contribute 3% of their salary and 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% and 7.0% of covered wages for the years ended June 30, 2005, and June 30, 2006, respectively. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2004, 2005, and 2006, were \$505,356, \$574,204, and \$638,301, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

WARSAW 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)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 5,590,885	\$ 5,383,308	\$ 207,577	104%	\$ 5,087,123	4%
07-01-04	5,622,915	5,601,205	21,710	100%	4,777,031	0%
07-01-05	5,823,820	6,097,913	(274,093)	96%	4,906,508	(6%)

WARSAW COMMUNITY SCHOOLS
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS

June 30, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 523,000
Buildings	70,800,542
Improvements other than buildings	2,530,155
Machinery and equipment	<u>7,869,088</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 81,722,785</u>

WARSAW COMMUNITY SCHOOLS
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
High School Improvements	\$ 9,397,825	\$ 2,095,000
Multi School Improvements	30,000,000	-
Copiers	21,421	16,510
Bonds payable:		
General obligation bonds:		
Retirement/Severance	5,240,000	315,000
Total governmental activities long-term debt	\$ 44,659,246	\$ 2,426,510

WARSAW COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

VACATION ACCRUAL

The former payroll clerk of the school Corporation, who is a current employee of the School Corporation, adjusted a computerized vacation leave record in order to receive twenty vacation days in 2005, although she was only allowed ten days according to the School Corporation policy. Consequently, vacation days were being used that had not been earned. She has agreed to reduce her current vacation balance by ten days.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TEXTBOOK RENTAL DEPOSITS

Textbook Rental deposit activity reviewed for the months of October and December 2005 indicated. Each school deposited only one or two times a month for those months, except Edgewood Middle School (3 times in October) and Lakeview Middle School (4 times each month). Total collections for October and December of 2005 were \$43,031 and \$25,370. The High School only made one deposit in October for \$6,955.

Indiana Code 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

CONDITION OF RECORDS (Applies to the High School)

The June 30, 2006, bank reconciliation statement prepared by the High School Extra-Curricular Treasurer shows a \$6,750 deposit not credited (deposit in transit). The Extra-Curricular Treasurer could not provide us with a deposit date or a list of receipts to support the \$6,750. The next deposit, on July 12, 2006, for \$11,116, included \$5,730 in receipts dated July 6, 2006, and July 12, 2006. The difference, \$5,386, may represent a portion of the deposit not credited, \$6,750. If so, then the difference, \$1,364, may be cash necessary to balance.

The current Extra-Curricular Treasurer provided us with the most recent, October 31, 2006, bank reconciliation statement which shows \$3,574 deposit not credited. We were able to verify the \$3,574 to a deposit made November 9, 2006.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

FINANCIAL REPORT (Applies to the High School)

The High School Extra-Curricular Treasurer did not file financial reports for the school years 2004-2005 and 2005-2006.

WARSAW COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 20-41-1-3 states:

"(a) A person who has charge of the collection, custody, and disbursement of funds collected and expended to pay expenses incurred in conducting any athletic, social, or other school function, the cost of which is not paid from public funds, shall:

- (1) keep an accurate account of all money received and expended, showing the:
 - (A) sources of all receipts;
 - (B) purposes for which the money was expended; and
 - (C) balance on hand; and
- (2) file a copy of the account with the township trustee, board of school trustees, or board of school commissioners within two (2) weeks after the close of each school year."

The Financial Report of School Extra-Curricular Accounts (SA 5-1) should begin with the close of the last report and cover the school year. The report should be made in triplicate. One copy shall be filed in the school business office, a copy shall be filed with the school board and the third copy shall be filed with the superintendent of schools. The report is to be filed as an official record and must be preserved for a period of five years. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

INVESTMENTS (Applies to High School)

The High School Extra-Curricular records shows investments of \$227,968 at June 30, 2006, of which \$207,468 was the balance in a high interest rate checking account. The current High School Extra-Curricular Treasurer could not provide us with documents to verify the remaining investment balance, \$20,500, except for notices from the bank showing interest earned during the audit period and renewed maturities for two certificates of deposit totaling \$10,500. The prior audit data included copies of four certificates of deposit in the amounts of \$10,000; \$8,500; \$1,500; and \$500; which total \$20,500. The current and former High School Extra-Curricular Treasurers could not find the School's copy of these investments. The current Extra-Curricular Treasurer obtained copies of the certificates of deposit from the bank. These investments were not listed and accounted for on a Register of Investments, Form 350.

Indiana Code 20-41-1-7 states in part: "The treasurer has charge of the custody and disbursement of any funds collected . . ."

General Form Number 350, Register of Investments is the prescribed form for recording investments and all investments should be recorded on Form 350. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 5)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

WARSAW COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROLS (Applies to High School)

We observed substantial amounts of money on hand in an open cardboard box on the floor in a storeroom. Cash was visible in the box. Some concession stand change funds and other money from sponsors was stored in a file cabinet in the storeroom, but the file cabinet was not locked. The storeroom is kept locked, but several employees have keys to the storeroom. The current Extra-Curricular Treasurer stated she does not have time to make deposits daily. She also stated that she does not make deposits at the bank until she has reconciled and closed the previous month's financial records.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

The treasurer shall deposit without unreasonable delay, all receipts in one bank account to be known as the "(name of school) School Extra-Curricular Account." (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

Indiana Code 5-13-14-3 states in part: "A public officer who knowingly fails to deposit public funds . . . except in the manner prescribed in this article, commits a Class B felony. The public officer also is liable upon the officer's official bond for any loss or damage hat may accrue."

DISBURSEMENT DOCUMENTATION (Applies to High School)

Some disbursements did not have adequate supporting documentation. \$11,059 was paid in one instance to a vendor and the supporting documentation was not an invoice, but a statement from the vendor showing the balance due. \$2,500 was paid in another instance to a vendor, but there was no invoice or other supporting documentation. Due to the lack of supporting information, the validity and accountability for some monies disbursed could not be established. A similar audit exception was included in the previous Audit Report, file number B24684.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

(This page intentionally left blank.)

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 WARSAW COMMUNITY SCHOOLS, KOSCIUSKO COUNTY, INDIANA

Compliance

We have audited the compliance of the Warsaw 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

December 12, 2006

WARSAW 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
U.S. DEPARTMENT OF AGRICULTURE				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 155,079	\$ 197,120
National School Lunch Program	10.555		<u>812,457</u>	<u>938,700</u>
Total for federal grantor agency			<u>967,536</u>	<u>1,135,820</u>
U.S. DEPARTMENT OF EDUCATION				
Pass-Through Indiana Department of Education				
Special Education Cluster (IDEA)				
Special Education - Grants to States	84.027			
		14203-045-DY08	24,941	-
		14204-039-DY01	31,264	53,558
		14204-045-PN01	19,625	-
		14204-045-PY02	90,721	2,938
		14204-045-SN01	-	16,205
		14205-045-DY01	-	24,698
		14205-045-PN01	2,668,696	101,253
		14205-045-PY02	-	3,255
		14205-045-SN01	27,623	8,726
		14206-045-PN01	-	<u>2,441,546</u>
Total for program			<u>2,862,870</u>	<u>2,652,179</u>
Special Education - Preschool Grants	84.173			
		45703-045-PY02	22	-
		45704-045-PN01	816	-
		45704-045-PY02	5,548	-
		45705-045-PN01	-	3,512
		45705-045-PY02	72,125	851
		45706-045-PN01	-	<u>66,306</u>
Total for program			<u>78,511</u>	<u>70,669</u>
Total for cluster			<u>2,941,381</u>	<u>2,722,848</u>
Adult Education - State Grant Program	84.002			
		FY04-8038	13,100	-
		FY05-8038	71,500	10,551
		FY06-8038	-	<u>79,759</u>
Total for program			<u>84,600</u>	<u>90,310</u>
Title I Grants to Local Educational Agencies	84.010			
		04-4415	117,958	-
		05-4415	632,509	108,266
		06-4415	-	<u>616,599</u>
Total for program			<u>750,467</u>	<u>724,865</u>
Migrant Education - State Grant Program	84.011			
		FY04-05/RM24	81,795	-
		FY05-06/RM24	-	<u>59,960</u>
Total for program			<u>81,795</u>	<u>59,960</u>

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

WARSAW COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF EDUCATION (continued)</u>				
Pass-Through Indiana Department of Education (continued)				
Vocational Education - Basic Grants to States				
	84.048			
		04-1303-4415	2,500	-
		04-4700-4415	8,343	-
		05-1303-4415	373	4,127
		05-4700-4415	143,381	3,091
		06-4700-4415	-	138,354
			<u>154,597</u>	<u>145,572</u>
Total for program				
Improve Teacher Quality, Education Tech, Title II, Part D				
	84.138			
		02-4415	2,374	-
		S318X040014	-	4,212
			<u>2,374</u>	<u>4,212</u>
Total for program				
Safe and Drug Free Schools and Communities - State Grants				
	84.186			
		02-199	12,837	-
		03-160	10,049	14,354
		04-194	-	7,857
			<u>22,886</u>	<u>22,211</u>
Total for program				
State Grants for Innovative Programs				
	84.298			
		03-175	36,490	2,464
		04-199	2,352	29,601
		05-198	-	6,988
			<u>38,842</u>	<u>39,053</u>
Total for program				
Education Technology State Grants				
	84.318			
		2003-04	2,466	10,149
Improving Teacher Quality State Grants				
	84.367			
		2266	155,908	-
		03-238	-	86,276
		04-226	-	145,032
			<u>155,908</u>	<u>231,308</u>
Total for program				
Total for federal grantor agency			<u>4,235,316</u>	<u>4,050,488</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>				
Pass-Through Indiana Department of Education				
Learn and Serve America - School and Community Based Programs				
	94.004		9,129	40,686
Total federal awards expended			<u>\$ 5,211,981</u>	<u>\$ 5,226,994</u>

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

WARSAW 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 Warsaw 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. Subrecipients

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

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>2004-2005</u>	<u>2005-2006</u>
Special Education Cluster (IDEA)	84.027	<u>\$ 1,514,742</u>	<u>\$ 1,519,159</u>

III. Noncash Assistance

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

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>2004-2005</u>	<u>2005-2006</u>
Child Nutrition Cluster	10.553	<u>\$ 152,468</u>	<u>\$ 93,678</u>

WARSAW 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	Child Nutrition Cluster
84.367	Special Education Cluster (IDEA) Title I Grants to Local Educational Agencies Improving Teacher Quality State Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$313,169

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.

WARSAW COMMUNITY SCHOOLS

Summary Schedule of Prior Audit Findings Audit period July 2002 to June 2004

Finding No. 2004-3: Cash Management – Excessive Cash Balances

Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Numbers: 03-4415 and 04-4415
Pass-Through Entity: Indiana Department of Education

2006 Status:

Finding 2004-3 commented on quarterly cash balances that significantly exceeded the subsequent month's expenditures as calculated on a percentage basis. The corrective action listed below was fully implemented and remains in place as of this writing.

Corrective Action:

The action plan on this finding is for WCS to modify the cash request sheet on the Title I application in an effort to avoid excessive cash balances of federal Title I money. Three specific strategies will be utilized and monitored by the principal in charge of Title I. First we will redistribute summer school funds to June and July. Second, we will redistribute retirement funds toward the end of each quarter. Finally, we will make adjustments in the cash request to account for funds that may carry over to the next year. In the past it was our understanding that the state Title I office expected that cash draws should be evenly distributed across the twelve-month period. We believe these strategies will significantly reduce the likelihood of excessive cash balance during the school year.

Finding No. 2004-4: Inaccurate Financial Reporting

Federal Agency: Department of Education
Federal Program: Special Education Cluster
CFDA Number: 84.027
Federal Award Numbers: 14202-045-PY02, 14202-045-SN01, 14202-045-DY07, 14202-045-PN01, 14203-045-PN01, and 14203-045-SN01
Pass-Through Entity: Indiana Department of Education

2006 Status:

This finding related to the close out of grants with all noted items ranging from \$275.83 to \$2,160.00. The corrective action listed below was fully implemented and remains in place as of this writing.

Corrective Action:

In an effort to correctly report disbursements of all federal special education funds, WCS will take the following action steps: (1) Implement a claim/purchase cut off date 60 days prior to the grant period ending to ensure actual disbursements of funds for encumbered expenses occur within grant date deadlines (2) Discontinue the practice of small transfers of money to fund 291 to close out grants (3) As grant funds are drawn down, remaining unspent funds will be used to purchase supplies/materials to close out the grant cycle. The Director of Special Services will monitor these procedural changes.



Kevin Scott, Chief Financial Officer

11-10-06
Date

WARSAW COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on January 9, 2007, with Erica M. Purvis, Treasurer; Ron Yeiter, President of the School Board; Dr. Robert Haworth, Superintendent of Schools; Kevin Scott, Chief Financial Officer; and Steven Stichter, Assistant Business Manager. The official response has been made a part of this report and may be found on page 46.

The audit comments relating to the High School were discussed on January 9, 2007, with Jennifer Lucht, Principal; and Shannen Effinghouse, Treasurer. The officials concurred with our audit findings.

WARSAW COMMUNITY SCHOOLS

Official's Response Audit period July 1, 2004 to June 30, 2006

The exit conference for WCS was held January 9th, 2007 to discuss comment items for the audit period of July 1, 2004 to June 30, 2006. Attendees included representatives from the business office, the Superintendent, the President of the School Board, and the State Board of Accounts auditors who did the field work. Overall the results showed improvement from the prior audit cycle.

In terms of the comment items, five related to high school extra-curricular accounting, one was a payroll error, and the last related to timeliness of textbook rental deposits. Corrective actions have been taken on all items. Guidelines have been issued to all buildings regarding deposits and the payroll issue has been corrected. At the high school, several corrective action steps have been taken. These include changes to internal control procedures, additional documentation using state approved forms, additional physical security and control, as well as off site staff training. Ongoing review includes focus on adequate resources to ensure segregation of duties and internal control.

In summary, Warsaw Community Schools concurred with the findings of the audit and were generally satisfied that improvement had been made during the time frame of this audit cycle. We remain vigilant in looking for opportunities to better our procedures and daily activities.



Kevin Scott, Chief Financial Officer

1-11-07

Date