

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

AUDIT REPORT

OF

NORTH KNOX SCHOOL CORPORATION

KNOX COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED

02/28/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Sandra Beaman	07-01-04 to 06-30-07
Superintendent of Schools	Joseph H. Adams (Interim)	07-01-04 to 10-07-04
	Joan Keller	10-08-04 to 07-31-06
	Joseph H. Adams	08-01-05 to 06-30-07
President of the School Board	Garland Richter	07-01-04 to 06-30-05
	Rob McLin	07-01-05 to 06-30-06
	Frank Hall	07-01-06 to 06-30-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE NORTH KNOX SCHOOL CORPORATION, KNOX COUNTY, INDIANA

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

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

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

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

In accordance with Government Auditing Standards, we have also issued a report dated December 18, 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.

STATE BOARD OF ACCOUNTS

December 18, 2006



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

TO: THE OFFICIALS OF THE NORTH KNOX SCHOOL CORPORATION, KNOX COUNTY, INDIANA

We have audited the financial statements of the North Knox School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated December 18, 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 18, 2006

NORTH KNOX SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 2,721,505
Restricted assets:	
Cash and investments	<u>178,553</u>
Total assets	<u>\$ 2,900,058</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 178,553
Unrestricted	<u>2,721,505</u>
Total net assets	<u>\$ 2,900,058</u>

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

NORTH KNOX SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 6,034,297
Restricted assets:	
Cash and investments	<u>1,001,226</u>
Total assets	<u>\$ 7,035,523</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,001,226
Unrestricted	<u>6,034,297</u>
Total net assets	<u>\$ 7,035,523</u>

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

NORTH KNOX 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	\$ 4,991,756	\$ -	\$ 55,376	\$ (4,936,380)
Support services	6,754,759	367,922	320,037	(6,066,800)
Community services	142,748	-	-	(142,748)
Nonprogrammed charges	1,070,617	-	-	(1,070,617)
Debt service	2,236,625	-	-	(2,236,625)
Total governmental activities	<u>\$ 15,196,505</u>	<u>\$ 367,922</u>	<u>\$ 375,413</u>	<u>(14,453,170)</u>
General receipts:				
Property taxes				4,638,971
Other local sources				521,799
State aid				6,496,844
Grants and contributions not restricted				785,502
Sale of property, adjustments, and refunds				1,260,529
Investment earnings				61,199
				<u>13,764,844</u>
				(688,326)
				<u>3,588,384</u>
				<u>\$ 2,900,058</u>

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

NORTH KNOX 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	\$ 4,839,892	\$ -	\$ 56,895	\$ (4,782,997)
Support services	6,925,802	400,320	328,602	(6,196,880)
Community services	174,065	-	-	(174,065)
Nonprogrammed charges	285,340	-	-	(285,340)
Debt service	907,062	-	-	(907,062)
Total governmental activities	<u>\$ 13,132,161</u>	<u>\$ 400,320</u>	<u>\$ 385,497</u>	<u>(12,346,344)</u>
General receipts:				
Property taxes				7,139,630
Other local sources				923,692
State aid				7,045,607
Grants and contributions not restricted				795,783
Sale of property, adjustments, and refunds				399,822
Investment earnings				177,275
				<u>16,481,809</u>
				Change in cash and investments 4,135,465
				Net assets - beginning 2,900,058
				Net assets - ending \$ 7,035,523

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

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

	General	Transportation Operating	Rainy Day	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 2,524,535	\$ 860,584	\$ -	\$ 1,042,507	\$ 747,619	\$ 39,567	\$ 375,080	\$ 5,589,892
State sources	6,552,220	-	-	-	-	-	123,794	6,676,014
Federal sources	13,408	-	-	-	-	-	968,338	981,746
Sale of property, adjustments and refunds	25,031	988	442,940	-	-	-	-	468,959
Intergovernmental transfers	2,957	-	-	-	-	-	98,975	101,932
Total receipts	9,118,151	861,572	442,940	1,042,507	747,619	39,567	1,566,187	13,818,543
Disbursements:								
Current:								
Instruction	4,463,320	-	-	-	-	-	528,438	4,991,758
Support services	3,604,196	856,373	67,436	-	941,168	-	909,187	6,378,360
Community services	142,748	-	-	-	-	-	-	142,748
Nonprogrammed charges	1,007,590	-	-	-	-	-	164,959	1,172,549
Debt services	1,227,760	-	-	843,710	-	-	165,155	2,236,625
Total disbursements	10,445,614	856,373	67,436	843,710	941,168	-	1,767,739	14,922,040
Excess (deficiency) of total receipts over (under) total disbursements	(1,327,463)	5,199	375,504	198,797	(193,549)	39,567	(201,552)	(1,103,497)
Cash and investments - beginning	1,215,251	447,928	366,403	144,911	306,983	27,306	373,600	2,882,382
Cash and investments - ending	<u>\$ (112,212)</u>	<u>\$ 453,127</u>	<u>\$ 741,907</u>	<u>\$ 343,708</u>	<u>\$ 113,434</u>	<u>\$ 66,873</u>	<u>\$ 172,048</u>	<u>\$ 1,778,885</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	\$ (1,103,497)
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>415,171</u>
Change in cash and investments of governmental activities	<u>\$ (688,326)</u>

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

	General	Transportation Operating	Rainy Day	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 3,781,448	\$ 1,361,614	\$ -	\$ 1,265,172	\$ 1,261,902	\$ 93,809	\$ 874,672	\$ 8,638,617
Intermediate sources	799	-	-	-	-	-	1,500	2,299
State sources	7,089,568	-	-	-	-	-	77,827	7,167,395
Federal sources	24,857	-	-	-	-	-	1,034,636	1,059,493
Sale of property, adjustments and refunds	73,278	858	-	-	-	-	-	74,136
Intergovernmental transfers	3,823	-	-	-	-	-	16,543	20,366
Total receipts	10,973,773	1,362,472	-	1,265,172	1,261,902	93,809	2,005,178	16,962,306
Disbursements:								
Current:								
Instruction	4,376,151	-	-	-	-	-	463,741	4,839,892
Support services	3,301,094	909,122	52,980	-	1,073,630	-	964,224	6,301,050
Community services	173,935	-	-	-	-	-	130	174,065
Nonprogrammed charges	227,593	-	-	-	-	-	78,113	305,706
Debt services	-	-	-	772,148	-	-	134,914	907,062
Total disbursements	8,078,773	909,122	52,980	772,148	1,073,630	-	1,641,122	12,527,775
Excess (deficiency) of total receipts over (under) total disbursements	2,895,000	453,350	(52,980)	493,024	188,272	93,809	364,056	4,434,531
Cash and investments - beginning	(112,212)	453,127	741,907	343,708	113,434	66,873	172,048	1,778,885
Cash and investments - ending	<u>\$ 2,782,788</u>	<u>\$ 906,477</u>	<u>\$ 688,927</u>	<u>\$ 836,732</u>	<u>\$ 301,706</u>	<u>\$ 160,682</u>	<u>\$ 536,104</u>	<u>\$ 6,213,416</u>

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

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

Net change in fund balances - total governmental funds	\$ 4,434,531
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>(299,066)</u>
Change in cash and investments of governmental activities	<u>\$ 4,135,465</u>

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

	<u>Internal Service Fund</u>
Receipts:	
Sale of property, adjustments and refunds	\$ <u>791,570</u>
Disbursements:	
Support services	<u>376,399</u>
Changes in cash and investments	415,171
Cash and investments - beginning	<u>706,002</u>
Cash and investments - ending	<u><u>\$ 1,121,173</u></u>

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

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

	Internal Service Fund
Receipts:	
Sale of property, adjustments and refunds	\$ 325,686
Disbursements:	
Support services	624,752
Changes in cash and investments	(299,066)
Cash and investments - beginning	1,121,173
Cash and investments - ending	\$ 822,107

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

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

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Additions:		
Local sources	\$ -	\$ 8,896
Intermediate sources	-	1,000
Transfers	<u>737,903</u>	<u>-</u>
Total additions	<u>737,903</u>	<u>9,896</u>
Deductions:		
Instruction	-	7,866
Support services	2,185,827	4,597
Nonprogrammed charges	<u>737,903</u>	<u>-</u>
Total deductions	<u>2,923,730</u>	<u>12,463</u>
Deficiency of total additions under total deductions	(2,185,827)	(2,567)
Cash and investments - beginning	<u>2,900,000</u>	<u>16,489</u>
Cash and investments - ending	<u>\$ 714,173</u>	<u>\$ 13,922</u>

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

NORTH KNOX 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	\$ -	\$ 10,000
Deductions:		
Instruction	-	10,458
Support services	57,926	8,298
Total deductions	57,926	18,756
Deficiency of total additions under total deductions	(57,926)	(8,756)
Cash and investments - beginning	714,173	13,922
Cash and investments - ending	\$ 656,247	\$ 5,166

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

NORTH KNOX SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 714,173	\$ 13,922	\$ 7,297
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 714,173	\$ 13,922	

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

NORTH KNOX SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 June 30, 2006

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 656,247	\$ 5,166	\$ (409)
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	<u>\$ 656,247</u>	<u>\$ 5,166</u>	

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

NORTH KNOX 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 primary government. There are no significant component units which require inclusion.

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Joint Venture

The School Corporation is a participant with Vincennes Community School Corporation and South Knox School Corporation in a joint venture to operate Knox County Special Education Cooperative which was created to operate programs and services for handicapped children. The School Corporation is obligated by contract to remit monthly payments to supplement the Cooperative. The Cooperative's continued existence depends on continued funding by the School Corporation. The School Corporation is obligated for the debts of the Cooperative equal to their proportionate share. Complete financial statements for the Knox County Special Education Cooperative can be obtained from 300 North 6th Street, Vincennes, IN 47591.

The School Corporation is a participant with 36 other school corporations in a joint venture to operate the Southern Indiana Education Center (SIEC). The SIEC was created to operate and maintain an educational service center in order to allow participating school corporations to cooperate and share certain programs and services. The School Corporation is obligated by contract to remit annually a fee for membership in an amount determined by the governing board of the SIEC. The SIEC's continued existence depends on the continued funding by the member School Corporations. The member School Corporations are obligated for the debts of the SIEC.

The School Corporation is a participant with 9 other school corporations in a joint venture to operate the Twin Rivers Vocational Area and was created to provide vocational programs for students of participating school corporations. The School Corporation is obligated by contract to remit annually its share of the budget as determined by the Vocational Area's governing board. The Vocational Area's continued existence depends on the continued funding by the School Corporations. Complete financial statements for the Vocational Area can be obtained from the Twin Rivers Vocational Area Administrative Office, 301 East South Street, Washington, IN 47501.

Related Organizations

The School Corporation's officials are also responsible for appointing the members of the boards of other organizations, but the School Corporation's accountability for these organizations does not extend beyond making the appointments. The School Corporation appoints the board members of the Knox County Special Education Cooperative and the Bicknell-Vigo Public Library.

NORTH KNOX SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. However, there are no business-type activities to report at this time.

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.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The transportation operating fund accounts for financial resources for the transportation of school children to and from school.

The debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction, and interest on emergency and temporary loans.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

The school bus replacement fund is used to account for receipts and disbursements concerning the acquisition and disposal of school buses.

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

Additionally, the School Corporation reports the following fund types:

The internal service fund accounts for health insurance premium refunds.

The pension trust funds account for the activities of the pension bond.

NORTH KNOX SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Agency funds account for assets held by the School Corporation as an agent for payroll withholdings.

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.

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.

NORTH KNOX SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Compensated Absences

a. Sick Leave

Certified School Corporation employees earn sick leave at the rate of 11 days per school year. Noncertified employees earn sick leave at the rate of 5 to 10 days per school year. Unused sick leave may be accumulated to a maximum of 260 days. Accumulated sick leave is paid to employees through cash payments upon retirement.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 3 days to 20 days per school year. Vacation leave may be accumulated for central office employees and may not be accumulated for all other noncertified employees. Accumulated vacation leave is paid to employees through cash payments upon retirement.

c. Personal Leave

Certified School Corporation employees earn personal leave at the rate of three days per year. Noncertified employees earn personal leave at the rate of two days per school year. Unused personal leave does not accumulate from year to year but it does convert to sick leave.

4. Capital Assets

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

5. Long-Term Debt

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

6. Equity Classification

Government-Wide Statements

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

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

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

NORTH KNOX SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

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

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

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

F. Internal and Interfund Balances and Activities

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

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 Statement 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 Cash and Investments and the Statement of Cash Activities.

NORTH KNOX SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

B. Cash and Investment Balance Deficits

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

Fund	2005	2006
General	\$ 112,211	\$ -
Retirement-Severance Debt	165,155	-
Respect Grant 2004-2005	5,121	-
Respect Grant 2005-2006	-	17,871

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the late distribution of local taxes; 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. At June 30, 2006, 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.

NORTH KNOX SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Interfund Transfers

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

<u>Transfer From</u>	<u>Transfer To</u>	<u>2005</u>	<u>2006</u>
General Fund	All others	\$ 81	\$ -
All others	General Fund	2,957	3,823
	All others	<u>98,894</u>	<u>16,543</u>
Totals		<u>\$ 101,932</u>	<u>\$ 20,366</u>

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

IV. Other Information

A. Risk Management

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

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

The School Corporation has chosen to establish a risk financing fund for risks associated with medical benefits to employees. The risk financing fund is accounted for in the 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 \$65,000 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 Corporation

The School Corporation has entered into a capital lease with the North Knox School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the audit period totaled \$728,000.

NORTH KNOX SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 15 years of service. Currently, 10 retirees meet these eligibility requirements. The School Corporation provides 100% of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the period ended June 30, 2006, disbursements of \$120,416 were recognized for post-employment benefits.

The unit also pays up to \$2,000 for the retired employee's spouse's insurance per year. When the retired employee reaches 65, the spouse then receives insurance through COBRA. There were 2 retired employee's spouses in the plan for both audit years.

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.

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

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

Funding Policy and Annual Pension Cost

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

NORTH KNOX SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 39,071
Interest on net pension obligation	(1,618)
Adjustment to annual required contribution	1,844
Annual pension cost	39,297
Contributions made	42,983
Decrease in net pension obligation	(3,686)
Net pension obligation, beginning of year	(22,315)
Net pension obligation, end of year	\$ (26,001)
Contribution rates:	
School Corporation	5.75%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 44,846	95%	\$ (12,458)
	06-30-04	35,207	128%	(22,315)
	06-30-05	39,297	122%	(26,001)

NORTH KNOX SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Teachers' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Costs

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

Plan members are required to contribute 3% of their salary and 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 7.00% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$71,947, \$73,330, and \$74,369, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

NORTH KNOX 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	\$ 955,939	\$ 1,017,736	\$ (61,797)	94%	\$ 639,892	(10%)
07-01-04	967,233	1,056,817	(89,584)	92%	628,215	(14%)
07-01-05	1,001,005	1,193,174	(192,169)	84%	652,257	(29%)

NORTH KNOX SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS

Records presented for audit to support the ADM claimed by the School Corporation for September 16, 2005, did not include written certifications from the building level officials.

Officials should maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM. The building level official (Principal, Assistant Principal, etc.) responsible for reporting ADM to the School Corporation Central Office, should provide a written certification of ADM to properly document responsibility. The certification should at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (The School Administrator and Uniform Compliance Guidelines, Volume 123, September 1993, and Volume 142, June 1998)

OFFICIAL BONDS

The position schedule bond for the Extra-Curricular Treasurers is dated July 1, 1995. The amount of the bonds does not always cover the total amount of funds which come into the hands of some of the treasurers at any one time.

A new bond shall be given at the beginning of each school year. The amount of the surety bond should approximate the total amount of anticipated funds which will come into the hands of the treasurer at any one time during the school year. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

PENALTIES, INTEREST AND OTHER CHARGES

Information presented for audit indicates that, in some cases, amounts payable to vendors and other suppliers of goods and services are not being paid until after the due dates.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

NORTH KNOX SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

SALES TAX

Sales tax was paid on payments of gas utility bills.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

FEDERAL AND STATE AGENCIES – COMPLIANCE REQUIREMENTS –
EDUCATION TECHNOLOGY GRANTS

The School Corporation did not comply with directives of the Indiana Department of Education concerning Education Technology State Grants, CFDA 84.318. The School Corporation made a payment to Southern Indiana Education Center (SIEC) on November 19, 2002, from the balance of the Technology Literacy Challenge Grant 2001. The payment of \$9,618.43 was based on a purchase order approved by a former employee for "contracted services for technology integration - professional development." SIEC spent the money on behalf of the School Corporation for services with invoice dates from May 2003 to January 2005. The balance of these funds held by SIEC at December 12, 2006, is \$22.45.

The notification of grant award from the Indiana Department of Education states these grant funds must be encumbered by September 30, 2002, and must be liquidated by December 31, 2002.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE NORTH KNOX SCHOOL CORPORATION, KNOX COUNTY, INDIANA

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

STATE BOARD OF ACCOUNTS

December 18, 2006

NORTH KNOX 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		\$ 78,399	\$ 80,718
National School Lunch Program	10.555		206,220	230,977
Special Milk Program for Children	10.556		<u>1,837</u>	<u>1,520</u>
Total for federal grantor agency			<u>286,456</u>	<u>313,215</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Vincennes Community School Corporation:				
Special Education Cluster:				
Special Education - Grants to States	84.027	14204-034-PN01	35,893	-
		14205-034-PN01	198,925	52,130
		14206-034-PN01	<u>-</u>	<u>179,430</u>
Total for cluster			<u>234,818</u>	<u>231,560</u>
Pass-Through Indiana Department of Education:				
Title 1 Grants to Local Educational Agencies				
	84.010	FY 2003-2004	69,073	-
		FY 2004-2005	257,304	86,476
		FY 2005-2006	<u>-</u>	<u>261,082</u>
Total for program			<u>326,377</u>	<u>347,558</u>
Safe and Drug Free Schools and Communities - State Grants				
	84.186	02-205	302	-
		03-067	7,210	503
		04-044	-	9,389
		05-012	<u>-</u>	<u>2,964</u>
Total for program			<u>7,512</u>	<u>12,856</u>
Pass-Through Ball State University:				
Javits Gifted and Talented Students Education Grant Program				
	84.206		<u>1,000</u>	<u>-</u>
Pass-Through Indiana Department of Education:				
State Grants for Innovative Programs				
	84.298	02-050	1,966	-
		03-070	6,290	96
		04-109	<u>-</u>	<u>7,983</u>
Total for program			<u>8,256</u>	<u>8,079</u>
Education Technology State Grants				
	84.318	FY 2002-2003	1,770	-
		FY 2003-2004	7,626	-
		FY 2005-2006	<u>-</u>	<u>7,207</u>
Total for program			<u>9,396</u>	<u>7,207</u>
Reading Excellence				
	84.338		<u>82,095</u>	<u>-</u>
Improving Teacher Quality State Grants				
	84.367	02-067	8,280	-
		03-139	62,179	17,890
		04-106	<u>37,000</u>	<u>21,384</u>
Total for program			<u>107,459</u>	<u>39,274</u>
Total for federal grantor agency			<u>473,022</u>	<u>414,974</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Pass-Through Indiana Department of Health:				
Abstinence Education Program				
	93.235	FY 2002-2003	167	-
		FY 2003-2004	1,833	-
		FY 2004-2005	15,182	4,547
		FY 2005-2006	<u>-</u>	<u>17,871</u>
Total for federal grantor agency			<u>17,182</u>	<u>22,418</u>
Total federal awards expended			<u>\$ 1,080,551</u>	<u>\$ 982,167</u>

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

NORTH KNOX 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 North Knox School Corporation (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

II. Noncash Assistance

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

Program Title	Federal CFDA Number	2004-2005	2005-2006
School Breakfast Program	10.553	\$ 4,136	\$ 6,702
National School Lunch Program	10.555	10,580	18,641

NORTH KNOX SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

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

Noncompliance material to financial statements noted? no

Federal Awards:

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

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

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

Identification of Major Programs:

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

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

NORTH KNOX SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

NORTH KNOX SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on January 4, 2007, with Joseph H. Adams, Superintendent of Schools; and Sandra Beaman, Treasurer. The officials concurred with our audit findings.