

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

AUDIT REPORT
OF
NORTH GIBSON SCHOOL CORPORATION
GIBSON COUNTY, INDIANA
July 1, 2004 to June 30, 2006



FILED
03/07/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Marlene S. Fisher	07-01-04 to 06-30-07
Superintendent of Schools	John R. Cochren B. Dale McCuiston	07-01-04 to 06-30-06 07-01-06 to 06-30-07
President of the School Board	David Oldham Mark Iunghuhn	01-01-04 to 12-31-04 01-01-05 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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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 GIBSON SCHOOL CORPORATION, GIBSON 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 Gibson 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 January 25, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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 a required part of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

January 25, 2007



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

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

We have audited the financial statements of the North Gibson School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

STATE BOARD OF ACCOUNTS

January 25, 2007

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 7,343,275
Restricted assets:	
Cash and investments	<u>714,872</u>
Total assets	<u>\$ 8,058,147</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 714,872
Unrestricted	<u>7,343,275</u>
Total net assets	<u>\$ 8,058,147</u>

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

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 7,411,723
Restricted assets:	
Cash and investments	<u>712,631</u>
Total assets	<u>\$ 8,124,354</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 712,631
Unrestricted	<u>7,411,723</u>
Total net assets	<u>\$ 8,124,354</u>

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

NORTH GIBSON 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	\$ 6,357,629	\$ -	\$ 130,081	\$ (6,227,548)
Support services	9,551,254	588,418	368,527	(8,594,309)
Community services	279,543	-	-	(279,543)
Nonprogrammed charges	140,937	-	-	(140,937)
Debt service	3,616,278	-	-	(3,616,278)
Total governmental activities	\$ 19,945,641	\$ 588,418	\$ 498,608	(18,858,615)
General receipts:				
Property taxes				13,659,638
Other local sources				1,662,283
State aid				6,544,927
Grants and contributions not restricted				553,385
Bonds and loans				1,813,779
Sale of property, adjustments, and refunds				246,701
Investment earnings				60,845
				24,541,558
				Change in cash and investments 5,682,943
				Net assets - beginning 2,375,204
				Net assets - ending \$ 8,058,147

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

NORTH GIBSON 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	\$ 6,500,398	\$ -	\$ 200,333	\$ (6,300,065)
Support services	10,118,010	570,435	476,117	(9,071,458)
Community services	284,689	-	-	(284,689)
Nonprogrammed charges	445,370	-	-	(445,370)
Debt service	3,294,607	-	-	(3,294,607)
Total governmental activities	\$ 20,643,074	\$ 570,435	\$ 676,450	(19,396,189)
General receipts:				
Property taxes				9,046,908
Other local sources				1,106,052
State aid				7,348,282
Grants and contributions not restricted				473,855
Bonds and loans				1,059,472
Sale of property, adjustments, and refunds				262,591
Investment earnings				165,236
Total general receipts				19,462,396
Change in cash and investments				66,207
Net assets - beginning				8,058,147
Net assets - ending				\$ 8,124,354

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

NORTH GIBSON 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	\$ 8,169,886	\$ 2,374,673	\$ -	\$ 1,429,908	\$ 2,437,287	\$ 189,538	\$ 1,344,872	\$ 15,946,164
Intermediate sources	531	-	-	-	-	-	24,488	25,019
State sources	6,663,352	-	-	-	-	-	218,807	6,882,159
Federal sources	-	-	-	-	-	-	714,761	714,761
Bonds and loans	1,813,779	-	-	-	-	-	-	1,813,779
Sale of property, adjustments and refunds	13,262	133	-	-	50,094	-	3,835	67,324
Intergovernmental transfers	330,533	-	375,000	-	-	-	-	705,533
Total receipts	16,991,343	2,374,806	375,000	1,429,908	2,487,381	189,538	2,306,763	26,154,739
Disbursements:								
Current:								
Instruction	6,112,237	-	-	-	-	-	245,392	6,357,629
Support services	3,813,440	1,322,859	-	-	1,372,695	69,902	1,114,557	7,693,453
Community services	274,315	-	-	-	-	-	5,228	279,543
Nonprogrammed charges	2,210,719	275,000	-	-	100,000	-	115,751	2,701,470
Debt services	2,150,486	-	-	1,001,296	-	-	464,496	3,616,278
Total disbursements	14,561,197	1,597,859	-	1,001,296	1,472,695	69,902	1,945,424	20,648,373
Excess of total receipts over total disbursements	2,430,146	776,947	375,000	428,612	1,014,686	119,636	361,339	5,506,366
Cash and investments - beginning	256,599	113,687	455,000	22,562	926,568	79,663	201,374	2,055,453
Cash and investments - ending	<u>\$ 2,686,745</u>	<u>\$ 890,634</u>	<u>\$ 830,000</u>	<u>\$ 451,174</u>	<u>\$ 1,941,254</u>	<u>\$ 199,299</u>	<u>\$ 562,713</u>	<u>\$ 7,561,819</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	\$ 5,506,366
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>176,577</u>
Change in cash and investments of governmental activities.	<u>\$ 5,682,943</u>

NORTH GIBSON 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	\$ 5,097,604	\$ 1,671,946	\$ -	\$ 989,082	\$ 1,932,755	\$ 69,292	\$ 1,098,099	\$ 10,858,778
Intermediate sources	531	-	-	-	-	-	29,321	29,852
State sources	7,534,444	-	-	-	-	-	202,499	7,736,943
Federal sources	-	-	-	-	-	-	761,644	761,644
Bonds and loans	1,059,472	-	-	-	-	-	-	1,059,472
Sale of property, adjustments and refunds	70,672	1,177	-	-	-	-	2,841	74,690
Intergovernmental transfers	193,888	-	550,000	-	-	-	277,482	1,021,370
Total receipts	13,956,611	1,673,123	550,000	989,082	1,932,755	69,292	2,371,886	21,542,749
Disbursements:								
Current:								
Instruction	6,161,614	-	-	-	-	-	338,784	6,500,398
Support services	3,691,356	1,573,271	-	-	1,876,997	-	1,269,342	8,410,966
Community services	239,468	-	-	-	-	-	45,221	284,689
Nonprogrammed charges	2,432,896	122,002	400,000	13,389	421,133	52,649	324,670	3,766,739
Debt services	1,813,779	-	-	969,279	-	-	511,549	3,294,607
Total disbursements	14,339,113	1,695,273	400,000	982,668	2,298,130	52,649	2,489,566	22,257,399
Excess (deficiency) of total receipts over (under) total disbursements	(382,502)	(22,150)	150,000	6,414	(365,375)	16,643	(117,680)	(714,650)
Cash and investments - beginning	2,686,745	890,634	830,000	451,174	1,941,254	199,299	562,713	7,561,819
Cash and investments - ending	<u>\$ 2,304,243</u>	<u>\$ 868,484</u>	<u>\$ 980,000</u>	<u>\$ 457,588</u>	<u>\$ 1,575,879</u>	<u>\$ 215,942</u>	<u>\$ 445,033</u>	<u>\$ 6,847,169</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	\$ (714,650)
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>780,857</u>
Change in cash and investments of governmental activities.	<u>\$ 66,207</u>

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

	<u>Internal Service Fund</u>
Receipts:	
Sale of property, adjustments and refunds	\$ 179,378
Transfers	<u>1,855,000</u>
Total receipts	<u>2,034,378</u>
Disbursements:	
Support services	<u>1,857,801</u>
Changes in cash and investments	176,577
Cash and investments - beginning	<u>319,751</u>
Cash and investments - ending	<u><u>\$ 496,328</u></u>

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

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

	<u>Internal Service Fund</u>
Receipts:	
Sale of property, adjustments and refunds	\$ 187,901
Transfers	<u>2,300,000</u>
Total receipts	<u>2,487,901</u>
Disbursements:	
Support services	<u>1,707,044</u>
Changes in cash and investments	780,857
Cash and investments - beginning	<u>496,328</u>
Cash and investments - ending	<u><u>\$ 1,277,185</u></u>

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

NORTH GIBSON 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	\$ 105,911	\$ 651
Sale of property, adjustments and refunds	<u>26</u>	<u>16,217</u>
Total additions	<u>105,937</u>	<u>16,868</u>
Deductions:		
Instruction	-	17,544
Support services	408,831	3,316
Nonprogrammed charges	<u>330,533</u>	<u>17,019</u>
Total deductions	<u>739,364</u>	<u>37,879</u>
Deficiency of total additions under total deductions	(633,427)	(21,011)
Cash and investments - beginning	<u>6,075,000</u>	<u>77,261</u>
Cash and investments - ending	<u>\$ 5,441,573</u>	<u>\$ 56,250</u>

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

NORTH GIBSON 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	\$ 189,542	\$ 24,800
Intermediate sources	-	15,000
Federal sources	-	4,500
Sale of property, adjustments and refunds	-	91,389
Total additions	189,542	135,689
Deductions:		
Instruction	-	20,179
Support services	341,921	2,124
Community services	-	3,312
Nonprogrammed charges	-	12,877
Total deductions	341,921	38,492
Excess (deficiency) of total additions over (under) total deductions	(152,379)	97,197
Cash and investments - beginning	5,441,573	56,250
Cash and investments - ending	\$ 5,289,194	\$ 153,447

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

NORTH GIBSON 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>
Cash and investments	\$ 5,441,573	\$ 56,250
	<u> </u>	<u> </u>
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 5,441,573	\$ 56,250
	<u> </u>	<u> </u>

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

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

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ 5,289,194	\$ 153,447
	<u> </u>	<u> </u>
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 5,289,194	\$ 153,447
	<u> </u>	<u> </u>

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

NORTH GIBSON SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Primary Government: North Gibson School Corporation

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

Joint Venture

The North Gibson School Corporation is a participant with East Gibson School Corporation, South Gibson School Corporation, Pike County School Corporation, and Warrick County School Corporation in a joint venture to operate Gibson-Pike-Warrick Special Education Co-operative which was created to provide instruction for handicapped children and vocational students. The School Corporation is obligated by contract to remit a ratio percentage based on the prior year's Average Daily Attendance annually to supplement the funding received by the Co-operative. Complete financial statements for the Gibson-Pike-Warrick Special Education Co-operative can be obtained from its administrative office at 618 East Main Street, Petersburg, IN 47567.

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.

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.

NORTH GIBSON SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund and 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 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.

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 risks associated with medical benefits to employees and monies set aside for claim settlements for employees and their qualifying dependents.

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

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the residents within the school corporation district limits.

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.

NORTH GIBSON SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. 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

Noncertified

a. Sick Leave

Noncertified employees earn sick leave at the rate of 10 days the first year and 7 days per year thereafter. Unused sick leave may be accumulated to a maximum of 150 days from year to year. Accumulated sick leave will be paid at \$10.00 per day up to a maximum of 90 accumulated days to employees who have been employed at least 10 consecutive years and who are leaving the corporation's employment voluntarily.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees employed for the full 12 months earn vacation leave at rates from 1 week to 4 weeks per year based upon the number of years of service. Central office and maintenance personnel employed prior to July 1, 2002, receive three weeks vacation until they have reached 20 years of continuous service at which time the provisions listed previously become effective. Vacation leave does not accumulate from year to year.

NORTH GIBSON SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

c. Personal Leave

School Corporation employees earn personal leave at the rate of 3 days per year. Unused personal leave may be accumulated as part of the employee's accumulated sick leave.

Certified

a. Nondesignated Leave

Certified employees earn 15 days per year to be used at their discretion. Unused non-designated leave will be accumulated from year to year.

b. Bonus Leave

Certified employees who teach a minimum of 170 days, excluding approved leaves for professional, civic, or jury duty, during the school year will receive 2 to 3 bonus leave days based on the number of nondesignated leave days used.

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 are not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

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

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

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

Fund Financial Statements

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

NORTH GIBSON SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 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 Statements 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 Statements of Cash Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Cash and Investments and the Statements of Cash Activities.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

NORTH GIBSON SCHOOL CORPORATION
 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.

B. Cash and Investment Balance Deficits

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

Fund	2005	2006
Textbook rental	\$ (221,679)	\$ (187,516)

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

III. Detailed Notes on All Funds

A. Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

NORTH GIBSON SCHOOL CORPORATION
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	Internal service	\$ 1,855,000	\$ 2,000,000
	Other governmental	-	76,425
Transportation operating	Rainy Day	275,000	100,000
	Other governmental	-	22,002
Capital projects	Rainy Day	100,000	400,000
	Other governmental	-	21,133
School bus replacement	Rainy Day	-	50,000
	Other governmental	-	2,649
Rainy Day	Internal service	-	300,000
	Other governmental	-	100,000
Debt service	Other governmental	-	13,389
Other governmental	General fund	330,533	193,411
	Other governmental	-	239
All others	General fund	-	477
	Other governmental	-	6,645
	All others	-	35,000
		<u>\$ 2,560,533</u>	<u>\$ 3,321,370</u>
Totals			

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

IV. Other Information

A. Risk Management

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

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

NORTH GIBSON SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Medical Benefits to Employees, Retirees and Dependents

The School Corporation has chosen to establish a risk financing fund for risks associated with medical benefits to employees. 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 \$50,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all funds with payrolls and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each fund's gross wages, and are reported as quasi-external interfund transactions. The total charge allocated to the Self-Insurance Fund accounts for administrative costs and reinsurance premium and reimbursements for claims paid directly by the third party administrator.

B. Holding Corporation

The School Corporation has entered into a capital lease with North Gibson 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 two years ended June 30, 2006, totaled \$1,848,121, with \$228,121 of that amount attributable to interest.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health insurance and bridge to retirement 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, 19 retirees meet these eligibility requirements. The School Corporation pays a flat rate, \$2,000 to \$5,000 (depending on family or single coverage elected), for each retiree. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. The bridge to retirement payments are made to the retirees based on a calculation that figures a percentage of a starting teacher's salary with a Master's degree during the year the retiree elected to retire. During the year ended June 30, 2006, disbursements of \$597,558 were recognized for postemployment benefits.

Fund 062, Retirement Severance Bond, and Fund 025, Retirement Severance Pension, are held in reserve to pay health insurance premiums of qualified retirees for a limited time, in accordance with various governmental regulations.

D. Pension Plans

1. Agent Multiple-Employer and Single-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

NORTH GIBSON SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 76,406
Interest on net pension obligation	(8,740)
Adjustment to annual required contribution	9,960
Annual pension cost	77,626
Contributions made	98,819
Decrease in net pension obligation	(21,193)
Net pension obligation, beginning of year	(120,554)
Net pension obligation, end of year	\$ (141,747)

NORTH GIBSON SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Contribution rates:	
School Corporation	6.5%
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	\$ 91,215	113%	\$ (77,175)
06-30-04	62,715	169%	(120,554)
06-30-05	77,626	158%	(141,747)

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.

NORTH GIBSON SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

Funding Policy and Annual Pension Costs

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

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$203,253, \$197,589, and \$150,465, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

NORTH GIBSON 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	\$ 1,181,110	\$ 1,309,247	\$ (128,137)	90%	\$ 1,121,892	(11%)
07-01-04	1,235,155	1,450,381	(215,226)	85%	1,248,764	(17%)
07-01-05	1,313,890	1,683,333	(369,443)	78%	1,265,197	(29%)

NORTH GIBSON SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 June 30, 2006

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

<u>Primary Government</u>	<u>Ending Balance</u>	
Governmental activities:		
Capital assets, not being depreciated:		
Land and Land Improvements	\$ 1,474,634	(A)
Buildings	10,817,752	
Machinery and equipment	<u>1,531,921</u>	
 Total governmental activities, capital assets not being depreciated	 <u>\$ 13,824,307</u>	

(A) - The cost of land owned by the Corporation is not included in this schedule.

NORTH GIBSON SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2006

The North Gibson School Corporation has entered into the following debt obligations:

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Holding corporation	\$ 1,755,000	\$ 860,000
Energy Savings contract	809,330	189,333
Notes and loans payable	1,059,472	1,059,472
Bonds payable:		
General obligation bonds:		
Retirement/Severance bonds	<u>5,740,000</u>	<u>210,000</u>
Total governmental activities long-term debt	<u>\$ 9,363,802</u>	<u>\$ 2,318,805</u>

NORTH GIBSON SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS

Adequate records were not presented for audit to support the ADM claimed by the School Corporation. School enrollment lists were not signed by some of the principals. No statement was attached to the certification that included information detailing the names and location of the records used to substantiate ADM claimed, especially for the high school.

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

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 163, September 2003)

GUARANTEED ENERGY SAVINGS CONTRACT

The North Gibson School Corporation entered into a guaranteed energy savings contract with Cinergy Business Solutions, Inc. (now Optimira Energy) on October 7, 1999. The total amount of the contract was \$1,713,244. The total amount of guaranteed energy savings was \$314,000. The total amount of guaranteed operational savings was \$785,800. The total amount of guaranteed stipulated or agreed upon savings was \$785,000. The contract provides operational cost savings projections and included capital expenditures as "agreed upon Operational Cost Savings." The "agreed upon" savings were "deemed realized upon execution" of the contract. No information was presented for audit to document the operational or "agreed upon" savings.

The contract states in part "Stipulated Savings are mutually agreed by the Customer and Cinergy . . . to be achieved upon execution of the Certificate of Substantial Completion and shall not be measured or monitored during the Term."

Stipulated Savings is further described in the contract as "Operational Savings - Includes any labor and material costs associated with the repair of unplanned maintenance of the equipment being replaced in the scope of work." and "Capital Offset - Includes cost avoidance from future planned equipment upgrades or replacement with the cost amortized over the ten years of the agreement." No information was presented for audit to document any "stipulated savings" that resulted in actual energy or operating cost savings from energy conservation measures.

The project includes per the contract, "Window Replacement," "New Ceiling/Light Fixtures," "Energy Management System with DDC Controls for Major Equipment," "HVAC Upgrades," "Domestic Hot Water Tank Replacement."

Statutory and Other Compliance Guideline Provisions

The Public Works Law, Indiana Code 36-1-12-1(e), states in part:

"As an alternative to this chapter, the governing body . . . may . . . enter into a guaranteed energy savings contract as permitted under IC 36-1-12.5."

NORTH GIBSON SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Effective March 21, 2002, Indiana Code 36-1-12.5-1 states in part:

“As used in this chapter, ‘energy conservation measure’ means a school facility alteration or an alteration of a structure (as defined in IC 36-1-10-2) designed to reduce energy consumption costs or other operating costs . . . including future:

- (A) labor costs;
- (B) costs for contracted services; and
- (C) related capital expenditures.”

Indiana Code 36-1-12.5-5(a) concerning energy savings contracts states in part: “The governing body may enter into . . . a guaranteed energy savings contract with a qualified provider to reduce the school corporation’s or the political subdivision’s energy consumption costs or operating costs if, after review of the report described in section 6 of this chapter, the governing body finds: (1) that the amount the governing body would spend on the energy conservation measures under the contract and that are recommended in the report is not likely to exceed the amount to be saved in energy consumption costs and other operating costs over ten (10) years from the date of installation if the recommendations in the report were followed; and (2) in the case of a guaranteed energy savings contract, the qualified provider provides a written guarantee as described in subsection (d)(2).”

Indiana Code 36-1-12.5-5(d) states in part: “An agreement to participate in . . . guaranteed energy savings contract under this section must provide that: . . . (2) in the case of the guaranteed energy savings contract: (A) the savings in energy and operating costs due to the energy conservation measures are guaranteed to cover the costs of the payments for the measures; and (B) the qualified provider will reimburse the school corporation or political subdivision for the difference between the guaranteed savings and the actual savings . . .”

Effective March 21, 2002, Indiana Code 36-1-12.5-0.5 states: “As used in this chapter, ‘actual savings’ includes stipulated savings.”

Indiana Code 36-1-12.5-0.7 states: “As used in this chapter, ‘causally connected work’ means work that is required to properly implement an energy conservation measure.”

Indiana Code 36-1-12.5-3.7 states in part: “As used in this chapter, ‘stipulated savings’ are assumed savings that are documented by industry engineering standards.”

Indiana Code 36-1-12.5-11 states in part:

“(a) A guaranteed energy savings contract that includes stipulated savings must specify the methodology used to calculate the savings using industry engineering standards.

(b) Stipulated savings may be used for energy conservation measures including . . . (9) Any work that is causally connected to the energy conservation measures listed in subdivisions (1) through (8).

(c) The guaranteed energy savings contract shall:

- (1) describe stipulated savings for:

NORTH GIBSON SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (A) energy conservation measures; and
 - (B) work causally connected to the energy conservation measures; and
- (2) document assumptions by industry engineering standards.”

Repayment of Costs in Excess of Savings

School Corporation Officials conveyed that the items shown as “agreed upon” or “stipulated savings” have been predetermined. Furthermore, School Corporation Officials do not have available for audit and conveyed they do not plan in the future to have any additional information to document actual operating or energy savings. Accordingly, with due regards for the remaining contract time for which information may be presented to document actual operating and energy savings (effective March 21, 2002 “stipulated savings” documented by “industry engineering standards”), the School Corporation should request reimbursement from Optimira Energy for costs which did not result in an actual reduction of energy consumption costs or other operating costs (or effective March 21, 2002, stipulated savings which were not supported by “industry engineering standards”) at the end of the contract term in accordance with IC 36-1-12.5-5(d)(2)(B). To the date of this report, the School Corporation has received \$31,400 per year, in reimbursement for the first two years of the contract.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Page 9-4)

Late Reports

Savings summary reports relative to guaranteed energy savings contracts that are required to be filed with the Indiana Department of Commerce, Energy Policy Division, were not filed for the years 2002, 2003, 2004, and 2005.

Information forwarded to the Indiana Department of Commerce, Energy Policy Division by the School Corporation did not include a copy of the executed guaranteed energy savings contract, the energy consumption costs before the date of execution of the guaranteed energy savings contract, the documentation using industry engineering standards for stipulated savings; and related capital expenditures.

Effective March 21, 2002, Indiana Code 36-1-12.5-10 states:

“The governing body shall:

- (1) provide to the department of commerce not more than sixty (60) days after the date of execution of the guaranteed energy savings contract:
 - (A) a copy of the executed guaranteed energy savings contract;
 - (B) the energy consumption costs before the date of execution of the guaranteed energy savings contract; and
 - (C) the documentation using industry engineering standards for:

NORTH GIBSON SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (i) stipulated savings; and
 - (ii) related capital expenditures; and
- (2) annually report to the department of commerce, in accordance with procedures established by the department of commerce, the savings resulting in the previous year from the guaranteed energy savings contract or utility energy efficiency program.”

OPTICAL IMAGES OF CHECKS

The financial institution did not return the actual cancelled checks with the monthly bank statements for some accounts, but instead returned an optical image of only the front side of the checks or no images at all for some months.

Indiana Code 5-15-6-3(a) concerning optical imaging of checks states, in part:

“ . . . ‘original records’ includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . . ”

Furthermore, Indiana Code 26-2-8-111 states, in part:

(a) “If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference.”

(e) “If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a).”

OVERDRAWN CASH BALANCE

The cash balance of the Textbook Rental Fund was overdrawn during and at the close of the audit period. A similar comment appeared in prior reports.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

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

Compliance

We have audited the compliance of the North Gibson 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 its major federal program for the years ended June 30, 2005 and 2006. The School Corporation's major federal program is 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 its major federal program 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 its major federal program for the years ended June 30, 2005 and 2006.

Internal Control Over Compliance

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

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

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

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

STATE BOARD OF ACCOUNTS

January 25, 2007

NORTH GIBSON 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				
National School Lunch Program	10.553		\$ 62,880	\$ 72,110
School Breakfast Program	10.555		<u>253,279</u>	<u>326,453</u>
Total for federal grantor agency			<u>316,159</u>	<u>398,563</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Title 1 Grants to Local Educational Agencies				
FY 03-04	84.010	03-2735	108,178	-
FY 04-05		04-2735	189,570	131,298
FY 05-06		05-2735	<u>-</u>	<u>263,411</u>
Total for program			<u>297,748</u>	<u>394,709</u>
Safe and Drug Free Schools and Communities				
FY 02-03	84.318	02-194	4,500	-
FY 03-04		03-088	<u>3,443</u>	<u>6,711</u>
Total for program			<u>7,943</u>	<u>6,711</u>
State Grants for Innovative Programs				
FY 02-03	84.298	02-171	10,496	-
FY 03-04		03-136	225	13,480
FY 04-05		04-119	<u>-</u>	<u>3,172</u>
Total for program			<u>10,721</u>	<u>16,652</u>
Education Technology State Grants				
FY 04-05	84.318		<u>-</u>	<u>7,169</u>
Improving Teacher Quality State Grants				
FY 02-03	84.367	02-228	22,340	-
FY 03-04		03-120	41,163	56,167
FY 04-05		04-083	<u>-</u>	<u>87,643</u>
Total for program			<u>63,503</u>	<u>143,810</u>
Total for federal grantor agency			<u>379,915</u>	<u>569,051</u>
Total federal awards expended			<u>\$ 696,074</u>	<u>\$ 967,614</u>

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

NORTH GIBSON 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 Gibson 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.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>2005</u>	<u>2006</u>
Child Nutrition Cluster		<u>\$ 30,031</u>	<u>\$ 18,820</u>

NORTH GIBSON 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	<u>Name of Federal Program or Cluster</u>
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Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

NORTH GIBSON SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

NORTH GIBSON SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on January 25, 2007, with B. Dale McCuiston, Superintendent of Schools; Marlene Fisher, Treasurer; Mark lunghuhn, President of the School Board; and John Woods, Secretary of the School Board. The officials concurred with our audit findings.