

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

AUDIT REPORT

OF

RICHMOND COMMUNITY SCHOOLS

WAYNE 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	Anthony Zurwell Robert K. Coddington	07-01-04 to 12-31-04 01-01-05 to 06-30-07
Superintendent of Schools	Dr. Allen Bourff	07-01-04 to 06-30-07
President of the School Board	David Stidham Patricia Heiny	07-01-04 to 06-30-06 07-01-06 to 06-30-07



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

TO: THE OFFICIALS OF THE RICHMOND COMMUNITY SCHOOLS, WAYNE COUNTY, INDIANA

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

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

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

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

In accordance with Government Auditing Standards, we have also issued a report dated January 31, 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

February 7, 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 RICHMOND COMMUNITY SCHOOLS, WAYNE COUNTY, INDIANA

We have audited the financial statements of the Richmond Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated February 7, 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.

We noted other matters involving the internal control over financial reporting that we have discussed with the management of the School Corporation on February 7, 2007. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

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

February 7, 2007

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 14,245,808
Restricted assets:	
Cash and investments	<u>2,043,894</u>
Total assets	<u>\$ 16,289,702</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 2,043,894
Unrestricted	<u>14,245,808</u>
Total net assets	<u>\$ 16,289,702</u>

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

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 17,826,715
Restricted assets:	
Cash and investments	<u>2,091,678</u>
Total assets	<u>\$ 19,918,393</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 2,091,678
Unrestricted	<u>17,826,715</u>
Total net assets	<u>\$ 19,918,393</u>

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

RICHMOND COMMUNITY SCHOOLS  
STATEMENT OF CASH ACTIVITIES  
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Total
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 22,540,736	\$ -	\$ 359,518	\$ (22,181,218)
Support services	31,575,679	1,679,820	1,736,363	(28,159,496)
Community services	488,673	-	-	(488,673)
Nonprogrammed charges	55,800	-	-	(55,800)
Debt service	2,363,869	-	-	(2,363,869)
Total governmental activities	\$ 57,024,757	\$ 1,679,820	\$ 2,095,881	(53,249,056)
General receipts:				
Property taxes				28,954,043
Other local sources				3,768,353
State aid				25,411,651
Grants and contributions not restricted				5,239,633
Bonds and loans				7,614
Sale of property, adjustments, and refunds				261,849
Investment earnings				255,730
Total general receipts				63,898,873
Change in cash and investments				10,649,817
Net assets - beginning				5,639,885
Net assets - ending				\$ 16,289,702

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

RICHMOND COMMUNITY SCHOOLS  
STATEMENT OF CASH ACTIVITIES  
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Total
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 22,813,143	\$ -	\$ 554,614	\$ (22,258,529)
Support services	30,267,310	1,620,245	1,837,033	(26,810,032)
Community services	390,616	-	-	(390,616)
Nonprogrammed charges	15,194	-	-	(15,194)
Debt service	4,270,108	-	-	(4,270,108)
Total governmental activities	\$ 57,756,371	\$ 1,620,245	\$ 2,391,647	(53,744,479)
General receipts:				
Property taxes				21,633,681
Other local sources				3,468,670
State aid				26,089,413
Grants and contributions not restricted				5,067,191
Sale of property, adjustments, and refunds				327,898
Investment earnings				786,317
Total general receipts				57,373,170
Change in cash and investments				3,628,691
Net assets - beginning				16,289,702
Net assets - ending				\$ 19,918,393

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

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

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
<b>Receipts:</b>							
Local sources	\$ 19,065,326	\$ 2,664,635	\$ 3,305,198	\$ 5,624,426	\$ 1,139,696	\$ 1,988,333	\$ 33,787,614
Intermediate sources	485	-	-	-	-	1,819	2,304
State sources	25,747,620	-	-	-	-	881,772	26,629,392
Federal sources	35,759	-	-	-	-	6,082,014	6,117,773
Bonds and loans	-	-	7,614	-	-	-	7,614
Sale of property, adjustments and refunds	30,132	19,241	-	80,789	-	21,139	151,301
Intergovernmental transfers	1,620,837	-	-	3,500,000	350,000	811,810	6,282,647
<b>Total receipts</b>	<u>46,500,159</u>	<u>2,683,876</u>	<u>3,312,812</u>	<u>9,205,215</u>	<u>1,489,696</u>	<u>9,786,887</u>	<u>72,978,645</u>
<b>Disbursements:</b>							
<b>Current:</b>							
Instruction	19,072,717	-	-	-	-	3,468,019	22,540,736
Support services	19,861,072	1,783,710	-	4,876,851	651,135	4,877,960	32,050,728
Community services	353,833	-	-	-	-	134,840	488,673
Nonprogrammed charges	4,531,571	-	-	1,500,000	-	306,876	6,338,447
Debt services	-	-	2,363,869	-	-	-	2,363,869
<b>Total disbursements</b>	<u>43,819,193</u>	<u>1,783,710</u>	<u>2,363,869</u>	<u>6,376,851</u>	<u>651,135</u>	<u>8,787,695</u>	<u>63,782,453</u>
Excess of total receipts over total disbursements	2,680,966	900,166	948,943	2,828,364	838,561	999,192	9,196,192
Cash and investments - beginning	430,048	298,855	272,038	274,555	81,357	3,142,990	4,499,843
Cash and investments - ending	<u>\$ 3,111,014</u>	<u>\$ 1,199,021</u>	<u>\$ 1,220,981</u>	<u>\$ 3,102,919</u>	<u>\$ 919,918</u>	<u>\$ 4,142,182</u>	<u>\$ 13,696,035</u>

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

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

Net change in fund balances - total governmental funds	\$ 9,196,192
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>1,453,625</u>
Change in cash and investments of governmental activities	<u>\$ 10,649,817</u>

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

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
<b>Receipts:</b>							
Local sources	\$ 15,291,084	\$ 2,144,836	\$ 2,467,034	\$ 3,462,846	\$ 283,739	\$ 2,912,014	\$ 26,561,553
Intermediate sources	485	-	-	-	-	2,175	2,660
State sources	26,620,158	-	-	-	-	744,502	27,364,660
Federal sources	14,598	-	-	-	-	6,168,990	6,183,588
Sale of property, adjustments and refunds	42,428	2,339	-	1,100	-	27,689	73,556
Intergovernmental transfers	104,868	-	-	103,000	-	351,266	559,134
<b>Total receipts</b>	<u>42,073,621</u>	<u>2,147,175</u>	<u>2,467,034</u>	<u>3,566,946</u>	<u>283,739</u>	<u>10,206,636</u>	<u>60,745,151</u>
<b>Disbursements:</b>							
<b>Current:</b>							
Instruction	19,458,453	-	-	-	-	3,354,690	22,813,143
Support services	20,273,443	1,824,019	-	2,510,982	686,044	4,900,678	30,195,166
Community services	331,307	-	-	-	-	59,309	390,616
Nonprogrammed charges	52,553	-	-	103,000	-	418,775	574,328
Debt services	-	-	2,423,187	-	-	1,846,921	4,270,108
<b>Total disbursements</b>	<u>40,115,756</u>	<u>1,824,019</u>	<u>2,423,187</u>	<u>2,613,982</u>	<u>686,044</u>	<u>10,580,373</u>	<u>58,243,361</u>
Excess (deficiency) of total receipts over (under) total disbursements	1,957,865	323,156	43,847	952,964	(402,305)	(373,737)	2,501,790
Cash and investments - beginning	3,111,014	1,199,021	1,220,981	3,102,919	919,918	4,142,182	13,696,035
Cash and investments - ending	<u>\$ 5,068,879</u>	<u>\$ 1,522,177</u>	<u>\$ 1,264,828</u>	<u>\$ 4,055,883</u>	<u>\$ 517,613</u>	<u>\$ 3,768,445</u>	<u>\$ 16,197,825</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	\$ 2,501,790
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>1,126,901</u>
Change in cash and investments of governmental activities	<u>\$ 3,628,691</u>

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

	Internal Service Fund
Receipts:	
Local sources	\$ 868,029
Sale of property, adjustments and refunds	110,547
Transfers	6,674,980
Total receipts	7,653,556
Disbursements:	
Support services	6,199,931
Changes in cash and investments	1,453,625
Cash and investments - beginning	1,140,042
Cash and investments - ending	\$ 2,593,667

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

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

	Internal Service Fund
Receipts:	
Local sources	\$ 944,703
Sale of property, adjustments and refunds	254,342
Transfers	6,915,864
Total receipts	8,114,909
Disbursements:	
Support services	6,988,008
Changes in cash and investments	1,126,901
Cash and investments - beginning	2,593,667
Cash and investments - ending	\$ 3,720,568

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

RICHMOND COMMUNITY SCHOOLS  
 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	\$ -	\$ 136,105
Bonds and loans	19,000,000	
Sale of property, adjustments and refunds	<u>41,197</u>	<u>-</u>
Total additions	<u>19,041,197</u>	<u>136,105</u>
Deductions:		
Instruction	-	10,752
Support services	<u>13,236,519</u>	<u>80,023</u>
Total deductions	<u>13,236,519</u>	<u>90,775</u>
Excess of total additions over total deductions	5,804,678	45,330
Cash and investments - beginning	<u>-</u>	<u>26,194</u>
Cash and investments - ending	<u>\$ 5,804,678</u>	<u>\$ 71,524</u>

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

RICHMOND COMMUNITY SCHOOLS  
 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	\$ -	\$ 1,641,945
Deductions:		
Instruction	-	520,704
Support services	1,387,771	50,566
Total deductions	1,387,771	571,270
Excess (deficiency) of total additions over (under) total deductions	(1,387,771)	1,070,675
Cash and investments - beginning	5,804,678	71,523
Cash and investments - ending	\$ 4,416,907	\$ 1,142,198

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

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

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 5,804,678	\$ 71,524	\$ 198,946
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 5,804,678	\$ 71,524	

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

RICHMOND COMMUNITY SCHOOLS  
 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	\$ 4,416,907	\$ 1,142,198	\$ 193,638
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 4,416,907	\$ 1,142,198	

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

RICHMOND COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

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

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

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

RICHMOND COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 receipts and disbursements from the sales and purchases of warehouse supplies and to account for receipts and disbursements for employee health insurance benefits.

The pension trust fund accounts for the receipts and disbursements of the retirement/severance bond benefits, as authorized by statute.

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

Agency funds account for assets held by the School Corporation as an agent for withholding authorities and serve as control of accounts for certain cash transactions during the time they are a liability to the School Corporation.

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.

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.

RICHMOND COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

3. Compensated Absences

a. Sick Leave

Administrators are authorized one day per month with no accumulation limit. Certified personnel are authorized ten days for the first year and eight days thereafter with no accumulation limit. Noncertified contractual personnel are authorized eight days per year with no accumulation limit. Bus drivers and secretaries are authorized seven sick days per year with no accumulation limit.

b. Vacation Leave

Twelve month administrators earn four to five weeks depending on position and experience. Executive assistants earn two weeks to four weeks each school year. Other noncertified contractual School Corporation employees earn vacation leave at rates from five days to fifteen days per year based upon the number of years of service. Unused vacation may be converted to sick leave upon written request to the human resource office.

c. Personal Leave

Administrators are authorized four days per contract. Unused days automatically convert to sick days at the end of the contract. Certified personnel are authorized four days per contract, noncumulative. Noncertified contractual personnel (less than twelve month employees) are authorized one day per contract cumulative to two days. Noncertified personnel (twelve month employees) are authorized two days per contract cumulative to four days. Bus drivers and secretaries are authorized two personal days per contract. Any days earned in excess of the maximum, convert into sick days.

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.

RICHMOND COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

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 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.

RICHMOND COMMUNITY SCHOOLS  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

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.

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
Textbook Rental	\$ 226,336	\$ 385,028
Perkins	19,920	-

RICHMOND COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

Deposits

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.

Investment Policies

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

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

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

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The School Corporation does not have a formal investment policy for custodial credit risk for investments.

RICHMOND COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The School Corporation must follow state statute and limit the stated final maturities of the investments to no more than two years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of Credit Risk

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

Foreign Currency Risk

The School Corporation does not have a formal policy in regards to foreign currency risk.

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	Capital Projects	\$ 3,500,000	\$ -
General Fund	Bus Replacement	350,000	-
General Fund	Other governmental	650,000	52,000
Capital Projects	General Fund	1,500,000	-
Capital Projects	Other governmental	-	103,000
Other governmental	General Fund	120,837	104,868
Other governmental	Capital Projects	-	103,000
Other governmental	Other governmental	142,354	23,860
Other governmental	Other governmental	10,286	150,946
Other governmental	Other governmental	-	19,352
Other governmental	Other governmental	9,170	2,108
Totals		<u>\$ 6,282,647</u>	<u>\$ 559,134</u>

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

RICHMOND COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

IV. Other Information

A. Risk Management

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

Medical Benefits to Employees, Retirees and Dependents (excluding postemployment benefits)

The School Corporation has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees and dependents (excluding postemployment benefits). 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 \$125,000 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 affected fund and are reported as quasi-external interfund transactions.

B. Holding Corporation

The School Corporation has entered into a capital lease with Richmond Middle 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 years 2004-2005 and 2005-2006 totaled \$222,000 annually.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment early 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. Currently, 117 retirees meet these eligibility requirements. The School Corporation and retirees provide 90% and 10%, respectively, of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. Disbursements for postemployment benefits cannot be reasonably estimated.

RICHMOND COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

Actuarial Information for the Above Plan

		PERF
Annual required contribution	\$	144,436
Interest on net pension obligation		(30,889)
Adjustment to annual required contribution		35,201
Annual pension cost		148,748
Contributions made		228,630
Decrease in net pension obligation		(79,882)
Net pension obligation, beginning of year		(426,059)
Net pension obligation, end of year	\$	(505,941)

RICHMOND COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	PERF
Contribution rates:	
School Corporation	4.25%
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	\$ 215,718	134%	\$ (316,570)
	06-30-04	150,255	173%	(426,059)
	06-30-05	148,748	152%	(505,941)

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.

RICHMOND COMMUNITY SCHOOLS  
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 \$761,961, \$670,695, and \$591,539, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

RICHMOND COMMUNITY SCHOOLS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 5,766,207	\$ 4,803,737	\$ 962,470	120%	\$ 4,558,645	21%
07-01-04	5,822,875	4,801,145	1,021,730	121%	4,586,465	22%
07-01-05	6,002,714	5,920,023	82,691	101%	4,871,678	2%

RICHMOND COMMUNITY SCHOOLS  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS

June 30, 2006

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

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 343,670
Buildings	164,651,710
Machinery and equipment	<u>7,276,676</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 172,272,056</u>

RICHMOND COMMUNITY SCHOOLS  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Test Middle School	\$ 8,580,000	\$ 655,000
Notes and loans payable	1,243,020	491,763
Bonds payable:		
General obligation bonds:		
Severance	<u>18,250,000</u>	<u>965,000</u>
 Total governmental activities long-term debt	 <u>\$ 28,094,876</u>	 <u>\$ 2,111,763</u>

RICHMOND COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS

DEPOSITS (Applies to Charles Elementary, Garrison Elementary)

Receipts were not always deposited within a reasonable time. Receipts tested were deposited from 13 to 34 days after the date of the receipt at Charles Elementary and receipts were deposited once a month at Garrison Elementary.

Indiana Code 41-1-9 states in part: ". . . receipts shall be deposited without unreasonable delay."

DISBURSEMENT DOCUMENTATION (Crestdale Elementary)

Several payments were observed which did not contain adequate supporting documentation. We noted the following deficiencies in a review of disbursements:

1. No SA-1, Purchase Order, used for the majority of disbursements,
2. Sales tax was routinely paid,
3. Disbursements were made based on statements and not itemized bills in some instances,
4. Payments were not always made from the correct fund.

Due to the lack of supporting information, the validity and accountability for some monies disbursed could not be established.

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

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 Extra-Curricular Accounts, Chapter 7)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

EXTRA-CURRICULAR DISBURSEMENTS

The following items were noted from the information presented for audit from Fairview Elementary:

1. Numerous purchase orders reimbursing the principal from the student activities account required reimbursement from the School Corporation due to the nature of the items purchased (i.e. office supplies, back to school supplies). The result was purchase of items prior to the approval of the purchase by the School Corporation. All of the disbursements from student activities were subsequently receipted back into the fund.

RICHMOND COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

All disbursements for educational purposes must be made from school corporation funds and not from extra-curricular funds. These include disbursements for educational and library materials, supplies and equipment. . . . (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

2. A professional development luncheon was paid from student activities in the amount of \$368.91.

The Student Activities Fund expenditures are to be made to benefit the student body as a whole (as opposed to a select group of students, school employees or administrators). (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

3. Reimbursements to teachers included sales tax.

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 Extra-Curricular Accounts, Chapter 7)

The following items were noted from the information presented for audit from Vaile Elementary:

1. Several disbursements from the Student Activities Fund were for curricular items, office and classroom supplies.

All disbursements for educational purposes must be made from school corporation funds and not from extra-curricular funds. These include disbursements for educational and library materials, supplies and equipment. . . . (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

2. Gifts for the staff were paid from Student Activities in the amount of \$40.26.

The Student Activities Fund expenditures are to be made to benefit the student body as a whole (as opposed to a select group of students, school employees or administrators). (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

3. Reimbursements to teachers included sales tax.

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 Extra-Curricular Accounts, Chapter 7)

4. Disbursements were made based on statements without itemized bills attached.

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

RICHMOND COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

AVERAGE DAILY MEMBERSHIP (ADM) - INCORRECT REPORTING TO THE STATE

The information presented for audit indicates enrollment figures on Form 30A, Report of Average Daily Membership (ADM) for State Support, were incorrect for the school year ending June 30, 2005.

The enrollment count dates for 2004-2005 was September 17, 2004. The difference between the count reported on the ADM and the verified figures are shown below:

<u>School Year</u>	<u>Grade</u>	<u>Count as Reported on Form 30A</u>	<u>Actual Enrollment Figures</u>	<u>Difference</u>
2004-2005	1 through 12	5,351.51	5,350.51	1

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

TRAVEL POLICY

We noted a reimbursement for a hotel meal in the amount of \$33 and also a receipt for the employee's portion of the meal in the amount of \$13 that were both reimbursed to the employee in FY 2005-2006.

Reimbursement for lodging and meals should be based upon actual receipts for amounts paid unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OVERDRAWN CASH BALANCE

The cash balance of the Perkins Fund was negative at June 30, 2005. The cash balance of the Textbook Rental Fund was negative at June 30, 2005 and 2006.

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)

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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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 RICHMOND COMMUNITY SCHOOLS, WAYNE COUNTY, INDIANA

Compliance

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

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

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

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)

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School Corporation's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

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 the 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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

February 7, 2007

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

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 327,840	\$ 316,127
National School Lunch Program	10.555		<u>1,135,014</u>	<u>1,240,102</u>
Total for federal grantor agency			<u>1,462,854</u>	<u>1,556,229</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Special Education Cluster (IDEA)				
Special Education - Grants to States				
Sliver	84.027	FY 2003-2004	25,983	400
CSPD		14204-061-PY 02	417,766	-
IDEA		14201-087-DY07	1,152,443	240
IDEA		14206-061-PN01	<u>-</u>	<u>1,563,449</u>
Total for program			<u>1,596,192</u>	<u>1,564,089</u>
Special Education - Preschool Grants				
FY 2003-2004	84.173	45703-061-PY02	8,969	-
FY 2004-2005		45704-061-PY02	9,170	-
FY 2004-2005		45705-061-PN01	90,657	7,014
FY 2005-2006		45705-061-PY02	-	2,108
FY 2005-2006		45706-061-PN01	<u>-</u>	<u>85,128</u>
Total for program			<u>108,796</u>	<u>94,250</u>
Total for cluster			<u>1,704,988</u>	<u>1,658,339</u>
Adult Education-State Grant Program				
	84.002	FY 2003-2004	8,749	-
		FY 2004-2005	76,844	27,203
		FY 2005-2006	<u>-</u>	<u>111,282</u>
Total for program			<u>85,593</u>	<u>138,485</u>
Title I Grants to Local Educational Agencies				
	84.010	FY 2002-2003	1,859	-
		Part D RSH 2003-2004	33,205	-
		FY 2003-2004	455,732	-
		FY 2004-2005	1,377,232	542,951
		Part D RSH 2004-2005	25,878	37,822
		Part D RSH 2005-2006	-	48,644
		Crestdale School Improvement	-	141,860
		FY 2005-2006	-	1,347,863
		Indirect Costs	<u>23,495</u>	<u>23,495</u>
Total for program			<u>1,917,401</u>	<u>2,142,635</u>
Vocational Education-Basic Grants to States				
	84.048	District Coordinator Grant 2003	144	-
		FY 2004-2005	162,750	-
		High Schools That Work 2004-2005	2,500	-
		FY 2005-2006	<u>-</u>	<u>130,779</u>
Total for program			<u>165,394</u>	<u>130,779</u>

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

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

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF EDUCATION (continued)</u>				
Pass-Through Indiana Department of Education				
Special Education Cluster (IDEA) (continued)				
Safe and Drug Free Schools and Communities-State Grants	84.186	FY 2003-2004	36,568	-
		FY 2004-2005	12,923	36,942
		FY 2005-2006	-	1,795
		Project Peace	-	500
		Indirect Costs	655	655
Total for program			<u>50,146</u>	<u>39,892</u>
State Grants For Innovative Programs	84.298	FY 2002-2003	7,890	-
		FY 2003-2004	23,396	19,976
		FY 2004-2005	-	33,129
		FY 2005-2006	-	5,424
		Indirect Costs	880	827
Total for program			<u>32,166</u>	<u>59,356</u>
Education Technology State Grants	84.318	FY 2005-2006	60,344	44,658
		Indirect Costs	819	1,033
Total for program			<u>61,163</u>	<u>45,691</u>
Reading Excellence	84.338	I Read Grant 2002-2004	43,921	-
English Language Acquisition Grants	84.365	FY 2005-2006	-	2,413
Improving Teacher Quality State Grants	84.367	FY 2004-2005	425,994	355,241
		Indirect Costs	-	10,789
Total for program			<u>425,994</u>	<u>366,030</u>
Total for federal grantor agency			<u>5,949,620</u>	<u>6,139,849</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Pass-Through Indiana Department of Education				
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems				
	93.938	FY 2005-2006	-	1,450
		Indirect Costs	-	44
Total for federal grantor agency			<u>-</u>	<u>1,494</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Pass-Through Indiana State Emergency Management Agency				
Public Assistance Grants	97.036		6,665	-
Total federal awards expended			<u>\$ 5,956,285</u>	<u>\$ 6,141,343</u>

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

RICHMOND COMMUNITY SCHOOLS  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

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

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

II. Subrecipients

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

Program Title	Federal CFDA Number	2005	2006
Title I Grants to Local Educational Agencies	84.010	\$ 100,008	\$ 45,335
Safe and Drug Free Schools and Communities-State Grants	84.186	4,904	2,939
Innovative Education Program Strategies	84.298	1,760	2,811
Technology Literacy Challenge Fund	84.318	4,582	4,734
Improving Teacher Quality State Grants	84.367	15,285	12,177

III. Noncash Assistance

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

Program Title	Federal CFDA Number	2005	2006
School Breakfast Program	10.553	\$ 13,212	\$ 31,086
National School Lunch Program	10.555	45,480	120,619

RICHMOND COMMUNITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	yes

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes

Identification of Major Programs:

Name of Federal Program or Cluster

Title I Grants to Local Educational Agencies  
Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$362,729

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

RICHMOND COMMUNITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Section III – Federal Award Findings and Questioned Costs

Finding 2006-1, Title I – Cash Management

Federal Agency: U.S. Department of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA Number: 84.010  
Pass-Through Entity: Indiana Department of Education

The Richmond Community Schools has not implemented internal controls to minimize the time elapsing between the transfer of funds and their disbursement. We determined, through discussions held with Richmond Community School staff, that the drawdown amounts for Title I are basically the same amount from month to month. The School Corporation may also receive as much as four monthly payments at one time at the beginning of the grant year. This created surplus cash at the beginning of the period that carries forward because of not adjusting subsequent cash requests. Eight of the ten months tested had surplus cash balances greater than 10% of their current monthly expenditures.

The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments 34CFR80.20(b)(7) states in part: "to maintain procedures for minimizing the time elapsing between the transfer of the funds from the U.S. Treasury and disbursement by the grantees or subgrantees."

We recommended that the Richmond Community Schools try to match their budgeted expenditure with the drawdown requests included in the Title I application with the goal to minimize the amount of cash on hand at the end of the month.

RICHMOND COMMUNITY SCHOOLS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



Finding 2006-1	Title I Cash Management
Federal Agency:	Department of Education
Federal Program:	Title I Grants to Local Educational Agencies
CFDA Number:	84.010
Pass-through Entity:	Indiana Department of Education
Auditee Contact Person:	Kristi L. Knapp
Title:	Associate Superintendent
Phone Number:	765-973-3418

For the fiscal year 2006-2007 Richmond Community Schools requested an eleven month draw payment schedule, with the first monthly payment equal to 4 months expenditures. For fiscal year 2006-07 we requested payments pro-rated over eleven months. However, the carry-over of funds from one grant year to the next caused our cash balance at month's end to exceed the following month's anticipated expenditures.

We are now aware of the problem and have requested the business affairs office to provide the Title I director's office with a monthly cash balance report. When our cash balance is excessive relative to the next month's anticipated expenditures, we will ask the department of education to reduce or defer the next scheduled installment of the grant payment to Richmond Community Schools.

  
Kristi Knapp  
Associate Superintendent  
Richmond Community Schools

RICHMOND COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2007, with Dr. Allen Bourff, Superintendent of Schools; Robert K. Coddington, Treasurer; and Beverly J. Senese, Deputy Treasurer. The official response has been made a part of this report and may be found on pages 46 and 47.



Richmond Community Schools  
300 Hub Etchison Parkway  
Richmond, IN 47374

February 12, 2007

State Board of Accounts  
302 West Washington Street  
Room E418  
Indianapolis, IN 46204

RE: Exit Audit Conference February 7, 2007

Dear State Board of Accounts:

This letter will serve as an Official Response to the Audit Comments noted in our Exit Conference on February 7, 2007.

**(1) Average Daily Membership (ADM) – Incorrect reporting to the State for one student during school year 2004-05**

One High School student was transferred to our Richmond State Hospital Campus. The High School and State Hospital Campus have been contacted and corrective measures have been put in place to ensure that student counts are correct.

An excel spreadsheet is now being used to verify ADM and to audit for duplicate names.

**(2) Negative Cash Balances**

Accurate accounting of the text books results in negative cash balances.

Perkins Grant cash management practices have been changed to ensure no negative cash balance.

**(3) ECA Deposits**

All Principals and Administrative personnel have been instructed to make timely deposits with a minimum of no less than once a week. Schools now have option for courier services to ensure timely deposits.

**(4) ECA Disbursements**

The ECA accounts should not be used for educational supplies and materials or staff development.

All ECA accounts will be audited by Business Office with building treasurer and Principal signing off as to the accuracy and appropriateness of ECA expenditures.

**(5) Travel Policy/Meal Reimbursement**

An RCS administrator was inadvertently reimbursed twice for a meal.

A written request was sent to the administrator for reimbursement to RCS for the error.

**(6) Federal Funding – Title I**

Internal control and cash management practices were not meeting federal guidelines as more than 110% of monthly expenses were deposited resulting in excessive cash balance.

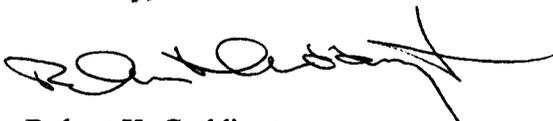
Title I Administrator and Associate Superintendent have responded and have changed cash requests to meet federal guidelines.

**(7) Information Technology**

Accounting software allows a person to be logged in on more than one computer at a time.

Software vendor has been notified that there is a need to change the system to not allow this.

Sincerely,



Robert K. Coddington  
Director of Business Affairs  
Treasurer

RKC/jle

Cc: Dr. Allen Bourff