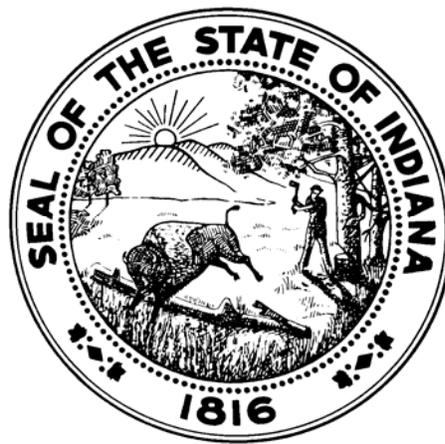


**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

EXAMINATION REPORT  
OF  
GALILEO CHARTER SCHOOL  
WAYNE COUNTY, INDIANA  
March 31, 2005 to June 30, 2006



**FILED**  
03/16/2007



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Karen Clark Paul H. Runyon	03-31-05 to 07-17-05 07-18-05 to 06-30-07
Chief Academic Officer	John Hayden Kevin L. Handley	03-31-05 to 02-14-06 02-15-06 to 06-30-07
President of the School Board	Norman Goldbach Kenneth A. Christmon	03-31-05 to 10-17-06 10-18-06 to 06-30-07



**STATE OF INDIANA**  
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STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
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Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF GALILEO CHARTER SCHOOL, WAYNE COUNTY, INDIANA

We have examined the financial information presented herein of Galileo Charter School (School Corporation), for the period of March 31, 2005 to June 30, 2006. The School Corporation's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above present fairly, in all material respects, the financial information of the School Corporation for the years ended June 30, 2005 and 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Funding Progress, Schedule of Capital Assets, Schedule of Long-Term Debt and Schedule of Investments, as listed in the Table of Contents, are presented for additional analysis and are not a required part of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information, and accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

February 21, 2007

GALILEO CHARTER SCHOOL  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 21,205
	<u>                    </u>
<u>Net Assets</u>	
Unrestricted	\$ 21,205
	<u>                    </u>

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

GALILEO CHARTER SCHOOL  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ <u>33,506</u>
<u>Net Assets</u>	
Unrestricted	\$ <u>33,506</u>

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

GALILEO CHARTER SCHOOL  
STATEMENT OF CASH ACTIVITIES  
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Total	Net (Disbursement) <u>Receipts</u>
Governmental activities:			
Instruction	\$ 3,667	\$ (3,667)	
Support services	71,082	(71,082)	
Nonprogrammed charges	(433)	433	
Debt service	34,746	(34,746)	
Total governmental activities	\$ 109,062	(109,062)	
General receipts:			
Other local sources		20,988	
Grants and contributions not restricted		34,268	
Bonds and loans		75,000	
Investment earnings		11	
Total general receipts		130,267	
Change in cash and investments		21,205	
Net assets - beginning		-	
Net assets - ending		\$ 21,205	

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

GALILEO CHARTER SCHOOL  
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	\$ 422,876	\$ -	\$ 4,719	\$ (418,157)
Support services	1,466,016	5,828	54,071	(1,406,117)
Community services	98	-	-	(98)
Nonprogrammed charges	695	-	-	(695)
Debt service	537,166	-	-	(537,166)
Total governmental activities	\$ 2,426,851	\$ 5,828	\$ 58,790	(2,362,233)
General receipts:				
Property taxes				142,485
Other local sources				35,458
State aid				274,734
Grants and contributions not restricted				248,906
Bonds and loans				1,659,718
Sale of property, adjustments, and refunds				2,339
Investment earnings				10,894
Total general receipts				2,374,534
Change in cash and investments				12,301
Net assets - beginning				21,205
Net assets - ending				\$ 33,506

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

GALILEO CHARTER SCHOOL  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2005

	<u>General</u>	<u>Charter School Grant</u>	<u>Totals</u>
Receipts:			
Local sources	\$ 20,999	\$ -	\$ 20,999
Federal sources	-	34,268	34,268
Bonds and loans	<u>75,000</u>	<u>-</u>	<u>75,000</u>
 Total receipts	 <u>95,999</u>	 <u>34,268</u>	 <u>130,267</u>
Disbursements:			
Current:			
Instruction	3,667	-	3,667
Support services	71,082	-	71,082
Nonprogrammed charges	(433)	-	(433)
Debt services	<u>34,746</u>	<u>-</u>	<u>34,746</u>
 Total disbursements	 <u>109,062</u>	 <u>-</u>	 <u>109,062</u>
Excess (deficiency) of total receipts over (under) total disbursements	(13,063)	34,268	21,205
Cash and investments - beginning	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ (13,063)</u>	<u>\$ 34,268</u>	<u>\$ 21,205</u>

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

GALILEO CHARTER SCHOOL  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2006

	General	School Lunch	Charter School Grant	Other	Totals
Receipts:					
Local sources	\$ 170,338	\$ 11,828	\$ -	\$ 12,500	\$ 194,666
State sources	279,453	-	-	6,384	285,837
Federal sources	-	49,062	201,732	45,799	296,593
Bonds and loans	1,659,718	-	-	-	1,659,718
Sale of property, adjustments and refunds	2,339	-	-	-	2,339
<b>Total receipts</b>	<b><u>2,111,848</u></b>	<b><u>60,890</u></b>	<b><u>201,732</u></b>	<b><u>64,683</u></b>	<b><u>2,439,153</u></b>
Disbursements:					
Current:					
Instruction	272,354	-	104,266	46,256	422,876
Support services	1,235,874	89,179	131,734	9,229	1,466,016
Community services	98	-	-	-	98
Nonprogrammed charges	695	-	-	-	695
Debt services	537,166	-	-	-	537,166
<b>Total disbursements</b>	<b><u>2,046,187</u></b>	<b><u>89,179</u></b>	<b><u>236,000</u></b>	<b><u>55,485</u></b>	<b><u>2,426,851</u></b>
Excess (deficiency) of total receipts over (under) total disbursements	65,661	(28,289)	(34,268)	9,198	12,302
Cash and investments - beginning	<u>(13,064)</u>	-	<u>34,268</u>	-	<u>21,204</u>
Cash and investments - ending	<u>\$ 52,597</u>	<u>\$ (28,289)</u>	<u>\$ -</u>	<u>\$ 9,198</u>	<u>\$ 33,506</u>

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

GALILEO CHARTER SCHOOL  
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

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.

Note 2. Fund Accounting

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.

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 School Lunch fund accounts for the financial resources of the school lunch program.

The Charter School Grant fund accounted for grant resources used for the start up expenses of the school.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and December. 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.

GALILEO CHARTER SCHOOL  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Note 4. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the School Corporation to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. 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 this 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 members' 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. That 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 the plan members for PERF are established by the Board of Trustees of PERF.

GALILEO CHARTER SCHOOL  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Teacher's Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teacher's 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 members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

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

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

Funding Policy and Annual Pension Cost

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.

GALILEO CHARTER SCHOOL  
 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)
07-01-05	\$ 102	\$ -	\$ 102	0%	\$ -	0%



# GALILEO CHARTER SCHOOL

855 North 12<sup>th</sup> Street – Richmond, IN 47374 (765) 935-5131

## GALILEO CHARTER SCHOOL SUPPLEMENTARY INFORMATION SCHEDULE OF CAPITAL ASSETS

For The Year Ended June 30, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Buildings	\$ 644,220
Improvements other than buildings	16,369
Machinery and equipment	<u>60,547</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 721,136</u>



# GALILEO CHARTER SCHOOL

855 North 12<sup>th</sup> Street – Richmond, IN 47374 (765) 935-5131

GALILEO CHARTER SCHOOL  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF LONG-TERM DEBT

For The Year Ended June 30, 2006

<u>Description of Asset</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:		
Notes and loans payable	<u>\$ 1,205,192</u>	<u>\$ 145,554</u>



# GALILEO CHARTER SCHOOL

855 North 12<sup>th</sup> Street – Richmond, IN 47374 (765) 935-5131

GALILEO CHARTER SCHOOL  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF INVESTMENTS  
For The Year Ended June 30, 2006

<u>Fund</u>	<u>Purchase Price of Investment</u>
Merrill Lynch Account (1,200 shs IIV-1, Inc)	<u>\$ 21,960</u>

GALILEO CHARTER SCHOOL  
EXAMINATION RESULTS AND COMMENTS

COLLECTION OF AMOUNTS DUE

We noted school lunch fees were due from several students.

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, Chapter 9)

OVERDRAWN CASH BALANCES

The cash balance of the General Fund was overdrawn in 2005 and the cash balance of the School Lunch fund was overdrawn in 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)

PAYROLL DEDUCTIONS

Payments to substitute teachers were made without payroll deductions for taxes. Substitutes who were paid more than \$600 were issued 1099's. Also, payments totaling \$329 were made to the transportation director for transporting students between buildings by claim without payroll deductions for taxes.

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

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit. Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

GALILEO CHARTER SCHOOL  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

INDEBTEDNESS

The School entered into a line of credit with First Bank in 2005 and 2006. The limit is \$100,000 which is used to fund operations.

A governmental unit may not incur indebtedness unless specifically allowed by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

COMPENSATION AND BENEFITS

The following deficiencies were present for payroll:

- (1) Contract amount did not agree to amount of pay for some employees.
- (2) The Board did not sign the contracts for all employees.
- (3) Some employees did not sign their contracts.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

GALILEO CHARTER SCHOOL  
EXIT CONFERENCE

The contents of this report were discussed on February 21, 2007, with Paul H. Runyon, Treasurer; Kenneth A. Christmon, President of the School Board; Kevin L. Handey, Chief Academic Officer; and Lori Thompson, Bookkeeper. The official response has been made a part of this report and may be found on pages 20 and 21.



# GALILEO CHARTER SCHOOL

855 North 12<sup>th</sup> Street – Richmond, IN 47374 (765) 935-5131

February 26, 2007

TO: THE OFFICIALS OF THE STATE BOARD OF ACCOUNTS

Detailed below is an official response to the results and comments on the Independent Auditor's Report of the Galileo Charter School for the fiscal year ended June 30, 2006:

## COLLECTION OF AMOUNTS DUE

Report Comment: We noted school lunch fees were due from several students.

Response: The School has improved its collection of school lunch fees. However, this is an area that has and will continue to receive the attention of the School's administration.

## OVERDRAWN CASH BALANCES

Report Comment: The cash balance of the General Fund was overdrawn in 2005 and the cash balance of the School Lunch fund was overdrawn in 2006.

Response: Both the General Fund and the School Lunch Fund currently have positive balances, and it is anticipated that the balances of these Funds will continue to remain positive.

## PAYROLL DEDUCTIONS

Report Comment: Payments to substitute teachers were made without payroll deductions for taxes. Substitutes who were paid more than \$600 were issued 1099's. Also, payments totaling \$329 were made to the transportation director for transporting students between buildings by claim without payroll deductions for taxes. Failure to comply with Internal Revenue guidelines could result in penalties and interest.

Response: All payments to the transportation director for transporting students are now being made with payroll deductions for taxes. The School will comply with Internal Revenue guidelines when paying substitute teachers.

## INDEBTEDNESS

Report Comment: The School entered into a line of credit with First Bank in 2005 and 2006. The limit is \$100,000 which is used to fund operations.

Response: The School is investigating whether acceptable alternatives to a line of credit will adequately cover the short-term cash flow shortfalls caused by the payment in arrears of local tax distributions.

## COMPENSATION AND BENEFITS

Report Comment: The following deficiencies were present for payroll: 1. Contract amount did not agree to amount of pay for some employees. 2. The board did not sign the contracts for all employees. 3. Some employees did not sign their contracts.

Response: Although some employee contracts during the School's first year of operation were deficient, all salaries paid to employees in 2005-2006 were in the amounts agreed to by the employees and the board. All current employee contracts are accurate and properly signed.