

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

AUDIT REPORT

OF

FRANKLIN COMMUNITY SCHOOL CORPORATION

JOHNSON COUNTY, INDIANA

July 1, 2004 to June 30, 2006



**FILED**  
03/27/2007



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials.....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards .....	3-4
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.....	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Cash and Investments .....	6-7
Statement of Cash Activities .....	8-9
Fund Financial Statements:	
Governmental Funds:	
Statement of Receipts, Disbursements, and Cash and Investment Balances – Governmental Funds.....	10-11
Fiduciary Funds:	
Statement of Receipts, Disbursements, and Changes in Cash and Investments – Fiduciary Funds.....	12-13
Statement of Cash and Investments - Fiduciary Fund.....	14-15
Notes to Financial Statements .....	16-25
Required Supplementary Information:	
Schedule of Funding Progress .....	26
Supplementary Information:	
Schedule of Capital Assets.....	27
Schedule of Long-Term Debt.....	28
Audit Results and Comments:	
Compensation.....	29
ECA Deposits .....	29
Receipt Issuance .....	29
Interest on Investments .....	29
Service and Time Records .....	30
Consulting.....	30-31
Catering - Food Service.....	31
Temporary Loans.....	31-32
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 .....	34-35
Schedule of Expenditures of Federal Awards.....	36
Notes to Schedule of Expenditures of Federal Awards .....	37
Schedule of Findings and Questioned Costs.....	38
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings.....	39
Exit Conference.....	40

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Steven N. Millikan	07-01-04 to 06-30-07
Superintendent of Schools	Dr. Larry E. Marschand (Interim) Dr. William G. Patterson	07-01-04 to 11-30-04 12-01-04 to 12-31-07
President of the School Board	Dr. Stanley E. Poe Dr. Douglas Bullington Darren Thompson	01-01-04 to 12-31-04 01-01-05 to 12-31-05 01-01-06 to 12-31-07



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE FRANKLIN COMMUNITY SCHOOL  
CORPORATION, JOHNSON COUNTY, INDIANA

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

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

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

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

In accordance with Government Auditing Standards, we have also issued a report dated February 26, 2006, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

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

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

February 26, 2007



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE FRANKLIN COMMUNITY SCHOOL  
CORPORATION, JOHNSON COUNTY, INDIANA

We have audited the financial statements of the Franklin Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated February 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

STATE BOARD OF ACCOUNTS

February 26, 2007

FRANKLIN COMMUNITY SCHOOL CORPORATION  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 6,766,608
Restricted assets:	
Cash and investments	<u>2,403,050</u>
Total assets	<u>\$ 9,169,658</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 2,403,050
Unrestricted	<u>6,766,608</u>
Total net assets	<u>\$ 9,169,658</u>

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

FRANKLIN COMMUNITY SCHOOL CORPORATION  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 6,836,506
Restricted assets:	
Cash and investments	<u>3,148,328</u>
Total assets	<u>\$ 9,984,834</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 3,148,328
Unrestricted	<u>6,836,506</u>
Total net assets	<u>\$ 9,984,834</u>

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

FRANKLIN COMMUNITY SCHOOL CORPORATION  
STATEMENT OF CASH ACTIVITIES  
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 13,788,758	\$ -	\$ 213,423	\$ (13,575,335)
Support services	17,722,277	1,287,781	762,344	(15,672,152)
Community services	247,467	-	-	(247,467)
Nonprogrammed charges	1,117,239	-	-	(1,117,239)
Debt service	10,866,374	-	-	(10,866,374)
<b>Total governmental activities</b>	<b>\$ 43,742,115</b>	<b>\$ 1,287,781</b>	<b>\$ 975,767</b>	<b>(41,478,567)</b>
General receipts:				
Property taxes				16,405,991
Other local sources				3,037,028
State aid				15,613,885
Grants and contributions not restricted				893,458
Bonds and loans				3,338,448
Sale of property				95,782
Investment earnings				83,573
Intergovernmental transfers				70,949
				<u>39,539,114</u>
				Change in cash and investments (1,939,453)
				<u>11,109,111</u>
				<u>\$ 9,169,658</u>

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

FRANKLIN COMMUNITY SCHOOL CORPORATION  
STATEMENT OF CASH ACTIVITIES  
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 14,172,496	\$ -	\$ 151,414	\$ (14,021,082)
Support services	17,914,636	1,358,747	716,051	(15,839,838)
Community services	357,059	-	-	(357,059)
Nonprogrammed charges	1,479,758	-	-	(1,479,758)
Debt service	10,007,488	-	-	(10,007,488)
<b>Total governmental activities</b>	<b><u>\$ 43,931,437</u></b>	<b><u>\$ 1,358,747</u></b>	<b><u>\$ 867,465</u></b>	<b><u>(41,705,225)</u></b>
General receipts:				
Property taxes				18,921,253
Other local sources				3,392,252
State aid				16,889,239
Grants and contributions not restricted				721,914
Bonds and loans				1,774,712
Sale of property				139,287
Investment earnings				172,929
Intergovernmental transfers				<u>508,815</u>
				Total general receipts and intergovernmental transfers <u>42,520,401</u>
				Change in cash and investments 815,176
				Net assets - beginning <u>9,169,658</u>
				Net assets - ending <u><u>\$ 9,984,834</u></u>

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

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

	General	Transportation Operating	Rainy Day Fund	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
<b>Receipts:</b>								
Local sources	\$ 8,807,488	\$ 1,455,327	\$ 200,000	\$ 5,026,375	\$ 2,776,138	\$ 421,443	\$ 2,125,144	\$ 20,811,915
Intermediate sources	276	-	-	-	-	-	2,182	2,458
State sources	15,808,050	-	-	-	-	-	325,119	16,133,169
Federal sources	7	-	-	-	-	-	1,349,934	1,349,941
Bonds and loans	3,028,538	308,556	-	1,354	-	-	-	3,338,448
Sale of property, adjustments and refunds	601	-	-	-	-	-	95,181	95,782
Intergovernmental transfers	-	-	-	-	-	-	70,949	70,949
<b>Total receipts</b>	<u>27,644,960</u>	<u>1,763,883</u>	<u>200,000</u>	<u>5,027,729</u>	<u>2,776,138</u>	<u>421,443</u>	<u>3,968,509</u>	<u>41,802,662</u>
<b>Disbursements:</b>								
<b>Current:</b>								
Instruction	13,302,068	-	-	-	-	-	486,690	13,788,758
Support services	10,282,805	1,506,302	-	-	3,258,628	335,285	2,339,257	17,722,277
Community services	241,476	-	-	-	-	-	5,991	247,467
Nonprogrammed charges	966,290	-	-	-	-	-	150,949	1,117,239
Debt services	2,932,148	240,430	-	7,058,827	-	-	634,969	10,866,374
<b>Total disbursements</b>	<u>27,724,787</u>	<u>1,746,732</u>	<u>-</u>	<u>7,058,827</u>	<u>3,258,628</u>	<u>335,285</u>	<u>3,617,856</u>	<u>43,742,115</u>
Excess (deficiency) of total receipts over (under) total disbursements	(79,827)	17,151	200,000	(2,031,098)	(482,490)	86,158	350,653	(1,939,453)
Cash and investments - beginning	3,387,236	563,096	590,000	4,596,942	1,169,314	199,860	602,663	11,109,111
Cash and investments - ending	<u>\$ 3,307,409</u>	<u>\$ 580,247</u>	<u>\$ 790,000</u>	<u>\$ 2,565,844</u>	<u>\$ 686,824</u>	<u>\$ 286,018</u>	<u>\$ 953,316</u>	<u>\$ 9,169,658</u>

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

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

	General	Transportation Operating	Rainy Day Fund	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
<b>Receipts:</b>								
Local sources	\$ 8,908,424	\$ 1,530,121	\$ 438,000	\$ 7,202,865	\$ 3,439,886	\$ 585,484	\$ 1,738,811	\$ 23,843,591
Intermediate sources	276	-	-	-	-	-	1,313	1,589
State sources	17,016,739	-	-	-	-	-	356,562	17,373,301
Federal sources	-	-	-	-	-	-	1,105,318	1,105,318
Bonds and loans	1,349,232	423,504	-	1,976	-	-	-	1,774,712
Sale of property, adjustments and refunds	1,366	3,824	-	-	-	-	134,097	139,287
Intergovernmental transfers	163,219	24,927	-	90,426	47,604	5,042	177,597	508,815
<b>Total receipts</b>	<b><u>27,439,256</u></b>	<b><u>1,982,376</u></b>	<b><u>438,000</u></b>	<b><u>7,295,267</u></b>	<b><u>3,487,490</u></b>	<b><u>590,526</u></b>	<b><u>3,513,698</u></b>	<b><u>44,746,613</u></b>
<b>Disbursements:</b>								
<b>Current:</b>								
Instruction	13,592,667	-	-	-	-	-	579,829	14,172,496
Support services	10,490,059	1,602,580	122,500	-	3,199,425	223,038	2,277,034	17,914,636
Community services	351,950	-	-	-	-	-	5,109	357,059
Nonprogrammed charges	914,703	-	-	42,389	-	-	522,666	1,479,758
Debt services	3,028,538	308,556	-	6,670,394	-	-	-	10,007,488
<b>Total disbursements</b>	<b><u>28,377,917</u></b>	<b><u>1,911,136</u></b>	<b><u>122,500</u></b>	<b><u>6,712,783</u></b>	<b><u>3,199,425</u></b>	<b><u>223,038</u></b>	<b><u>3,384,638</u></b>	<b><u>43,931,437</u></b>
Excess (deficiency) of total receipts over (under) total disbursements	(938,661)	71,240	315,500	582,484	288,065	367,488	129,060	815,176
Cash and investments - beginning	3,307,409	580,247	790,000	2,565,844	686,824	286,018	953,316	9,169,658
Cash and investments - ending	<b><u>\$ 2,368,748</u></b>	<b><u>\$ 651,487</u></b>	<b><u>\$ 1,105,500</u></b>	<b><u>\$ 3,148,328</u></b>	<b><u>\$ 974,889</u></b>	<b><u>\$ 653,506</u></b>	<b><u>\$ 1,082,376</u></b>	<b><u>\$ 9,984,834</u></b>

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

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

	<u>Private-Purpose Trust Funds</u>
Additions:	
Local sources	<u>\$ 925</u>
Excess of total additions over total deductions	925
Cash and investments - beginning	<u>27,022</u>
Cash and investments - ending	<u><u>\$ 27,947</u></u>

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

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

	Private-Purpose Trust Funds
Additions:	
Local sources	\$ 996
Deductions:	
Instruction	504
Excess of total additions over total deductions	492
Cash and investments - beginning	27,947
Cash and investments - ending	\$ 28,439

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

FRANKLIN COMMUNITY SCHOOL CORPORATION  
STATEMENT OF CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
June 30, 2005

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ <u>27,947</u>
<u>Net Assets</u>	
Held in trust for employee benefits and other purposes	\$ <u>27,947</u>

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

FRANKLIN COMMUNITY SCHOOL CORPORATION  
STATEMENT OF CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
June 30, 2006

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 28,439	\$ 3,470
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 28,439	

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

FRANKLIN COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Primary Government: Franklin Community School Corporation

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

Joint Venture

The School Corporation is a participant with Center Grove Community School Corporation, Clark-Pleasant Community School Corporation, Greenwood Community School Corporation, Nineveh-Hensley-Jackson United School Corporation, and Edinburgh Community School Corporation in a joint venture to operate Johnson County Special Services, which was created to provide instruction for individuals with disabilities. Johnson County Special Services' continued existence depends on continued funding by the School Corporation. The School Corporation is billed semiannually, based on enrollment, to support Johnson County Special Services. The School Corporation paid \$408,785 in the 2005-2006 school year to Johnson County Special Services. Complete financial statements for Johnson County Special Services can be obtained from Johnson County Special Services, 500 Earlywood Drive, Franklin, Indiana, 46131.

The School Corporation is a participant with Beech Grove City Schools, Center Grove Community School Corporation, Edinburgh Community School Corporation, Clark-Pleasant Community School Corporation, Franklin Township Community School Corporation, Greenwood Community School Corporation, Metropolitan School District of Perry Township, and Nineveh-Hensley-Jackson United School Corporation in a joint venture to operate Center Nine Career Center, which was created to provide instruction for vocational education. The School Corporation is billed quarterly, based on enrollment, to support Central Nine Career Center. The School Corporation paid \$364,112 in the 2005-2006 school year to the Central Nine Career Center. Central Nine Career Center's continued existence depends on continued funding by the School Corporation. Complete financial statements for Central Nine Career Center can be obtained from Central Nine Career Center, 1999 U.S. 31 South, Greenwood, Indiana, 46143.

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

FRANKLIN COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. However, there are no business-type activities to report at this time.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. 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 rainy day fund is to account for transfers of unused and unencumbered funds in accordance with Indiana Code 36-1-8-5 and a locally adopted resolution. The fund is subject to the same appropriation process as funds that receive tax money.

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

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

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

Additionally, the School Corporation reports the following fund type:

The private-purpose trust funds report trust arrangements under which principal and income benefit the students of the school corporation.

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

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

FRANKLIN COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any enterprise or internal service funds.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

3. Compensated Absences

a. Sick Leave

Certified School Corporation employees earn sick leave at the rate of 9 days per year. Unused sick leave may be accumulated to a maximum of 90 days. Noncertified School Corporation employees earn sick leave at rates up to 10 days per year. Sick leave for certified school corporation employees in excess of 90 days is bought out by the School Corporation and deposited in the employee's Veba retirement account.

FRANKLIN COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 10 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 1 to 4 days per year. Unused personal leave may be accumulated to a maximum of 5 days. Personal leave in excess of 5 days is converted to sick leave.

4. Capital Assets

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

5. Long-Term Debt

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

6. Equity Classification

Government-Wide Statements

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

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

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

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.

FRANKLIN COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Operating Receipts and Disbursements

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

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Cash and Investments and the Statement of Cash Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. 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.
2. Primary government and component unit activity and balances – Resource flows between the primary government and the discretely-presented component unit(s) are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

II. Stewardship, Compliance and Accountability

Budgetary Information

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

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,

FRANKLIN COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

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

III. Detailed Notes on All Funds

A. Deposits

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

B. Interfund Transfers

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

Transfer From	Transfer To	2005	2006
General Fund	Other governmental	\$ 30,000	\$ 80,000
Debt Service Fund	Other governmental	-	42,389
Other governmental	General Fund	-	163,219
	Debt Service Fund	-	90,426
	Capital Projects Fund	-	47,604
	Transportation Fund	-	24,927
	School Bus Replacement Fund	-	5,042
	Other governmental	40,949	55,208
Totals		<u>\$ 70,949</u>	<u>\$ 508,815</u>

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

IV. Other Information

A. Risk Management

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

FRANKLIN COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

During 1989, the School Corporation joined together with other governmental entities to form the South Central Indiana School Trust, a public entity risk pool currently operating as a common risk management and insurance program for 12 member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of medical benefits. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$2,000,000 lifetime benefit per covered individual. The risk pool obtains independent coverage for insured events in excess of the \$200,000 per person per year limit and independent aggregate stop loss coverage for up to \$1,000,000 in excess of a computed attachment point.

B. Holding Corporations

The School Corporation has entered into capital leases with Franklin Community Elementary Building Corporation, Franklin Community Schools 1996 Building Corporation, and Franklin Community Multi-School Building Corporation (the lessors). The lessors were organized as not-for-profit corporations pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the government. Lease payments during the 2005-2006 year totaled \$2,590,000.

C. Subsequent Events

The School Corporation issued 2006 General Obligation bonds for minor improvements to Webb Elementary. The principal value of the bonds issued is \$860,000.

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.

FRANKLIN COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

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

Funding Policy and Annual Pension Cost

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 128,388
Interest on net pension obligation	(6,805)
Adjustment to annual required contribution	7,755
Annual pension cost	129,338
Contributions made	135,260
Decrease in net pension obligation	(5,922)
Net pension obligation, beginning of year	(93,859)
Net pension obligation, end of year	\$ (99,781)
Contribution rates:	
School Corporation	4.75%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

FRANKLIN COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 136,737	83%	\$ (81,847)
	06-30-04	110,225	111%	(93,859)
	06-30-05	129,338	123%	(99,781)

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

Teachers' Retirement Fund

Plan Description

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

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

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

FRANKLIN COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 \$890,367, \$830,724, and \$801,782, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

FRANKLIN COMMUNITY SCHOOL CORPORATION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 2,367,317	\$ 2,211,998	\$ 155,319	107%	\$ 2,441,907	6%
07-01-04	2,403,208	2,355,003	48,205	102%	2,620,088	2%
07-01-05	2,510,785	2,629,799	(119,014)	95%	2,816,857	(4%)

FRANKLIN COMMUNITY SCHOOL CORPORATION  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS

June 30, 2006

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 6,119,422
Buildings	71,584,887
Improvements other than buildings	2,829,551
Machinery and equipment	<u>7,141,715</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 87,675,575</u>

FRANKLIN COMMUNITY SCHOOL CORPORATION  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

The School Corporation has entered into the following debt arrangements:

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
1996 Improvements to Northwood and Creekside Elementaries and construction of the Transportation Center Building	\$ 18,065,000	\$ 1,605,000
2003 Refinance of improvements to Needham Elementary and the old Franklin Community High School	485,000	485,000
2006 Construction of the new Franklin Community High School	95,040,000	-
2001 Renovation of Custer Baker Middle School	<u>18,995,000</u>	<u>405,000</u>
Total governmental activities long-term debt	<u>\$ 132,585,000</u>	<u>\$ 2,495,000</u>

FRANKLIN COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS

COMPENSATION

A teacher received a \$1,500 payment for coaching an athletic team during the 2005 season. The payment was made directly from the extra-curricular account and was not included in the payroll system. The coaching salary was not originally included in the teacher's contract. The coaching position has subsequently been formally approved by the School Board and will be included as part of the teacher's next contract.

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)

ECA DEPOSITS (Applies to Webb Elementary School)

Receipts were not deposited within a reasonable time. A total of 29 deposits were made during the two year audit period. There were 12 instances in which deposits were made in excess of 20 days apart. A cash count was performed on January 9, 2007. Receipts on hand totaled more than \$2,435 and included checks dated as early as November 13, 2006. No deposit had been made between November 27, 2006, and the date of the cash count. A similar comment appeared in prior Audit Reports B20511 and B25181.

IC 20-41-1-9 states in part: ". . . receipts shall be deposited without unreasonable delay."

RECEIPT ISSUANCE (Applies to Webb Elementary School)

We observed that SA-3 receipts were not always issued when the funds were received. The Extra-Curricular Treasurer also maintains a separate listing of the receipts in addition to writing SA-3 receipts. We determined at the time of the cash count that the listing was not up to date because the actual cash amount counted exceeded the amount shown on the listing. The checks on hand at the cash count were dated between November 13, 2006 and December 15, 2006.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

INTEREST ON INVESTMENTS

Interest earned on a certificate of deposit with Key Bank was automatically added to the principal and not recorded in the records; the amount not recorded was \$191.85. There was also interest earned on a pass-book savings account which was not recorded in the records; the amount not recorded was \$50.82.

Interest on investments should not be automatically added into the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 14)

FRANKLIN COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

SERVICE AND TIME RECORDS

Employee time, attendance, or service records for one former employee were not presented for audit.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CONSULTING

The Food Service Director of the School Corporation held an outside consulting position during the audit period with another governmental entity. The Director signed an affidavit attesting all the consulting tasks were performed outside of School Corporation hours. However, the Director did acknowledge the occasional receipt (at the School) of a fax or phone call related to consulting. There were three separate billing invoices of \$636, \$480 and \$468 for consulting work that occurred between October 2005 and June 2006. Currently, the Director no longer holds the outside consulting position.

The Food Service Director stated that approval to hold the consulting position had been granted by the Directors' immediate supervisor. The Director stated that there was an understanding that any consulting work would be performed after School Corporation hours. The Director did not have formal written permission to conduct the outside activity.

The School Corporation's personnel policy number 3231 reads in part: ". . . The Board of School Trustees directs the Superintendent to develop the following guidelines so that staff members may avoid situations in which their personal interests, activities, and associations may conflict with the interests of the Corporation. . . . Staff members should not give school time to outside activities when there is not valid reason to be excused from assigned duties. Staff members shall not use school property or school time to solicit or accept customers for private enterprises without written administrative permission"

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

We were provided with copies of billing invoices for the consulting work that were paid by the other governmental entity. The billing invoices include detailed descriptions of work done on specific dates but do not include specific times.

Indiana Code 5-11-9-4 states in part (b): ". . . records be maintained showing which hours were worked each day by officers and employees: . . . employed by more than one (1) public agency . . ."

The Offenses Against Public Administration Act as found in the Indiana Code at Title 35, Article 44 contains a section on ghost employment in Chapter 2. Section (4) states: "(a) A public servant who knowingly or intentionally: (1) hires an employee for the governmental entity that he serves; and (2) fails to assign to the employee any duties, or assigns to the employee any duties not related to the operation of the governmental entity; commits ghost employment, a Class D felony. (b) A public servant who knowingly or intentionally assigns to an employee under his supervision any duties not related to the operation of the governmental entity that he serves commits ghost employment, a Class D felony. (c) A person employed by a governmental entity who, knowing that he has not been assigned any duties to perform for the entity, accepts property from the entity commits ghost employment, a Class D felony. (d) A person employed by a governmental entity who knowingly or intentionally accepts property from the entity for the performance of duties not related to the operation of the entity commits ghost employment, a Class D felony. (e) Any person who accepts property

FRANKLIN COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

from a governmental entity in violation of this section and any public servant who permits the payment of property in violation of this section are jointly and severally liable to the governmental entity for that property. The attorney general may bring a civil action to recover that property in the county where the governmental entity is located or the person or public servant resides. (The School Administrator and Uniform Compliance Guidelines, Volume 159, September 2002)

CATERING - FOOD SERVICE

The School Corporation food service authority provides a wide range of catering services. This includes internal catering for various student and teacher activities and events as well as external catering to other governmental entities and outside parties. While the School Corporation identifies the catering revenues and the catering costs, the catering activities are accounted for in the same fund as the nonprofit school service activities.

7 CFR Section 210.14 Resource management states:

"(a) Nonprofit school food service. School food authorities shall maintain a nonprofit school food service. . . ."

"(c) Financial assurances. The school food authority shall meet the requirements of the State agency for compliance with Sec. 210.19(a) including any separation of records of nonprofit school food service from records of any other food service which may be operated by the school food authority. . . ."

The School Corporation food service authority has not consulted with the Indiana Department of Revenue or other appropriate state agencies to consider the compliance requirements, reporting requirements, or tax considerations associated with providing catering services.

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)

TEMPORARY LOANS

The School Corporation made temporary loans (\$30,000 made on December 22, 2004, and a second temporary loan of \$80,000 made on December 22, 2005) from the General Fund to the Textbook Rental Fund which have not been repaid.

Indiana Code 36-1-8-4 concerning temporary loans states in part:

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs. (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . ."

FRANKLIN COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

"(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following: (1) Passes an ordinance or a resolution that contains the following: (A) A statement that the fiscal body has determined that an emergency exists. (B) A brief description of the grounds for the emergency. (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs. (2) Immediately forwards the ordinance or resolution to the state board of accounts and the Department of Local Government Finance."

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE FRANKLIN COMMUNITY SCHOOL  
CORPORATION, JOHNSON COUNTY, INDIANA

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

STATE BOARD OF ACCOUNTS

February 26, 2007

FRANKLIN COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education Child Nutrition Cluster School Breakfast Program	10.553	FY 04/05 - 4225 FY 05/06 - 4225	\$ 103,768 -	\$ - 121,118
National School Lunch Program	10.555	FY 04/05 - 4225 FY 05/06 - 4225	517,496 -	- 579,427
Summer Food Service Program For Children	10.559	FY 04/05 - 4225 FY 05/06 - 4225	2,855 -	- 8,760
Total for cluster			<u>624,119</u>	<u>709,305</u>
Pass-Through Indiana Department of Education Team Nutrition Grants	10.574	CNTN-05-IN-1	-	500
Total for federal grantor agency			<u>624,119</u>	<u>709,805</u>
<u>OFFICE OF LIBRARY SERVICES</u>				
Pass-Through Indiana State Library Grants to States	45.310	5-1-1	-	1,760
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education Title 1 Grants to Local Educational Agencies	84.010	02-4225 03-4225 03-4225 -D 04-4225 04-4225 -D 05-4225 05-4225 -D	1,299 85,996 5,344 322,600 44,552 - -	- - - 62,255 17,023 244,373 49,464
Total for program			<u>459,791</u>	<u>373,115</u>
Safe and Drug Free Schools and Communities - State Grants	84.186	02-122 03-2303 04-120	14,455 454 1,076	- - 6,716
Total for program			<u>15,985</u>	<u>6,716</u>
State Grants for Innovative Programs	84.298	02-273 03-220 04-245	361 28,093 21,282	- 37 629
Total for program			<u>49,736</u>	<u>666</u>
Education Technology State Grants	84.318	FY 04-06	20,709	6,520
Pass-Through Indiana Student Achievement Institute Trio-dissemination Partnership Grants	84.344		533	-
Pass-Through Indiana Department of Education Improving Teacher Quality State Grants	84.367	FY 03-04	180,572	103,780
Total for federal grantor agency			<u>727,326</u>	<u>490,797</u>
Total federal awards expended			<u>\$ 1,351,445</u>	<u>\$ 1,202,362</u>

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

FRANKLIN COMMUNITY SCHOOL CORPORATION  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

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

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

II. 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 1 Grants to Local Educational Agencies	84.010	<u>\$ 46,385</u>	<u>\$ 66,487</u>

III. Noncash Assistance

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

Program Title	Federal CFDA Number	2005	2006
School Breakfast Program	10.553	\$ 13,831	\$ 21,393
National School Lunch Program	10.555	69,355	66,198

FRANKLIN COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

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

Noncompliance material to financial statements noted? no

Federal Awards:

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

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Child Nutrition Cluster Title 1 Grants To Local Educational Agencies

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

# **F**ranklin Community School Corporation

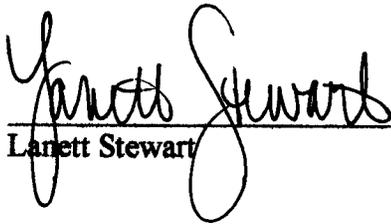
Dr. William G. Patterson, Superintendent  
Dr. Victoria S. Davis, Assistant Superintendent  
Mr. Steve Millikan, Director of Business Affairs  
Mr. Jeffrey Mercer, Director of Operations

SCHOOL BOARD OF TRUSTEES  
Mr. Darren G. Thompson, President  
Mr. William A. Maschmeyer, Vice-President  
Mr. John A. Wales, Secretary  
Dr. Douglas Bullington, Member  
Mr. Danny D. Vaught, Member

## **FRANKLIN COMMUNITY SCHOOL CORPORATION SUMMARY SCHEDULE OF PRIOR ADULT FINDINGS**

Finding No. 2004-1, Title I Cash Management

The cash request for each month as been prepared to be distributed over 11 months instead of 9 months as previously written.

  
Lanett Stewart

Date: February 26, 2007

998 Grizzly Cub Drive, Franklin, IN 46181 (317) 738-5800 fax (317) 738-5812



FRANKLIN COMMUNITY SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on February 26, 2007, with Dr. William Patterson, Superintendent of Schools; Steve Millikan, Treasurer; and Terry Vandivier, Business Office Supervisor.