

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

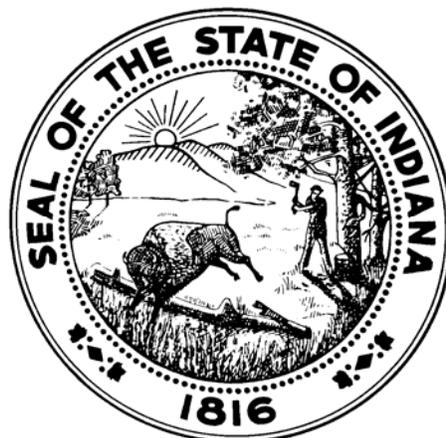
AUDIT REPORT

OF

SCOTT COUNTY SCHOOL DISTRICT 2

SCOTT COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED

03/27/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Steve Nauman	07-01-04 to 12-31-07
Superintendent of Schools	Robert D. Hooker	07-01-04 to 06-30-07
President of the School Board	Joe Wolf Rodney Colson Gene Ann Shapinsky Terry Jones	01-01-04 to 12-31-04 01-01-05 to 12-31-05 01-01-06 to 12-31-06 01-01-07 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 SCOTT COUNTY SCHOOL DISTRICT 2, SCOTT COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Scott County School District 2 (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 March 6, 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

March 6, 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 SCOTT COUNTY SCHOOL DISTRICT 2, SCOTT COUNTY, INDIANA

We have audited the financial statements of the Scott County School District 2 (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated March 6, 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

March 6, 2007

SCOTT COUNTY SCHOOL DISTRICT 2
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 3,609,330
Restricted assets:	
Cash and investments	<u>540,267</u>
Total assets	<u>\$ 4,149,597</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 540,267
Unrestricted	<u>3,609,330</u>
Total net assets	<u>\$ 4,149,597</u>

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

SCOTT COUNTY SCHOOL DISTRICT 2
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 4,675,842
Restricted assets:	
Cash and investments	<u>838,013</u>
Total assets	<u>\$ 5,513,855</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 838,013
Unrestricted	<u>4,675,842</u>
Total net assets	<u>\$ 5,513,855</u>

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

SCOTT COUNTY SCHOOL DISTRICT 2
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	\$ 8,743,150	\$ -	\$ 422,988	\$ (8,320,162)
Support services	12,612,685	718,336	506,668	(11,387,681)
Community services	103,800	-	-	(103,800)
Nonprogrammed charges	7,932,941	-	-	(7,932,941)
Debt service	1,719,827	-	-	(1,719,827)
Total governmental activities	\$ 31,112,403	\$ 718,336	\$ 929,656	(29,464,411)
General receipts:				
Property taxes				11,504,608
Other local sources				1,529,576
State aid				11,481,464
Grants and contributions not restricted				761,767
Sale of property, adjustments, and refunds				30,054
Investment earnings				34,133
Intergovernmental transfers				6,970,983
Total general receipts and intergovernmental transfers				32,312,585
Change in cash and investments				2,848,174
Net assets - beginning				1,301,423
Net assets - ending				\$ 4,149,597

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

SCOTT COUNTY SCHOOL DISTRICT 2
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	\$ 8,779,280	\$ -	\$ 364,205	\$ (8,415,075)
Support services	12,861,788	764,719	559,061	(11,538,008)
Community services	106,697	-	-	(106,697)
Nonprogrammed charges	2,850,249	-	-	(2,850,249)
Debt service	1,916,459	-	-	(1,916,459)
Total governmental activities	\$ 26,514,473	\$ 764,719	\$ 923,266	(24,826,488)
General receipts:				
Property taxes				9,116,216
Other local sources				1,670,370
State aid				12,399,097
Grants and contributions not restricted				817,204
Sale of property, adjustments, and refunds				137,971
Investment earnings				139,453
Intergovernmental transfers				1,910,435
				26,190,746
				1,364,258
				4,149,597
				\$ 5,513,855

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

SCOTT COUNTY SCHOOL DISTRICT 2
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
Receipts:							
Local sources	\$ 5,709,358	\$ 1,475,259	\$ 2,244,665	\$ 2,545,763	\$ 606,826	\$ 1,203,222	\$ 13,785,093
Intermediate sources	198	-	-	-	-	1,362	1,560
State sources	11,891,559	-	-	-	-	151,526	12,043,085
Federal sources	20,021	-	-	-	-	1,109,781	1,129,802
Sale of property, adjustments and refunds	12,723	423	-	8,526	-	8,382	30,054
Intergovernmental transfers	<u>1,858,208</u>	<u>415,938</u>	<u>35,666</u>	<u>3,967,664</u>	<u>529,376</u>	<u>164,131</u>	<u>6,970,983</u>
Total receipts	<u>19,492,067</u>	<u>1,891,620</u>	<u>2,280,331</u>	<u>6,521,953</u>	<u>1,136,202</u>	<u>2,638,404</u>	<u>33,960,577</u>
Disbursements:							
Current:							
Instruction	8,164,141	-	-	-	-	579,009	8,743,150
Support services	6,941,325	1,068,714	-	2,862,548	153,909	1,586,189	12,612,685
Community services	103,800	-	-	-	-	-	103,800
Nonprogrammed charges	4,282,801	818,853	277,331	1,510,921	843,091	199,944	7,932,941
Debt services	-	-	<u>1,465,088</u>	-	-	<u>254,739</u>	<u>1,719,827</u>
Total disbursements	<u>19,492,067</u>	<u>1,887,567</u>	<u>1,742,419</u>	<u>4,373,469</u>	<u>997,000</u>	<u>2,619,881</u>	<u>31,112,403</u>
Excess of total receipts over total disbursements	-	4,053	537,912	2,148,484	139,202	18,523	2,848,174
Cash and investments - beginning	-	-	-	<u>272,975</u>	<u>28,922</u>	<u>999,526</u>	<u>1,301,423</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 4,053</u>	<u>\$ 537,912</u>	<u>\$ 2,421,459</u>	<u>\$ 168,124</u>	<u>\$ 1,018,049</u>	<u>\$ 4,149,597</u>

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

SCOTT COUNTY SCHOOL DISTRICT 2
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
Receipts:							
Local sources	\$ 4,788,043	\$ 1,442,192	\$ 1,598,083	\$ 2,327,695	\$ -	\$ 1,534,160	\$ 11,690,173
Intermediate sources	586	-	-	-	-	-	586
State sources	12,750,162	-	-	-	-	240,070	12,990,232
Federal sources	20,000	-	-	-	-	1,129,334	1,149,334
Sale of property, adjustments and refunds	109,508	98	-	12,163	-	16,202	137,971
Intergovernmental transfers	367,848	71,288	-	-	1,330,055	141,244	1,910,435
Total receipts	18,036,147	1,513,578	1,598,083	2,339,858	1,330,055	3,061,010	27,878,731
Disbursements:							
Current:							
Instruction	8,132,825	-	-	-	-	646,455	8,779,280
Support services	7,351,319	1,319,882	-	2,449,501	69,944	1,671,142	12,861,788
Community services	104,196	-	-	-	-	2,501	106,697
Nonprogrammed charges	1,945,325	197,749	19,112	-	486,965	201,098	2,850,249
Debt services	-	-	1,412,677	-	-	503,782	1,916,459
Total disbursements	17,533,665	1,517,631	1,431,789	2,449,501	556,909	3,024,978	26,514,473
Excess (deficiency) of total receipts over (under) total disbursements	502,482	(4,053)	166,294	(109,643)	773,146	36,032	1,364,258
Cash and investments - beginning	-	4,053	537,912	2,421,459	168,124	1,018,049	4,149,597
Cash and investments - ending	<u>\$ 502,482</u>	<u>\$ -</u>	<u>\$ 704,206</u>	<u>\$ 2,311,816</u>	<u>\$ 941,270</u>	<u>\$ 1,054,081</u>	<u>\$ 5,513,855</u>

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

SCOTT COUNTY SCHOOL DISTRICT 2
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2005

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ 47,320	\$ 91,804
Bonds and loans	3,997,755	-
Sale of property, adjustments and refunds	2,245	19,697
Transfers	95,000	31,182
Total additions	4,142,320	142,683
Deductions:		
Instruction	-	411,942
Support services	-	183,439
Community services	-	477,838
Nonprogrammed charges	2,245	25,237
Total deductions	2,245	1,098,456
Excess (deficiency) of total additions over (under) total deductions	4,140,075	(955,773)
Cash and investments - beginning	-	1,306,695
Cash and investments - ending	\$ 4,140,075	\$ 350,922

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

SCOTT COUNTY SCHOOL DISTRICT 2
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2006

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Additions:		
Local sources	\$ 173,996	\$ 879,173
Sale of property, adjustments and refunds	-	25,707
Transfers	<u>55,000</u>	<u>7,897</u>
Total additions	<u>228,996</u>	<u>912,777</u>
Deductions:		
Instruction	-	183,999
Support services	-	152,215
Community services	-	278,287
Nonprogrammed charges	<u>-</u>	<u>19,763</u>
Total deductions	<u>-</u>	<u>634,264</u>
Excess of total additions over total deductions	228,996	278,513
Cash and investments - beginning	<u>4,140,075</u>	<u>350,922</u>
Cash and investments - ending	<u>\$ 4,369,071</u>	<u>\$ 629,435</u>

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

SCOTT COUNTY SCHOOL DISTRICT 2
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ 4,140,075	\$ 350,922
<u>Net Assets</u>		
Held in trust for employee benefits and other school corporations	\$ 4,140,075	\$ 350,922

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

SCOTT COUNTY SCHOOL DISTRICT 2
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2006

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	<u>\$ 4,369,071</u>	<u>\$ 629,435</u>
<u>Net Assets</u>		
Held in trust for employee benefits and other school corporations	<u>\$ 4,369,071</u>	<u>\$ 629,435</u>

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

SCOTT COUNTY SCHOOL DISTRICT 2
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.

These financial statements present the School Corporation (primary government). There are no significant component units which require inclusion.

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

Joint Venture

The School Corporation is a participant with Madison Consolidated Schools, Scott County School District 1, Southwestern Jefferson County Consolidated School Corporation, and Switzerland County School Corporation in a joint venture to operate the Madison Area School Services Unit (MASSU) which was created to provide educational services to handicapped students. The School Corporation is obligated by contract to remit \$425,774 and \$531,776 for the fiscal years ended June 30, 2005 and 2006, respectively. Complete financial statements for MASSU can be obtained from the MASSU administrative office in Madison, Indiana.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. However, there are no business-type activities to report at this time.

Fund Financial Statements

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

SCOTT COUNTY SCHOOL DISTRICT 2
NOTES TO FINANCIAL STATEMENTS
(Continued)

The School Corporation reports the following major governmental funds:

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

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

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

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

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

Additionally, the School Corporation reports the following fund types:

The pension trust funds account for the activities of the retirement/severance and the post retirement/severance future benefit funds which accumulate resources for pension benefit payments.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit other school corporations.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental 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. 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. Exceptions to this general rule are payments-in-lieu of taxes. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

SCOTT COUNTY SCHOOL DISTRICT 2
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 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. Annual Leave

Employees earn annual leave at the rate of 10 to 14 days per year. Unused annual leave may be accumulated to a maximum of 240 days or is unlimited depending upon the employees' job classification. Accumulated annual leave is paid to employees upon retirement.

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 may be accumulated to a maximum of 30 days. Accumulated vacation leave is paid to employees.

4. Capital Assets

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

SCOTT COUNTY SCHOOL DISTRICT 2
NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental 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.

E. Receipts and Disbursements

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.

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.

SCOTT COUNTY SCHOOL DISTRICT 2
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. 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

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.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At June 30, 2006, the bank balance held at JP Morgan Chase Bank in the amount of \$3,137,000 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-School Corporation's name. The remaining 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.

SCOTT COUNTY SCHOOL DISTRICT 2
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13.

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.

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>June 30, 2005</u>	<u>June 30, 2006</u>
Other governmental	General Fund	\$ 61	\$ 700
Other governmental	Other governmental	<u>125,293</u>	<u>81,500</u>
Totals		<u>\$ 125,354</u>	<u>\$ 82,200</u>

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

SCOTT COUNTY SCHOOL DISTRICT 2
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; 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.

B. Holding Corporations

The School Corporation has entered into capital leases with Scott County School District 2 Elementary School Building Corporation, Scott County School District 2 Hyland Elementary School Building Corporation and Scott County School District 2 Middle 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 School Corporation. The lessors have been determined to be related parties of the School Corporation. Lease payments during the year 2004-2005 to the Scott County School District 2 Elementary School Building Corporation, Scott County School District 2 Hyland Elementary School Building Corporation and Scott County School District 2 Middle School Building Corporation totaled \$124,998, \$225,384, and \$946,500, respectively. Lease payments during the year 2005-2006 to the Scott County School District 2 Hyland Elementary School Building Corporation and Scott County School District 2 Middle School Building Corporation for the year 2005-2006 totaled \$227,233 and \$1,050,000, respectively.

C. Subsequent Events

1. On July 7, 2006, the School Corporation entered into a lease purchase agreement for computer equipment with total payments of \$217,647.
2. In October 2006, the School Corporation entered into a lease agreement with the Scott County School District 2 Building Corporation (Building Corporation) to lease improvements and renovations made to Johnson Elementary School. The lease made provisions for the School Corporation to make semiannual payments which range from \$262,694 to \$274,725 until January 15, 2011. As part of the renovations and improvements to the Elementary School, additional land was purchased by the Building Corporation from the School Corporation in the amount of \$495,000.
3. In January 2007, the School Corporation awarded a bid in the amount of \$479,642 for renovations to Scottsburg Middle School's cafeteria. Funding for the project will be provided with existing funds in the capital project funds.

SCOTT COUNTY SCHOOL DISTRICT 2
 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	\$	156,232
Interest on net pension obligation		(12,744)
Adjustment to annual required contribution		14,523
Annual pension cost		158,011
Contributions made		166,891
Decrease in net pension obligation		(8,880)
Net pension obligation, beginning of year		(175,780)
Net pension obligation, end of year	\$	(184,660)

SCOTT COUNTY SCHOOL DISTRICT 2
NOTES TO FINANCIAL STATEMENTS
(Continued)

	PERF
Contribution rates:	
School Corporation	6.75%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

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

* 2.75% converted members; 4% nonconverted members

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 162,234	78%	\$ (173,919)
	06-30-04	140,830	101%	(175,780)
	06-30-05	158,011	119%	(184,660)

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.

SCOTT COUNTY SCHOOL DISTRICT 2
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 \$242,016, \$211,137, and \$185,435, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

SCOTT COUNTY SCHOOL DISTRICT 2
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 2,602,901	\$ 3,059,183	\$ (456,282)	85%	\$ 2,142,237	(21%)
07-01-04	2,650,755	3,248,292	(597,537)	82%	2,153,058	(28%)
07-01-05	2,783,431	3,642,247	(858,816)	76%	2,341,368	(37%)

SCOTT COUNTY SCHOOL DISTRICT 2
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2006

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

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land and Buildings	\$ 49,564,163
Improvements other than buildings	148,912
Machinery and equipment	2,281,993
Construction in progress	<u>119,750</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 52,114,818</u>

SCOTT COUNTY SCHOOL DISTRICT 2
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Scottsburg Elementary School Building	\$ 110,000	\$ 110,000
Scottsburg Middle School Building	16,387,803	-
Computer Equipment	97,689	68,315
Notes and loans payable	143,597	68,926
Bonds payable:		
General obligation bonds:		
Pension Bonds of 2004	<u>3,720,000</u>	<u>355,000</u>
Total governmental activities long-term debt	<u>\$ 20,459,089</u>	<u>\$ 602,241</u>

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE SCOTT COUNTY SCHOOL DISTRICT 2, SCOTT COUNTY, INDIANA

Compliance

We have audited the compliance of the Scott County School District 2 (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

March 6, 2007

SCOTT COUNTY SCHOOL DISTRICT 2
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 05	\$ 76,973	\$ -
		FY 06	-	84,064
National School Lunch Program	10.555	FY 05	361,515	-
		FY 06	-	396,066
Special Milk Program for Children	10.556	FY 05	2,309	-
		FY 06	-	1,159
Total for cluster			<u>440,797</u>	<u>481,289</u>
Pass-Through Scott County School District 1 Distance Learning and Telemedicine Loans and Grants	10.855	Project 706A16	7,155	63,296
Total for federal grantor agency			<u>447,952</u>	<u>544,585</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education Title I Grants to Local Educational Agencies	84.010			
		03-7255	82,712	-
		04-7255	394,389	110,385
		05-7255	-	426,245
Total for program			<u>477,101</u>	<u>536,630</u>
Pass-Through New Albany-Floyd County Community School Corporation Vocational Education - Basic Grants to States	84.048			
		FY 05	20,000	-
		FY 06	-	20,000
Total for program			<u>20,000</u>	<u>20,000</u>
Pass-Through Indiana Department of Education Safe and Drug Free Schools and Communities - State Grants	84.186			
		02-063	17,381	21,783
		03-044	5,535	2,531
Total for program			<u>22,916</u>	<u>24,314</u>
Twenty-First Century Community Learning Centers	84.287	S287C020014	-	84,089
State Grants for Innovative Programs	84.298			
		02-033	11,560	-
		03-059	17,817	501
		04-102	-	14,522
		05-161	-	9,764
Total for program			<u>29,377</u>	<u>24,787</u>
Education Technology State Grants	84.318			
		02-04	11,189	-
		03-05	8,862	3,453
		04-06	-	10,971
Total for program			<u>20,051</u>	<u>14,424</u>
Reading Excellence	84.338	Project 7649	30,657	-
Improving Teacher Quality State Grants	84.367			
		03-069	61,113	-
		04-089	95,160	46,444
		05-239	-	66,798
Total for program			<u>156,273</u>	<u>113,242</u>
Total for federal grantor agency			<u>756,375</u>	<u>817,486</u>
Total federal awards expended			<u>\$ 1,204,327</u>	<u>\$ 1,362,071</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

SCOTT COUNTY SCHOOL DISTRICT 2
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Scott County School District 2 (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.

SCOTT COUNTY SCHOOL DISTRICT 2
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
N/A	Child Nutrition Cluster

N/A = Not applicable

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

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

SCOTT COUNTY SCHOOL DISTRICT 2
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

SCOTT COUNTY SCHOOL DISTRICT 2
EXIT CONFERENCE

The contents of this report were discussed on March 6, 2007, with Steve Nauman, Treasurer; and Robert D. Hooker, Superintendent of Schools. Our audit disclosed no material items that warrant comment at this time.