

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

AUDIT REPORT

OF

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION

DEARBORN COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED

05/04/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Shirley J. Retherford	07-01-04 to 06-30-07
Superintendent of Schools	Thomas L. Book	07-01-04 to 06-30-07
President of the School Board	Daryl Cutter Karla Raab	07-01-04 to 06-30-06 07-01-06 to 06-30-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE SOUTH DEARBORN COMMUNITY
SCHOOL CORPORATION, DEARBORN COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Dearborn 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 April 4, 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.

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

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.

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 the Schedule of Capital Assets and Schedule of Long-Term Debt.

STATE BOARD OF ACCOUNTS

April 4, 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 SOUTH DEARBORN COMMUNITY
SCHOOL CORPORATION, DEARBORN COUNTY, INDIANA

We have audited the financial statements of the South Dearborn Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated April 4, 2007. The opinion to the financial statements was unqualified. 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

April 4, 2007

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 3,682,385
Restricted assets:	
Cash and investments	<u>(433,402)</u>
Total assets	<u>\$ 3,248,983</u>
 <u>Net Assets</u>	
Unrestricted	<u>\$ 3,248,983</u>

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

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 7,891,159
Restricted assets:	
Cash and investments	<u>1,427,512</u>
Total assets	<u>\$ 9,318,671</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,427,512
Unrestricted	<u>7,891,159</u>
Total net assets	<u>\$ 9,318,671</u>

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

SOUTH DEARBORN 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	\$ 9,866,885	\$ -	\$ 137,543	\$ (9,729,342)
Support services	10,891,359	778,625	370,045	(9,742,689)
Community services	289,246	-	-	(289,246)
Nonprogrammed charges	1,331,147	-	-	(1,331,147)
Debt service	11,629,485	-	-	(11,629,485)
Total governmental activities	<u>\$ 34,008,122</u>	<u>\$ 778,625</u>	<u>\$ 507,588</u>	<u>(32,721,909)</u>
General receipts:				
Property taxes				10,885,490
Other local sources				2,701,705
State aid				12,549,909
Grants and contributions not restricted				751,070
Bonds and loans				3,393,283
Sale of property, adjustments, and refunds				1,540,324
Investment earnings				77,132
Transfers:				
Intergovernmental				<u>179,473</u>
Total general receipts and transfers				<u>32,078,386</u>
Change in cash and investments				(643,523)
Net assets - beginning				<u>3,892,506</u>
Net assets - ending				<u><u>\$ 3,248,983</u></u>

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

SOUTH DEARBORN 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	\$ 10,106,914	\$ -	\$ 94,325	\$ (10,012,589)
Support services	11,318,596	707,048	356,172	(10,255,376)
Community services	286,089	-	-	(286,089)
Nonprogrammed charges	1,334,298	-	-	(1,334,298)
Debt service	<u>7,743,056</u>	<u>-</u>	<u>-</u>	<u>(7,743,056)</u>
Total governmental activities	<u>\$ 30,788,953</u>	<u>\$ 707,048</u>	<u>\$ 450,497</u>	<u>(29,631,408)</u>
General receipts:				
Property taxes				14,886,589
Other local sources				2,988,923
State aid				12,960,214
Grants and contributions not restricted				605,013
Bonds and loans				3,100,976
Sale of property, adjustments, and refunds				842,440
Investment earnings				183,509
Transfers:				
Intergovernmental				<u>133,432</u>
Total general receipts and transfers				<u>35,701,096</u>
Change in cash and investments				6,069,688
Net assets - beginning				<u>3,248,983</u>
Net assets - ending				<u>\$ 9,318,671</u>

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

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

	General	Transportation Operating	School Lunch	Textbook Rental	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:									
Local sources	\$ 6,240,227	\$ 1,699,577	\$ 565,570	\$ 308,763	\$ 2,891,937	\$ 1,952,150	\$ 212,001	\$ 35,670	\$ 13,905,895
Intermediate sources	180,832	-	-	-	-	-	-	1,781	182,613
State sources	12,671,560	-	19,949	31,400	-	-	-	164,519	12,887,428
Federal sources	-	-	257,146	-	-	-	-	663,994	921,140
Bonds and loans	2,902,368	490,915	-	-	-	-	-	-	3,393,283
Sale of property, adjustments and refunds	1,019,943	-	4,003	9,475	-	506,851	-	-	1,540,272
Intergovernmental transfers	23,681	-	-	-	-	-	-	155,792	179,473
Total receipts	<u>23,038,611</u>	<u>2,190,492</u>	<u>846,668</u>	<u>349,638</u>	<u>2,891,937</u>	<u>2,459,001</u>	<u>212,001</u>	<u>1,021,756</u>	<u>33,010,104</u>
Disbursements:									
Current:									
Instruction	9,350,565	-	-	-	-	-	-	516,320	9,866,885
Support services	5,720,304	1,155,298	863,690	338,386	-	685,697	89,238	166,712	9,019,325
Community services	286,530	-	-	-	-	-	-	2,716	289,246
Nonprogrammed charges	2,666,894	2,345	1,190	-	-	-	-	275,707	2,946,136
Debt services	6,951,272	1,116,674	-	-	3,409,978	-	141,341	10,220	11,629,485
Total disbursements	<u>24,975,565</u>	<u>2,274,317</u>	<u>864,880</u>	<u>338,386</u>	<u>3,409,978</u>	<u>685,697</u>	<u>230,579</u>	<u>971,675</u>	<u>33,751,077</u>
Excess (deficiency) of total receipts over (under) total disbursements	(1,936,954)	(83,825)	(18,212)	11,252	(518,041)	1,773,304	(18,578)	50,081	(740,973)
Cash and investments - beginning	<u>1,494,848</u>	<u>(74,980)</u>	<u>197,032</u>	<u>282,396</u>	<u>84,639</u>	<u>(358,316)</u>	<u>82,995</u>	<u>209,371</u>	<u>1,917,985</u>
Cash and investments - ending	<u>\$ (442,106)</u>	<u>\$ (158,805)</u>	<u>\$ 178,820</u>	<u>\$ 293,648</u>	<u>\$ (433,402)</u>	<u>\$ 1,414,988</u>	<u>\$ 64,417</u>	<u>\$ 259,452</u>	<u>\$ 1,177,012</u>

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

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

Net change in fund balances - total governmental funds	\$ (740,973)
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>97,450</u>
Change in cash and investments of governmental activities	<u>\$ (643,523)</u>

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

	General	Transportation Operating	School Lunch	Textbook Rental	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:									
Local sources	\$ 7,385,062	\$ 1,960,369	\$ 566,497	\$ 297,772	\$ 4,574,728	\$ 2,544,247	\$ -	\$ 475,607	\$ 17,804,282
Intermediate sources	488,378	-	-	-	-	-	-	956	489,334
State sources	13,038,696	-	19,068	678	-	-	-	128,531	13,186,973
Federal sources	-	-	326,063	-	-	-	-	502,689	828,752
Bonds and loans	2,772,243	328,733	-	-	-	-	-	-	3,100,976
Sale of property, adjustments and refunds	832,793	1,097	4,582	3,968	-	-	-	-	842,440
Intergovernmental transfers	133,432	-	-	-	-	-	-	-	133,432
Total receipts	24,650,604	2,290,199	916,210	302,418	4,574,728	2,544,247	-	1,107,783	36,386,189
Disbursements:									
Current:									
Instruction	9,572,595	-	-	-	-	-	-	534,319	10,106,914
Support services	6,178,737	1,205,124	910,918	457,862	-	483,742	-	120,100	9,356,483
Community services	285,079	-	-	-	-	-	-	1,010	286,089
Nonprogrammed charges	3,013,341	-	3,773	-	-	-	-	258,624	3,275,738
Debt services	4,147,556	623,837	-	-	2,966,207	-	-	5,456	7,743,056
Total disbursements	23,197,308	1,828,961	914,691	457,862	2,966,207	483,742	-	919,509	30,768,280
Excess (deficiency) of total receipts over (under) total disbursements	1,453,296	461,238	1,519	(155,444)	1,608,521	2,060,505	-	188,274	5,617,909
Cash and investments - beginning	(442,106)	(158,805)	178,820	293,648	(433,402)	1,414,988	64,417	259,452	1,177,012
Cash and investments - ending	\$ 1,011,190	\$ 302,433	\$ 180,339	\$ 138,204	\$ 1,175,119	\$ 3,475,493	\$ 64,417	\$ 447,726	\$ 6,794,921

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

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

Net change in fund balances - total governmental funds	\$ 5,617,909
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>451,779</u>
Change in cash and investments of governmental activities	<u>\$ 6,069,688</u>

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
PROPRIETARY FUND
For The Year Ended June 30, 2005

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 354,443
Sale of property, adjustments and refunds	52
Transfers	<u>1,614,989</u>
Total receipts	<u>1,969,484</u>
Disbursements:	
Support services	<u>1,872,034</u>
Changes in cash and investments	97,450
Cash and investments - beginning	<u>1,974,521</u>
Cash and investments - ending	<u><u>\$ 2,071,971</u></u>

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

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
PROPRIETARY FUND
For The Year Ended June 30, 2006

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 472,452
Transfers	<u>1,941,440</u>
Total receipts	<u>2,413,892</u>
Disbursements:	
Support services	<u>1,962,113</u>
Changes in cash and investments	451,779
Cash and investments - beginning	<u>2,071,971</u>
Cash and investments - ending	<u><u>\$ 2,523,750</u></u>

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

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

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 882,429	\$ 287,928	\$ 256,121
<u>Net Assets</u>			
Held in trust for employee benefits, benefit of students and other purposes	\$ 882,429	\$ 287,928	

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

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

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 368,442	\$ 386,855	\$ 38,899
	<u> </u>	<u> </u>	<u> </u>
<u>Net Assets</u>			
Held in trust for employee benefits, benefit of students and other purposes	\$ 368,442	\$ 386,855	
	<u> </u>	<u> </u>	

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

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

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Additions:		
Local sources	\$ 27,149	\$ 11,391
Bonds and loans	<u>2,300,000</u>	<u>-</u>
Total additions	<u>2,327,149</u>	<u>11,391</u>
Deductions:		
Instruction	55,938	1,500
Support services	1,388,782	-
Nonprogrammed charges	<u>-</u>	<u>5,356</u>
Total deductions	<u>1,444,720</u>	<u>6,856</u>
Excess of total additions over total deductions	882,429	4,535
Cash and investments - beginning	<u>-</u>	<u>283,393</u>
Cash and investments - ending	<u>\$ 882,429</u>	<u>\$ 287,928</u>

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

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
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	\$ 38,660	\$ 113,102
Deductions:		
Instruction	85,136	1,803
Support services	467,511	2,679
Nonprogrammed charges	<u>-</u>	<u>9,693</u>
Total deductions	<u>552,647</u>	<u>14,175</u>
Excess (deficiency) of total additions over (under) total deductions	(513,987)	98,927
Cash and investments - beginning	<u>882,429</u>	<u>287,928</u>
Cash and investments - ending	<u>\$ 368,442</u>	<u>\$ 386,855</u>

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

SOUTH DEARBORN 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.

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 seven other school corporations in a joint venture to operate Ripley-Ohio-Dearbourn Special Education Cooperative (Co-op) which was created to provide educational services to handicapped students. The School Corporation is obligated by contract to remit \$959,451 annually to supplement the Co-op. Complete financial statements for the Co-op can be obtained from the Co-op's administrative office at the Sunman Dearborn Community School Corporation, Sunman, IN.

The School Corporation is a participant with nine other school corporations in a joint venture to operate the Southeastern Career Center (Career Center) which was created to provide vocational educational services. The School Corporation is obligated by contract to remit \$248,225 annually to supplement the Career Center. Complete financial statements for the Career Center can be obtained from the Career Center's administrative office in Versailles, IN.

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 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.

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

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

The School Corporation reports the following major governmental funds:

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

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

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

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.

The school lunch fund is used to account for receipts and disbursements for the food service program.

The textbook rental fund is used to account for receipts of fees collected for rent of textbooks and workbooks furnished to students and disbursements for purchase and repair of textbooks and workbooks furnished to students.

Additionally, the School Corporation reports the following fund types:

The internal service fund accounts for medical claims of the School Corporation's employees.

The pension trust funds account for the activities of the retirement/severance bond fund which accumulate resources for pension benefit payments.

The private-purpose trust fund reports a trust arrangement 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 various federal and state agencies, and private companies serve as control of accounts for certain cash transactions during the time they are a liability to the School Corporation.

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any enterprise funds. There is one internal service fund for self-insurance health insurance. This fund is supported by a charge to all funds that incur a salary expense.

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.

3. Compensated Absences

a. Sick Leave

Certified personnel earn sick leave at a rate of 10 days per year. Noncertified employees earn sick leave at the rate of 7 to 10 days per year depending on job classification. Unused sick leave may be accumulated up to a maximum of 220 for certified employees and 45 days to unlimited days for noncertified employees depending on job classification. Accumulated sick leave is paid to eligible certified and noncertified central office employees upon retirement.

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

b. Vacation Leave

Administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave may be accumulated indefinitely for certain full year employees from year to year. Accumulated vacation leave is paid upon retirement.

c. Personal Leave

School Corporation employees earn personal leave at the rates of 1 to 3 days per year. Unused personal leave for certified employees at the school year end is transferred to accumulated 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.

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds 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:

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.

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. 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.

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.

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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>2005</u>	<u>2006</u>
Debt Service	Other governmental	\$ -	\$ 127,484
Other governmental	General Fund	<u>23,681</u>	<u>133,432</u>
Totals		<u>\$ 23,681</u>	<u>\$ 260,916</u>

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

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.

SOUTH DEARBORN 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, Retirees, and Dependents

The School Corporation has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents. The risk financing fund is accounted for in the Self Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$75,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all funds with payrolls and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each fund's gross wages, and are reported as quasi-external interfund transactions.

B. Holding Corporations

The School Corporation has entered into capital leases with Moores Hill School Building Corporation (lessor), Dillsboro School Building Corporation (lessor), National City Bank of Indiana (lessor), and Aurora School Building Corporation (lessor). The lessors were organized as a not-for-profit corporation, a not-for-profit corporation for profit corporations, and a not-for-profit corporation, respectively, 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 totaled \$1,726,491.

C. 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:

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Information to segregate the assets/liabilities and the actuarial study figures between the School Corporation and the Utilities is not available.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 113,695
Interest on net pension obligation	(1,271)
Adjustment to annual required contribution	1,448
Annual pension cost	113,872
Contributions made	115,314
Decrease in net pension obligation	(1,442)
Net pension obligation, beginning of year	(17,531)
Net pension obligation, end of year	\$ (18,973)
Contribution rates:	
School Corporation	6%
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

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Actuarial Assumptions</u>	<u>PERF</u>
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

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF 06-30-03	\$ 130,265	85%	\$ (14,901)
06-30-04	109,909	102%	(17,531)
06-30-05	113,872	105%	(18,973)

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

SOUTH DEARBORN 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 \$311,628, \$279,178, and \$247,941, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

SOUTH DEARBORN 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)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 1,823,597	\$ 1,874,233	\$ (50,636)	97%	\$ 2,076,357	(2%)
07-01-04	1,866,320	1,982,952	(116,632)	94%	1,985,080	(6%)
07-01-05	1,957,661	2,069,645	(111,984)	95%	1,972,603	(6%)

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS

June 30, 2006

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

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 941,532
Buildings	52,813,496
Improvements other than buildings	5,049
Machinery and equipment	<u>3,048,489</u>
 Total governmental activities, capital assets not being depreciated	 <u><u>\$ 56,808,566</u></u>

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Moores Hill Elementary	\$ 765,000	\$ 318,188
Aurora Elementary/Middle School/High School	34,740,000	1,670,000
South Dearborn High School	755,000	523,163
Common School Loans	11,361,856	723,913
Pension Bonds	<u>2,300,000</u>	<u>449,489</u>
Total governmental activities long-term debt	<u>\$ 49,921,856</u>	<u>\$ 3,684,753</u>

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

AVERAGE DAILY MEMBERSHIP (ADM) AND ACADEMIC HONORS
DIPLOMA - INCORRECT REPORTING TO THE STATE

The information presented for audit indicates enrollment figures on Form 30A, Report of Average Daily Membership (ADM) for State Support, were incorrect for the school year ending June 30, 2006.

The difference between the count reported on the ADM and the verified figures are shown below:

<u>School Year</u>	<u>Grade</u>	<u>Count as Reported on Form 30A</u>	<u>Actual Enrollment Figures</u>	<u>Difference</u>
2005-2006	1 Through 12	2,789	2,788	1

Additionally, the number of 2003-2004 Academic Honors Diplomas, which were reported in the fall of 2004, was overreported by one. The number of students reported on the Form 30A was 28; however, the records that were presented for audit indicated that there were only 27 students which met the requirements to receive the Academic Honors Diploma.

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

POSTING ERROR OF LOCAL TAXES

Local taxes levied for the Transportation Operating Fund of \$359,417 were receipted into the Capital Projects Fund in error.

Controls over receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Payments or transfers which are authorized by statute, ordinance, resolution, or court order must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

BANK ACCOUNT RECONCILIATIONS (Applies to South Dearborn Middle School)

Monthly depository reconciliations of the fund balances to the bank account balances were either not presented for audit or were incorrect. The depository account balance as of May 31, 2006, was \$1,032 more than the total of the record fund balances.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 20-41-1-8(a) states in part: "The treasurer shall keep an accurate account of all money received . . . showing:

- (1) the source of all receipts;
- (2) the purpose for which the money was expended; and
- (3) the balance on hand. . ."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

EXTRA-CURRICULAR DISBURSEMENTS (Applies to South Dearborn Middle School)

Several Form SA-1s, Purchase Order and Accounts Payable Voucher, did not contain all information to constitute a valid claim. Proper supporting documentation was not attached to all Form SA-1s and some Form SA-1s lacked the signature of the person receiving the goods or services.

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 Extra-Curricular Accounts, Chapter 7)

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

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE SOUTH DEARBORN COMMUNITY
SCHOOL CORPORATION, DEARBORN COUNTY, INDIANA

Compliance

We have audited the compliance of the South Dearborn 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

April 4, 2007

SOUTH DEARBORN 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 05	\$ 44,758	\$ -
		FY 06	-	46,494
National School Lunch Program	10.555			
		FY 05	226,898	-
		FY 06	-	255,506
Special Milk Program for Children	10.556			
		FY 05	3,024	-
		FY 06	-	2,387
			<u>274,680</u>	<u>304,387</u>
Total for federal grantor agency				
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010			
		04-1600	143,672	-
		05-1600	348,206	116,882
		06-1600	-	364,016
			<u>491,878</u>	<u>480,898</u>
Total for program				
Safe and Drug Free Schools and Communities - State Grants	84.186			
		02-116	4,402	-
		03-256	5,441	8,200
		04-160	-	6,640
			<u>9,843</u>	<u>14,840</u>
Total for program				
State Grants for Innovative Programs	84.298			
		03-209	20,316	-
		04-095	9,437	5,407
			<u>29,753</u>	<u>5,407</u>
Education Technology State Grants	84.318			
		1600-03	6,776	3,133
		1600-04	-	9,944
			<u>6,776</u>	<u>13,077</u>
Total for program				
Improving Teacher Quality State Grants	84.367			
		03-178	117,436	13,482
		04-149	-	125,452
			<u>117,436</u>	<u>138,934</u>
Total for federal grantor agency			<u>802,875</u>	<u>797,497</u>
Total federal awards expended			<u>\$ 930,366</u>	<u>\$ 957,543</u>

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

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
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 South Dearborn 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.

SOUTH DEARBORN 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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I 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.

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

SOUTH DEARBORN COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on April 4, 2007, with Thomas L. Book, Superintendent of Schools; Shirley J. Retherford, Treasurer; and Robert Rollins, Administrative Assistant. The officials concurred with our audit findings.