

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

EXAMINATION REPORT
OF
SOUTH HENRY SCHOOL CORPORATION
HENRY COUNTY, INDIANA
July 1, 2004 to June 30, 2006



FILED
05/10/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Susan Waggoner	07-01-04 to 06-30-07
Superintendent of Schools	Alan Tasson John Magers	07-01-04 to 06-30-05 07-01-05 to 06-30-08
President of the School Board	Scott Lightfoot Sonya Jones	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 ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF SOUTH HENRY SCHOOL CORPORATION, HENRY COUNTY, INDIANA

We have examined the financial information presented herein of South Henry School Corporation (School Corporation), for the period of July 1, 2004 to June 30, 2006. The School Corporation's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

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

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

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

STATE BOARD OF ACCOUNTS

March 28, 2007

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 788,579
Restricted assets:	
Cash and investments	<u>214,188</u>
Total assets	<u>\$ 1,002,767</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 214,188
Unrestricted	<u>788,579</u>
Total net assets	<u>\$ 1,002,767</u>

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

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 149,545
	<u> </u>
<u>Net Assets</u>	
Unrestricted	\$ 149,545
	<u> </u>

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

SOUTH HENRY 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	\$ 2,605,132	\$ -	\$ 42,209	\$ (2,562,923)
Support services	3,055,627	229,118	74,287	(2,752,222)
Community services	122,461	-	-	(122,461)
Nonprogrammed charges	641,183	-	-	(641,183)
Debt service	3,829,912	-	-	(3,829,912)
Total governmental activities	\$ 10,254,315	\$ 229,118	\$ 116,496	(9,908,701)
General receipts:				
Property taxes				3,266,842
Other local sources				536,196
State aid				3,381,121
Grants and contributions not restricted				146,983
Bonds and loans				3,313,672
Sale of property, adjustments, and refunds				41,839
Investment earnings				22,276
Transfers:				
Intergovernmental				30,408
Total general receipts and transfers				10,739,337
Change in cash and investments				830,636
Net assets - beginning				172,131
Net assets - ending				\$ 1,002,767

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

SOUTH HENRY 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	\$ 2,564,912	\$ -	\$ 36,135	\$ (2,528,777)
Support services	2,955,591	244,248	101,116	(2,610,227)
Community services	133,224	-	-	(133,224)
Nonprogrammed charges	964,803	-	-	(964,803)
Debt service	1,204,735	-	-	(1,204,735)
Total governmental activities	\$ 7,823,265	\$ 244,248	\$ 137,251	(7,441,766)
General receipts:				
Property taxes				1,866,258
Other local sources				210,908
State aid				3,499,350
Grants and contributions not restricted				175,581
Bonds and loans				248,734
Sale of property, adjustments, and refunds				71,869
Investment earnings				16,240
Transfers:				
Intergovernmental				499,604
Total general receipts and transfers				6,588,544
Change in cash and investments				(853,222)
Net assets - beginning				1,002,767
Net assets - ending				\$ 149,545

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

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

	General	Transportation Operating	Special Education Preschool	School Lunch	Textbook Rental	Title 11 Teacher Improvement	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:											
Local sources	\$ 1,902,183	\$ 465,994	\$ 5,822	\$ 169,432	\$ 64,927	\$ -	\$ 671,275	\$ 600,988	\$ 173,339	\$ -	\$ 4,053,960
Intermediate sources	172	-	-	-	-	-	-	-	-	300	472
State sources	3,408,962	-	10,717	3,981	10,194	-	-	-	-	21,887	3,455,741
Federal sources	72	-	-	62,893	-	34,911	-	-	-	90,983	188,859
Bonds and loans	2,005,836	375,605	-	9,500	9,500	-	500,663	310,905	101,663	-	3,313,672
Sale of property, adjustments and refunds	38,333	-	-	3,506	-	-	-	-	-	-	41,839
Intergovernmental transfers	-	15,000	-	-	-	-	-	-	-	15,408	30,408
Total receipts	7,355,558	856,599	16,539	249,312	84,621	34,911	1,171,938	911,893	275,002	128,578	11,084,951
Disbursements:											
Current:											
Instruction	2,435,576	-	12,364	-	-	29,989	-	-	-	127,203	2,605,132
Support services	1,884,437	377,532	-	239,392	71,139	725	-	373,312	92,892	16,198	3,055,627
Community services	117,316	-	-	-	-	-	-	-	-	5,145	122,461
Nonprogrammed charges	581,878	-	-	9,500	17,500	-	10,000	-	5,000	17,305	641,183
Debt services	1,886,947	415,227	-	-	-	-	917,921	508,154	101,663	-	3,829,912
Total disbursements	6,906,154	792,759	12,364	248,892	88,639	30,714	927,921	881,466	199,555	165,851	10,254,315
Excess (deficiency) of total receipts over (under) total disbursements	449,404	63,840	4,175	420	(4,018)	4,197	244,017	30,427	75,447	(37,273)	830,636
Cash and investments - beginning	(439,610)	40,325	12,933	60	31,679	-	(29,829)	467,342	2,491	86,740	172,131
Cash and investments - ending	\$ 9,794	\$ 104,165	\$ 17,108	\$ 480	\$ 27,661	\$ 4,197	\$ 214,188	\$ 497,769	\$ 77,938	\$ 49,467	\$ 1,002,767

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

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

	General	Transportation Operating	Special Education Preschool	School Lunch	Textbook Rental	Title 11 Teacher Improvement	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:											
Local sources	\$ 1,054,249	\$ 274,330	\$ 2,022	\$ 184,041	\$ 60,848	\$ -	\$ 332,472	\$ 367,540	\$ 61,488	\$ -	\$ 2,336,990
Intermediate sources	345	-	-	-	-	-	-	-	-	319	664
State sources	3,519,931	-	14,506	3,967	9,549	-	-	-	-	52,780	3,600,733
Federal sources	-	-	-	91,567	-	34,976	-	-	-	84,906	211,449
Bonds and loans	248,734	-	-	-	-	-	-	-	-	-	248,734
Sale of property, adjustments and refunds	70,433	-	-	1,436	-	-	-	-	-	-	71,869
Intergovernmental transfers	-	36,728	-	-	4,473	-	-	-	-	458,403	499,604
Total receipts	4,893,692	311,058	16,528	281,011	74,870	34,976	332,472	367,540	61,488	596,408	6,970,043
Disbursements:											
Current:											
Instruction	2,292,402	-	10,063	-	-	-	-	-	-	262,447	2,564,912
Support services	1,708,378	369,823	-	258,982	81,085	3,878	-	402,045	58,439	72,961	2,955,591
Community services	133,224	-	-	-	-	-	-	-	-	-	133,224
Nonprogrammed charges	213,172	-	-	-	-	-	97,201	397,647	-	256,783	964,803
Debt services	640,984	62,476	-	-	-	-	501,275	-	-	-	1,204,735
Total disbursements	4,988,160	432,299	10,063	258,982	81,085	3,878	598,476	799,692	58,439	592,191	7,823,265
Excess (deficiency) of total receipts over (under) total disbursements	(94,468)	(121,241)	6,465	22,029	(6,215)	31,098	(266,004)	(432,152)	3,049	4,217	(853,222)
Cash and investments - beginning	9,794	104,165	17,108	480	27,661	4,197	214,188	497,769	77,938	49,467	1,002,767
Cash and investments - ending	\$ (84,674)	\$ (17,076)	\$ 23,573	\$ 22,509	\$ 21,446	\$ 35,295	\$ (51,816)	\$ 65,617	\$ 80,987	\$ 53,684	\$ 149,545

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

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

	Private-Purpose Trust Funds
Additions:	
State sources	\$ 5,353
Transfers	2,083
Total additions	7,436
Deductions:	
Instruction	1,250
Community services	5,686
Total deductions	6,936
Excess of total additions over total deductions	500
Cash and investments - beginning	1,451
Cash and investments - ending	\$ 1,951

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

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

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
State sources	\$ -	\$ 10,899
Bonds and loans	789,360	-
Total additions	789,360	10,899
Deductions:		
Community services	-	10,646
Excess of total additions over total deductions	789,360	253
Cash and investments - beginning	-	1,951
Cash and investments - ending	\$ 789,360	\$ 2,204

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

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

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ <u>1,951</u>
<u>Net Assets</u>	
Held in trust for employee benefits and other purposes	\$ <u>1,951</u>

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

SOUTH HENRY 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>
Cash and investments	\$ 789,360	\$ 2,204
	<u> </u>	<u> </u>
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 789,360	\$ 2,204
	<u> </u>	<u> </u>

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

SOUTH HENRY SCHOOL CORPORATION
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

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

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

Note 2. Fund Accounting

A. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes 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.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The School Corporation reports the following major governmental funds:

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

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

The special education preschool fund accounts for financial resources for special education programs for preschool age children as required under Indiana Code 20-35-4-9.

The school lunch fund accounts for receipts from the sale of lunches, federal and state reimbursements, gifts and other receipts. Disbursements are made for personal service, food, supplies and equipment for the school lunch program.

SOUTH HENRY SCHOOL CORPORATION
NOTES TO FINANCIAL INFORMATION
(Continued)

The textbook rental fund is used to record all receipts of fees collected for rent of textbooks and workbooks furnished to students; also, to record all disbursements for purchase of textbooks, for repair of textbooks and for workbooks to be used with rented textbooks furnished to students for a designated fee.

The title 11 teacher improvement fund is a special fund used to account for money received by a school corporation for a specific purpose or purposes if no local tax revenues are involved. This fund is established pursuant to federal statutes.

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 bond fund, which accumulate resources for pension benefit payments.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit individuals and private organizations.

B. Measurement Focus and Basis of Accounting

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

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

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

SOUTH HENRY SCHOOL CORPORATION
NOTES TO FINANCIAL INFORMATION
(Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The School Corporation has elected not to follow subsequent private-sector guidance.

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.

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.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and 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 not always timely distributed to the School Corporation.

Note 5. Deposits and Investments

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

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

SOUTH HENRY SCHOOL CORPORATION
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Interfund Transfers

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

Transfer From	Transfer To	2005	2006
General Fund	Other governmental	\$ 186	\$ -
Debt Service	Transportation	10,000	-
School Bus Replacement	Transportation	5,000	-
Debt Service	Transportation	-	36,728
Debt Service	Textbook Rental	-	4,473
Debt Service	Other governmental	-	56,000
Capital Projects	Other governmental	-	397,647
Other governmental	Other governmental	15,222	4,756
Other governmental	Private-Purpose Trust	2,083	-
		<u>32,491</u>	<u>499,604</u>
Totals		<u>\$ 32,491</u>	<u>\$ 499,604</u>

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

Note 7. Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

SOUTH HENRY SCHOOL CORPORATION
NOTES TO FINANCIAL INFORMATION
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

Teacher's Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

SOUTH HENRY 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	\$ 412,544	\$ 465,304	\$ (52,760)	89%	\$ 394,617	(13%)
07-01-04	423,044	479,808	(56,764)	88%	398,671	(14%)
07-01-05	443,687	533,084	(89,397)	83%	382,303	(23%)

SOUTH HENRY SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

For The Year Ended June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
School Building Capital Lease	\$ 915,000	\$ 40,000
Notes and loans payable		
Tax Anticipation Warrants	248,734	248,734
Common School Loans	3,569,917	183,949
Bonds payable:		
General obligation bonds:		
Pension Bonds of 2006	800,000	-
Total governmental activities long-term debt	<u>\$ 5,533,651</u>	<u>\$ 472,683</u>

SOUTH HENRY SCHOOL CORPORATION
EXAMINATION RESULTS AND COMMENTS

ERRORS ON CLAIMS

The following deficiency was noted on claims during the examination period:

Some claims or invoices did not have evidence to support receipt of goods or services.

Indiana Code 5-11-10-1.6 states in part:

(b) "As used in this section, "claim" means a bill or an invoice submitted to a governmental entity for goods or services."

(c) "The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

CAPITAL ASSET RECORDS

The School Corporation does not have a complete inventory record of capital assets at June 30, 2006.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded on the applicable Capital Asset Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TEMPORARY LOAN (Applies to Elementary Schools)

A temporary loan of \$14,000 was made in June 2002 from various Elementary Extra-Curricular Funds to the Textbook Rental Fund (maintained at Tri and Spiceland Elementary Schools). The unpaid loan balance at June 30, 2005 and 2006 was \$6,000. The loan has been repaid as of January 30, 2007.

Payments or transfers which are not authorized by statute, ordinance, resolution, or court order must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

SOUTH HENRY SCHOOL CORPORATION
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AVERAGE DAILY MEMBERSHIP (ADM) - INCORRECT REPORTING TO THE STATE

The information presented for examination 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 enrollment count date for the 2005-2006 year was September 30, 2005. An amended Form 30A was filed on August 18, 2006, for the September 30, 2005, count date. The remaining 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	Kindergarten	24	23	1
2005-2006	1 Through 12	789	793	(4)

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

GUARANTEED ENERGY SAVINGS CONTRACTS

The South Henry School Corporation entered into a guaranteed energy savings contract with Johnson Controls, Inc., on December 12, 1994. The total amount of the contract was \$589,490. The total amount of guaranteed energy savings was \$372,960. The total amount of guaranteed operational savings (guaranteed stipulated or agreed upon savings) was \$216,530. The contract provides operational cost savings projections and included capital expenditures as "agreed upon Operational Cost Savings." The "agreed upon" savings were "deemed realized upon execution" of the contract. No information was presented for audit to document the operational cost savings.

The project includes per the contract high efficiency lighting and facility management system.

Statutory and Other Compliance Guideline Provisions

The Public Works Law, Indiana Code 36-1-12-1(e), states in part: "As an alternative to this chapter, the governing body . . . may . . . enter into a guaranteed energy savings contract as permitted under Indiana Code 36-1-12.5."

Effective March 21, 2002, Indiana Code 36-1-12.5-1 states in part: "As used in this chapter, 'energy conservation measure' means a school facility alteration or an alteration of a structure (as defined in Indiana Code 36-1-10-2) designed to reduce energy consumption costs or other operating costs . . . including future:

- (A) labor costs;
- (B) costs for contracted services; and
- (C) related capital expenditures."

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Indiana Code 36-1-12.5-5(a) concerning energy savings contracts states in part: "The governing body may enter into . . . a guaranteed energy savings contract with a qualified provider to reduce the school corporation's or the political subdivision's energy consumption costs or operating costs if, after review of the report described in section 6 of this chapter, the governing body finds: (1) that the amount the governing body would spend on the energy conservation measures under the contract and that are recommended in the report is not likely to exceed the amount to be saved in energy consumption costs and other operating costs over ten (10) years from the date of installation if the recommendations in the report were followed; and (2) in the case of a guaranteed energy savings contract, the qualified provider provides a written guarantee as described in subsection (d)(2)."

Indiana Code 36-1-12.5-5(d) states in part: "An agreement to participate in . . . guaranteed energy savings contract under this section must provide that: . . . (2) in the case of the guaranteed energy savings contract: (A) the savings in energy and operating costs due to the energy conservation measures are guaranteed to cover the costs of the payments for the measures; and (B) the qualified provider will reimburse the school corporation or political subdivision for the difference between the guaranteed savings and the actual savings . . ."

Effective March 21, 2002, Indiana Code 36-1-12.5-0.5 states, "As used in this chapter, 'actual savings' includes stipulated savings."

Indiana Code 36-1-12.5-0.7 states, "As used in this chapter, 'causally connected work' means work that is required to properly implement an energy conservation measure."

Indiana Code 36-1-12.5-3.7 states in part: "As used in this chapter, 'stipulated savings' are assumed savings that are documented by industry engineering standards."

Indiana Code 36-1-12.5-11 states in part:

"(a) A guaranteed energy savings contract that includes stipulated savings must specify the methodology used to calculate the savings using industry engineering standards.

(b) Stipulated savings may be used for energy conservation measures including . . . (9) Any work that is causally connected to the energy conservation measures listed in subdivisions (1) through (8).

(c) The guaranteed energy savings contract shall:

(1) describe stipulated savings for:

(A) energy conservation measures; and

(B) work causally connected to the energy conservation measures; and

(2) document assumptions by industry engineering standards."

SOUTH HENRY SCHOOL CORPORATION
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(Continued)

Repayment of Costs in Excess of Savings

South Henry School Corporation Officials conveyed that the items shown as "agreed upon" or "stipulated savings" have been predetermined. Furthermore, South Henry School Corporation Officials do not have available for audit and conveyed they do not plan in the future to have any additional information to document actual operating or energy savings. The contract expired July 30, 2005. The South Henry School Corporation should request reimbursement from Johnson Controls, Inc., for costs which did not result in an actual reduction of energy consumption costs or other operating costs (or effective March 21, 2002, stipulated savings which were not supported by "industry engineering standards") in accordance with Indiana Code 36-1-12.5-5(d)(2)(B).

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Page 9-4)

TRANSPORTATION FUND - RECORD OF HOURS WORKED

Portions of the Athletic Director/Transportation Director, Corporation Treasurer, and Deputy Treasurer salaries were paid from the Transportation Fund during the examination period. A record of hours worked reflecting time spent on transportation duties was not presented for examination.

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

Some positions have been formally established by boards of school trustees, through job description, duties assigned, title, salary schedules, etc., as transportation related (for example, Assistant Superintendent-Transportation Director). We will not take audit exception, in these situations (other than positions excluded by statute), to direct transportation related employees having direct transportation related expenses being paid from the transportation fund if a cost allocation system based upon auditable statistics is established tracking costs attributable to the transportation program and therefore payable from the transportation fund. The use of time cards, time logs, or other means of accumulating auditable statistics upon which to base costs would have to be maintained. The time spent on such programs by persons serving in more than one program area must be specific if costs are to be separated. These costs cannot be accurately maintained on a percentage basis and requires the use of one of the methods mentioned above to provide auditable statistics and should cover all program areas in which a person serves or for which the service, materials, supplies, etc., are provided. (The School Administrator and Uniform Compliance Guidelines, Volume 157)

OVERDRAWN FUND BALANCES

The General Fund, the Transportation Operating Fund, and the Debt Service Fund were overdrawn \$84,674, \$17,076, and \$51,816, respectively, at June 30, 2006. Final county tax distributions were not made until July of 2006. No mention of approval of temporary loans to temporarily depleted funds was made in the School Board minutes subsequent to the balance of those funds being reduced below zero.

The balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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The board of school trustees instead of negotiating a temporary loan is authorized to transfer, by resolution, from a fund having sufficient balance to any fund in need of money for cash flow purposes. The resolution must specify the fund from which money is to be temporarily advanced or transferred, the fund to which said amount is to be advanced, the amount to be transferred and the time of such temporary borrowing. The time fixed by the resolution for repayment of a temporary transfer shall not extend beyond December 31, except as authorized by Indiana Code 36-1-8-4(b), of the year in which the temporary transfer is made. Any such transfer shall be made only from funds derived from the collection of property taxes, collection of special taxes and from other revenue derived from any operation of the school corporation, Indiana Code 36-1-8-4. No temporary transfers may be made from federal funds or from funds obtained by the sale of general obligation bonds. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

INAPPROPRIATE EXPENDITURE FROM DEBT SERVICE FUND

The Debt Service Fund disbursed \$3,605.37 to Pearson Education for textbooks on behalf of Tri Elementary School on May 4, 2006. The payment represented one-fourth of the cost of the textbooks plus shipping and handling, \$3,296.63 and 308.74, respectively. Additionally, the School Corporation expects to pay the remaining three-fourths of the textbook costs plus interest, \$9,889.89, and \$1,681.26, respectively, over the next three years. The principal and interest payments are due by October 1, 2006, 2007, and 2008. The expenditure was not an allowable payment from the Debt Service Fund. The textbook rental activity is operated by the individual schools. Also, the expenditure was misclassified as "52200 Temporary Loan interest" in the Debt Service Fund.

Indiana Code 20-26-5-16 states in part: "(a) A governing body in operating a textbook rental program under Indiana Code 20-26-5-4(12) may use either of the following accounting methods: (1) The governing body may supervise and control the program through the school corporation account, establishing a textbook rental fund. (2) If textbooks have not been purchased and financial commitments or guarantees for the purchases have not been made by the school corporation, the governing body may cause the program to be operated by the individual schools of the school corporation through the school corporation's extracurricular account or accounts in accordance with Indiana Code 20-26-6."

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

SOUTH HENRY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 28, 2007, with Sonya Jones, President of the School Board; Randy Maloyed, Member of the School Board; John Magers, Superintendent of Schools; and Susan Waggoner, Corporation Treasurer. The officials concurred with our findings.