

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

EXAMINATION REPORT
OF
SHELBY EASTERN SCHOOLS
SHELBY COUNTY, INDIANA
July 1, 2004 to June 30, 2006



FILED
05/11/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jennifer Dwenger Kathy Berger	07-01-04 to 08-15-05 08-31-05 to 06-30-07
Superintendent of Schools	John Jameson	07-01-04 to 06-30-07
President of the School Board	Bruce Everhart Greg Schmith Jeff Shelton	07-01-04 to 06-30-05 07-01-05 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 SHELBY EASTERN SCHOOLS, SHELBY COUNTY, INDIANA

We have examined the financial information presented herein of Shelby Eastern Schools (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 presents fairly, in all material respects, the financial information of the School Corporation for the years ended June 30, 2005 and 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Funding Progress, Schedule of Capital Assets, 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

April 12, 2007

SHELBY EASTERN SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ (425,666)
Restricted assets:	
Cash and investments	<u>1,034,241</u>
Total assets	<u>\$ 608,575</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,034,241
Unrestricted	<u>(425,666)</u>
Total net assets	<u>\$ 608,575</u>

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

SHELBY EASTERN SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 267,155
Restricted assets:	
Cash and investments	<u>1,151,286</u>
Total assets	<u>\$ 1,418,441</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,151,286
Unrestricted	<u>267,155</u>
Total net assets	<u>\$ 1,418,441</u>

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

SHELBY EASTERN SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement)
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 4,883,654	\$ -	\$ 71,487	\$ (4,812,167)
Support services	6,928,229	493,089	100,907	(6,334,233)
Community services	100,129	-	-	(100,129)
Nonprogrammed charges	921,887	-	-	(921,887)
Debt service	<u>6,093,306</u>	<u>-</u>	<u>-</u>	<u>(6,093,306)</u>
Total governmental activities	<u>\$ 18,927,205</u>	<u>\$ 493,089</u>	<u>\$ 172,394</u>	<u>(18,261,722)</u>
General receipts:				
Property taxes				8,445,427
Other local sources				1,348,409
State aid				5,945,510
Grants and contributions not restricted				298,519
Bonds and loans				1,543,507
Sale of property, adjustments, and refunds				51,942
Investment earnings				<u>73,458</u>
Total general receipts				<u>17,706,772</u>
				(554,950)
Change in cash and investments				<u>(554,950)</u>
Net assets - beginning				<u>1,163,525</u>
Net assets - ending				<u>\$ 608,575</u>

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

SHELBY EASTERN SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Total
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 4,875,174	\$ -	\$ 56,911	\$ (4,818,263)
Support services	6,847,730	507,334	140,103	(6,200,293)
Community services	84,337	-	-	(84,337)
Nonprogrammed charges	907,080	-	-	(907,080)
Debt service	<u>4,175,533</u>	<u>-</u>	<u>-</u>	<u>(4,175,533)</u>
Total governmental activities	<u>\$ 16,889,854</u>	<u>\$ 507,334</u>	<u>\$ 197,014</u>	<u>(16,185,506)</u>
General receipts:				
Property taxes				8,378,928
Other local sources				1,439,325
State aid				6,006,903
Grants and contributions not restricted				257,335
Bonds and loans				840,227
Sale of property, adjustments, and refunds				3,704
Investment earnings				<u>68,950</u>
Total general receipts				<u>16,995,372</u>
Change in cash and investments				809,866
Net assets - beginning				<u>608,575</u>
Net assets - ending				<u>\$ 1,418,441</u>

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

SHELBY EASTERN SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 4,587,681	\$ 976,154	\$ 2,681,571	\$ 1,523,966	\$ 26,075	\$ 564,340	\$ 10,359,787
Intermediate sources	220	-	-	-	-	375	595
State sources	6,003,920	-	-	-	-	172,979	6,176,899
Federal sources	-	-	-	-	-	239,524	239,524
Bonds and loans	1,543,507	-	-	-	-	-	1,543,507
Sale of property, adjustments and refunds	31,865	-	-	19,000	-	1,078	51,943
Intergovernmental transfers	-	-	-	-	-	7,541	7,541
Total receipts	12,167,193	976,154	2,681,571	1,542,966	26,075	985,837	18,379,796
Disbursements:							
Current:							
Instruction	4,737,389	-	-	-	-	146,265	4,883,654
Support services	4,082,638	899,861	-	1,130,454	80,478	734,798	6,928,229
Community services	99,419	-	-	-	-	710	100,129
Nonprogrammed charges	872,387	-	-	-	-	57,041	929,428
Debt services	2,963,904	-	3,129,402	-	-	-	6,093,306
Total disbursements	12,755,737	899,861	3,129,402	1,130,454	80,478	938,814	18,934,746
Excess (deficiency) of total receipts over (under) total disbursements	(588,544)	76,293	(447,831)	412,512	(54,403)	47,023	(554,950)
Cash and investments - beginning	(794,001)	118,547	1,438,933	(262,545)	40,298	622,293	1,163,525
Cash and investments - ending	<u>\$ (1,382,545)</u>	<u>\$ 194,840</u>	<u>\$ 991,102</u>	<u>\$ 149,967</u>	<u>\$ (14,105)</u>	<u>\$ 669,316</u>	<u>\$ 608,575</u>

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

SHELBY EASTERN SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 4,776,884	\$ 1,104,434	\$ 2,553,812	\$ 949,883	\$ 79,879	\$ 929,237	\$ 10,394,129
Intermediate sources	146	-	-	-	-	263	409
State sources	6,050,737	-	-	-	-	147,653	6,198,390
Federal sources	-	-	-	-	-	262,862	262,862
Bonds and loans	840,227	-	-	-	-	-	840,227
Sale of property, adjustments and refunds	2,248	426	-	-	-	1,029	3,703
Intergovernmental transfers	300,000	-	-	-	-	203,905	503,905
Total receipts	11,970,242	1,104,860	2,553,812	949,883	79,879	1,544,949	18,203,625
Disbursements:							
Current:							
Instruction	4,785,946	-	-	-	-	89,228	4,875,174
Support services	4,056,065	919,869	-	1,095,538	-	776,258	6,847,730
Community services	82,963	-	-	-	-	1,374	84,337
Nonprogrammed charges	964,035	22,365	53,711	16,595	1,118	353,161	1,410,985
Debt services	1,365,313	50,000	2,277,500	-	-	482,720	4,175,533
Total disbursements	11,254,322	992,234	2,331,211	1,112,133	1,118	1,702,741	17,393,759
Excess (deficiency) of total receipts over (under) total disbursements	715,920	112,626	222,601	(162,250)	78,761	(157,792)	809,866
Cash and investments - beginning	(1,382,545)	194,840	991,102	149,967	(14,105)	669,316	608,575
Cash and investments - ending	<u>\$ (666,625)</u>	<u>\$ 307,466</u>	<u>\$ 1,213,703</u>	<u>\$ (12,283)</u>	<u>\$ 64,656</u>	<u>\$ 511,524</u>	<u>\$ 1,418,441</u>

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

SHELBY EASTERN SCHOOLS
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	\$ -	\$ 20,605
Bonds and loans	3,300,000	-
Sale of property, adjustments and refunds	<u>340,732</u>	<u>-</u>
Total additions	<u>3,640,732</u>	<u>20,605</u>
Deductions:		
Instruction	-	22,513
Support services	<u>3,083,600</u>	<u>58</u>
Total deductions	<u>3,083,600</u>	<u>22,571</u>
Excess (deficiency) of total additions over (under) total deductions	557,132	(1,966)
Cash and investments - beginning	<u>-</u>	<u>7,806</u>
Cash and investments - ending	<u>\$ 557,132</u>	<u>\$ 5,840</u>

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

SHELBY EASTERN SCHOOLS
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	\$ -	\$ 48,867
Transfers	-	48
	<u>-</u>	<u>48,915</u>
Total additions	-	48,915
Deductions:		
Instruction	-	27,782
Support services	31,867	806
	<u>31,867</u>	<u>28,588</u>
Total deductions	31,867	28,588
Excess (deficiency) of total additions over (under) total deductions	(31,867)	20,327
Cash and investments - beginning	<u>557,132</u>	<u>5,840</u>
Cash and investments - ending	<u>\$ 525,265</u>	<u>\$ 26,167</u>

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

SHELBY EASTERN SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ 557,132	\$ 5,840
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 557,132	\$ 5,840

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

SHELBY EASTERN SCHOOLS
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	\$ 525,265	\$ 26,167
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 525,265	\$ 26,167

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

SHELBY EASTERN SCHOOLS
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 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.

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 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.

SHELBY EASTERN SCHOOLS
NOTES TO FINANCIAL INFORMATION
(Continued)

Additionally, the School Corporation reports the following fund types:

The pension trust fund accounts for the activities of the retirement/severance bond benefits, as authorized by statute.

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

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.

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 (Indiana Code 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

SHELBY EASTERN SCHOOLS
NOTES TO FINANCIAL INFORMATION
(Continued)

accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

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

Note 6. 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>
General Fund	Other governmental	\$ -	\$ 96,107.00
Transportation Operating	Other governmental	-	22,365
School Bus Replacement	Other governmental	-	1,118
Debt Service	Other governmental	-	53,711
Capital Projects	Other governmental	-	16,595
Other governmental	General Fund	-	300,000
	Other governmental	7,541	14,009
		<u>7,541</u>	<u>14,009</u>
Totals		<u>\$ 7,541</u>	<u>\$ 503,905</u>

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

Note 7. Pension Plans

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 (Indiana Code 5-10.2

SHELBY EASTERN SCHOOLS
NOTES TO FINANCIAL INFORMATION
(Continued)

and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

Funding Policy and Annual Pension Cost

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

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 (Indiana Code 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

SHELBY EASTERN SCHOOLS
NOTES TO FINANCIAL INFORMATION
(Continued)

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.

SHELBY EASTERN SCHOOLS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 569,361	\$ 558,870	\$ 10,491	102%	\$ 873,570	1%
07-01-04	604,893	677,297	(72,404)	89%	921,882	(8%)
07-01-05	644,676	830,456	(185,780)	78%	855,878	(22%)

SHELBY EASTERN 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/Buildings	\$ 72,374,404
Equipment	<u>2,706,116</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 75,080,520</u>

SHELBY EASTERN SCHOOL
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
High school facilities	\$ 27,925,000	\$ 600,000
Morristown building	24,875	24,875
Notes and loans payable	359,332	81,605
Bonds payable:		
General obligation bonds:		
Severance	3,085,000	170,000
Temporary loans payable	<u>3,205,109</u>	<u>3,205,109</u>
Total governmental activities long-term debt	<u>\$ 34,599,316</u>	<u>\$ 4,081,589</u>

SHELBY EASTERN SCHOOLS
EXAMINATION RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The cash balance of the General Fund and the School Bus Replacement Fund were overdrawn in FY 2004-2005. The cash balance of the General Fund, Severance Bond Fund and Capital Projects Fund were overdrawn in FY 2005-2006.

The cash balance of any fund may not be reduced below zero. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

APPROPRIATIONS

The records presented for examination indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Years</u>	<u>Excess Amount Expended</u>
Transportation	2005	\$ 219,721
Severance Bond	2005	41
Debt Service	2005	338,831

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

GUARANTEED ENERGY SAVINGS CONTRACTS

Shelby Eastern Schools entered into a guaranteed energy savings contract with Johnson Controls on December 20, 1994, with an addendum added on April 13, 2000. The total amount of the contract was \$651,410 and the addendum was \$703,800. The total amount of guaranteed energy savings was \$401,270 for the contract and \$372,661 for the addendum. The total amount of guaranteed operational savings was \$250,140 for the contract. The total amount of guaranteed deferred capital cost savings was \$611,129 for the addendum. 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 examination to document the operational cost savings or guaranteed deferred capital cost savings.

The contract states in part: "Stipulated Savings are mutually agreed by the Customer and JCI . . . to be achieved upon execution of the Certificate of Substantial Completion and shall not be measured or monitored during the Term."

Stipulated Savings is further described in the contract as "Capital Budget Annual Avoided Cost - Includes any labor and material costs associated with the repair of unplanned maintenance of the equipment being replaced in the scope of work and includes cost avoidance from future planned equipment upgrades or replacement with the cost amortized over the ten years of the agreement." No information was presented for examination to document any "stipulated savings" that resulted in guaranteed deferred capital cost savings from energy conservation measures.

SHELBY EASTERN SCHOOLS
EXAMINATION RESULTS AND COMMENTS
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The project includes per the contract, "Cooling Tower Repl.," "High Efficiency Lighting," "Stream Trap Repair," "Facilities Management System," "Chiller Replacement," " Controls Repair," "Cooling Repair," " Cooling Tower Cleaning," and "System Balancing."

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."

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.

SHELBY EASTERN SCHOOLS
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (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."

Repayment of Costs in Excess of Savings

Shelby Eastern Schools Officials conveyed that the items shown as "agreed upon" or "stipulated savings" have been predetermined. Furthermore, Shelby Eastern Schools Officials do not have available for examination and conveyed they do not plan in the future to have any additional information to document actual operating or energy savings. Accordingly, with due regards for the remaining contract time for which information may be presented to document actual operating and energy savings (effective March 21, 2002, "stipulated savings" documented by "industry engineering standards"), the Shelby Eastern Schools 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") at the end of the contract term 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)

Non "Causally connected work"

The project included items such as flooring, ceiling tiles, window coverings and there were no specific costs assigned to these improvements. Therefore we were unable to determine the percentage of the non "casually connected work."

Effective March 21, 2002, Indiana Code 36-1-12.5-12 states in part: (a) "An improvement that is not causally connected to an energy conservation measure may be included in a guaranteed energy savings contract if:

- (1) the total value of the improvement does not exceed fifteen percent (15%) of the total value of the guaranteed energy savings contract . . ."

SALES TAX

Sales tax was included in two reimbursements paid on March 9, 2006, for supplies purchased.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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EXAMINATION RESULTS AND COMMENTS
(Continued)

ERRORS ON CLAIMS

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

Claims did not always have fiscal officer approval.

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."

COMPENSATION AND BENEFITS

Some employee positions were not reflected in the salary ordinance or resolution adopted by the governing body.

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

AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS

Records presented for examination to support the Average Daily Membership (ADM) claimed by the School Corporation were not certified by the respective building principals.

Officials should maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM. The building level official (Principal, Assistant Principal, etc.) responsible for reporting ADM to the School Corporation Central Office, should provide a written certification of ADM to properly document responsibility. The certification should at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

SHELBY EASTERN SCHOOLS
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(Continued)

PRESCRIBED FORMS

The Transfer Tuition Statements (Form 515) were not in use for FY 2004-2005 and FY 2005-2006. As a result, transfer students were not properly charged for tuition.

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

OVERSTATED AND UNDERSTATED BIENNIAL FINANCIAL REPORT BALANCES

The Textbook Rental Fund balance was overstated on the Biennial Financial Report at June 30, 2006. The Textbook Rental Fund record balance was reported as \$77,357.99. The fund balance of Textbook Rental Fund at the extra-curricular level was \$57,870.27. Waldron Jr./Sr. High Textbook Rental receipts and disbursements totaling (\$19,487.72) were not included in the June 30, 2006, Biennial Financial Report. As a result, the Textbook Rental Fund was overstated \$19,487.72 at June 30, 2006.

The School Lunch Fund balance was understated by \$25,651.57 on the Biennial Financial Report at June 30, 2006. The School Lunch Fund record balance was reported as \$85,784.02. However, the fund balance at the extra-curricular account level was \$87,390.97 and the fund balance at the School Corporation level was \$24,044.62.

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

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 7)

PENALTIES, INTEREST AND OTHER CHARGES

Penalties and interest totaling \$110.84 were paid to the Internal Revenue Service on September 13, 2006, for the period ending March 31, 2006.

Interest totaling \$26.70 was paid to the Indiana Department of Revenue on July 31, 2006, for the period ending March 31, 2006.

Penalties totaling \$5,077.29 were paid to the Internal Revenue Service on December 29, 2006, for the period ending September 30, 2006.

Penalties and interest totaling \$2,159.67 were paid to the Indiana Department of Revenue on January 9, 2007, for the period ending October 31, 2006.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

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EXAMINATION RESULTS AND COMMENTS
(Continued)

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee who caused it to be assessed.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SHELBY EASTERN SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on April 12, 2007, with John Jameson, Superintendent of Schools; and Kathy Berger, Treasurer. The officials concurred with our findings.