

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

AUDIT REPORT

OF

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION

DELAWARE COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED

05/30/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Julie D. Wake	07-01-04 to 06-30-07
Superintendent of Schools	James L. Craig	07-01-04 to 06-30-07
President of the School Board	Gene Ferris Kevin Nemyer	07-01-04 to 06-30-06 07-01-06 to 06-30-07



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

TO: THE OFFICIALS OF THE LIBERTY-PERRY COMMUNITY
SCHOOL CORPORATION, DELAWARE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Liberty-Perry 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 24, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

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

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

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

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

STATE BOARD OF ACCOUNTS

April 24, 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 LIBERTY-PERRY COMMUNITY
SCHOOL CORPORATION, DELAWARE COUNTY, INDIANA

We have audited the financial statements of the Liberty-Perry 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 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School Corporation's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe none of the reportable conditions described above is a material weakness.

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
(Continued)

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 24, 2007

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 1,209,978
Restricted assets:	
Cash and investments	<u>508,363</u>
Total assets	<u>\$ 1,718,341</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 508,363
Unrestricted	<u>1,209,978</u>
Total net assets	<u>\$ 1,718,341</u>

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

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 1,120,262
Restricted assets:	
Cash and investments	<u>345,856</u>
Total assets	<u>\$ 1,466,118</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 345,856
Unrestricted	<u>1,120,262</u>
Total net assets	<u>\$ 1,466,118</u>

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

LIBERTY-PERRY 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	\$ 3,619,862	\$ -	\$ 35,098	\$ (3,584,764)
Support services	5,353,398	321,526	212,039	(4,819,833)
Community services	75,927	-	-	(75,927)
Nonprogrammed charges	132,885	-	-	(132,885)
Debt service	651,893	-	-	(651,893)
Total governmental activities	\$ 9,833,965	\$ 321,526	\$ 247,137	(9,265,302)
General receipts:				
Property taxes				3,997,427
Other local sources				555,983
State aid				4,959,463
Grants and contributions not restricted				671,437
Bonds and loans				39,950
Sale of property, adjustments, and refunds				49,188
Investment earnings				37,317
Total general receipts				10,310,765
Change in cash and investments				1,045,463
Net assets - beginning				672,878
Net assets - ending				\$ 1,718,341

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

LIBERTY-PERRY 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	\$ 3,622,481	\$ -	\$ 57,217	\$ (3,565,264)
Support services	5,077,251	307,769	181,024	(4,588,458)
Community services	75,433	-	-	(75,433)
Nonprogrammed charges	121,290	-	-	(121,290)
Debt service	1,135,470	-	-	(1,135,470)
Total governmental activities	<u>\$ 10,031,925</u>	<u>\$ 307,769</u>	<u>\$ 238,241</u>	<u>(9,485,915)</u>
General receipts:				
Property taxes				3,051,621
Other local sources				487,064
State aid				5,134,427
Grants and contributions not restricted				424,781
Sale of property, adjustments, and refunds				40,279
Investment earnings				<u>95,520</u>
Total general receipts				<u>9,233,692</u>
				Change in cash and investments (252,223)
				<u>1,718,341</u>
				<u>\$ 1,466,118</u>

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

LIBERTY-PERRY COMMUNITY 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	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 2,083,756	\$ 539,855	\$ -	\$ 926,943	\$ 647,919	\$ 261,215	\$ 528,118	\$ 4,987,806
Intermediate sources	33	-	-	-	-	-	-	33
State sources	4,994,345	-	-	-	-	-	200,361	5,194,706
Federal sources	-	-	228,626	-	-	-	379,120	607,746
Bonds and loans	-	-	-	-	-	-	39,950	39,950
Sale of property, adjustments and refunds	8,919	1,245	-	-	924	-	38,099	49,187
Intergovernmental transfers	-	-	-	-	-	-	79,522	79,522
Total receipts	<u>7,087,053</u>	<u>541,100</u>	<u>228,626</u>	<u>926,943</u>	<u>648,843</u>	<u>261,215</u>	<u>1,265,170</u>	<u>10,958,950</u>
Disbursements:								
Current:								
Instruction	3,262,538	-	153,109	-	-	-	204,215	3,619,862
Support services	3,403,707	441,210	64,259	-	504,762	122,011	817,449	5,353,398
Community services	75,927	-	-	-	-	-	-	75,927
Nonprogrammed charges	169,286	9,228	-	16,360	13,516	3,919	98	212,407
Debt services	-	-	-	651,893	-	-	-	651,893
Total disbursements	<u>6,911,458</u>	<u>450,438</u>	<u>217,368</u>	<u>668,253</u>	<u>518,278</u>	<u>125,930</u>	<u>1,021,762</u>	<u>9,913,487</u>
Excess of total receipts over total disbursements	175,595	90,662	11,258	258,690	130,565	135,285	243,408	1,045,463
Cash and investments - beginning	<u>(373,994)</u>	<u>206,834</u>	<u>210,428</u>	<u>84,390</u>	<u>204,191</u>	<u>59,849</u>	<u>281,180</u>	<u>672,878</u>
Cash and investments - ending	<u>\$ (198,399)</u>	<u>\$ 297,496</u>	<u>\$ 221,686</u>	<u>\$ 343,080</u>	<u>\$ 334,756</u>	<u>\$ 195,134</u>	<u>\$ 524,588</u>	<u>\$ 1,718,341</u>

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

LIBERTY-PERRY COMMUNITY 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	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 1,617,030	\$ 451,922	\$ -	\$ 669,512	\$ 362,381	\$ 211,013	\$ 658,081	\$ 3,969,939
Intermediate sources	33	-	-	-	-	-	-	33
State sources	5,165,718	-	-	-	-	-	88,800	5,254,518
Federal sources	-	-	193,188	-	-	-	321,743	514,931
Sale of property, adjustments and refunds	7,114	3,464	-	-	-	-	29,701	40,279
Intergovernmental transfers	289,950	-	-	-	-	-	121,683	411,633
Total receipts	7,079,845	455,386	193,188	669,512	362,381	211,013	1,220,008	10,191,333
Disbursements:								
Current:								
Instruction	3,304,432	-	177,614	-	-	-	140,435	3,622,481
Support services	3,060,908	461,309	-	-	648,959	186,560	719,515	5,077,251
Community services	75,433	-	-	-	-	-	-	75,433
Nonprogrammed charges	143,519	5,991	210,428	9,958	4,857	68,504	89,664	532,921
Debt services	57	-	-	656,563	-	-	478,850	1,135,470
Total disbursements	6,584,349	467,300	388,042	666,521	653,816	255,064	1,428,464	10,443,556
Excess (deficiency) of total receipts over (under) total disbursements	495,496	(11,914)	(194,854)	2,991	(291,435)	(44,051)	(208,456)	(252,223)
Cash and investments - beginning	(198,399)	297,496	221,686	343,080	334,756	195,134	524,588	1,718,341
Cash and investments - ending	<u>\$ 297,097</u>	<u>\$ 285,582</u>	<u>\$ 26,832</u>	<u>\$ 346,071</u>	<u>\$ 43,321</u>	<u>\$ 151,083</u>	<u>\$ 316,132</u>	<u>\$ 1,466,118</u>

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

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

	Pension Trust Funds
Additions:	
Bonds and loans	\$ 5,010,641
Deductions:	
Support services	61,701
Debt services	3,682,321
Total deductions	3,744,022
Excess of total additions over total deductions	1,266,619
Cash and investments - beginning	-
Cash and investments - ending	\$ 1,266,619

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

LIBERTY-PERRY 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>
Additions:	
Bonds and loans	<u>17,706</u>
Deductions:	
Support services	<u>200,282</u>
Deficiency of total additions over total deductions	(182,576)
Cash and investments - beginning	<u>1,266,619</u>
Cash and investments - ending	<u><u>\$ 1,084,043</u></u>

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

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 1,266,619	\$ 2,881
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	<u>\$ 1,266,619</u>	

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

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2006

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 1,084,043	\$ 9,884
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	<u>\$ 1,084,043</u>	

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

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Primary Government: Liberty-Perry Community School Corporation

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

Joint Ventures

The School Corporation is a participant with four other school corporations (Monroe Central, Randolph Central, Randolph Eastern, and Randolph Southern) in a joint venture to operate the Greater Randolph Interlocal Cooperative (GRIC), 325 S. Oak St., Suite L103, Winchester, IN 47394 which was created to administer special education programs. The School Corporation is obligated by contract to remit annually an amount set by GRIC Board of Directors. The School Corporation's remittances in the 2005 and 2006 fiscal years were \$149,631 and \$132,329, respectively. This included Special Education Preschool billings. Complete financial statements for the Cooperative can be obtained from GRIC.

The School Corporation is a participant with several area schools in a joint venture to operate the State District 22 Vocational Education Cooperative which was created to provide vocational education services. The Cooperative's continued existence depends on continued funding by the School Corporation. The School Corporation is obligated for the debts of the Cooperative. Complete financial statements for the Cooperative can be obtained from Muncie Community Schools, 2501 North Oakwood, Muncie, IN 47304.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

LIBERTY-PERRY 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 special education fund accounts for special education grant proceeds distributed by the Greater Randolph Interlocal Cooperative for use in financing the School Corporation's special education program.

Additionally, the School Corporation reports the following fund types:

The pension trust funds account for the activities of the Retirement/Severance Fund, which accumulate resources for pension benefit payments.

Agency funds account for assets held by the School Corporation as an agent for other governmental units and individuals.

C. Measurement Focus and Basis of Accounting

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

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

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

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

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Property Taxes

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

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at rates from 7 to 10 days per year. Unused sick leave may be accumulated indefinitely for certified teaching personnel and to a maximum of 135 days for noncertified personnel.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 10 days to 15 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

c. Personal Leave

School Corporation employees earn personal leave at the rate of 2 or 3 days per year. Personal leave does not accumulate from year to year.

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.

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 and (2) operating grants and contributions. 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.

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

II. Stewardship, Compliance and Accountability

A. 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.

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Disbursements in Excess of Appropriations

For the year ended December 31, 2004, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Fund	2004
Special Education Preschool	<u>\$ 5,500</u>

C. Cash and Investment Balance Deficits

At June 30, 2005, the following fund reported a deficit in cash and investments, which is a violation of the Uniform Compliance Guidelines as referenced in state statute:

Fund	2005
General Fund	<u>\$ 198,399</u>

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

III. Detailed Notes on All Funds

A. Deposits

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

B. Interfund Transfers

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

Transfer From	Transfer To	2005	2006
General Fund	Other governmental	\$ 36,401	\$ 22,232
Debt Service	Other governmental	16,360	9,958
Capital Projects	Other governmental	13,516	4,857
Transportation Operating	Other governmental	9,228	5,991
Special Education Preschool	Other governmental	98	62
Special Education	General Fund	-	210,429
Other governmental	General Fund	-	79,522
Other governmental	Other governmental	3,919	78,582
Totals		<u>\$ 79,522</u>	<u>\$ 411,633</u>

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

C. Restatements and Reclassifications

For the year ended June 30, 2006, certain changes have been made to the financial statements to more appropriately reflect financial activity of the School Corporation. The following schedule presents a summary of restated beginning balances by opinion unit.

Opinion Unit	Balance as Reported June 30, 2004	Fund Reclassification	Balance as Restated July 1, 2004
Governmental	\$ 674,584	\$ (1,706)	\$ 672,878
Fiduciary	(1,706)	1,706	-

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.

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

During 1996, the School Corporation joined with other governmental entities to form the Greater Randolph County School Insurance Consortium, a public entity risk pool currently operating as a common risk management and insurance program for seven member governmental entities. The purpose of the risk pool is to provide a medium for the funding and administration of medical insurance. The School Corporation pays an annual premium to the risk pool for its medical benefits for employees coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$5,000,000 per insured event. The risk pool obtains independent full coverage for insured events.

B. Holding Corporation

The School Corporation has entered into a capital lease with Liberty-Perry School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the years ended June 30, 2005 and June 30, 2006, totaled \$651,892 and \$656,562, respectively.

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment salary benefits to all certified employees who retired prior to June 30, 2004, or opted for the benefit prior to December 31, 2004, and postemployment health insurance benefits to all certified employees who retire from the School Corporation on or after attaining age 55 with at least 12 years of service, as authorized by Indiana Code 5-10-8. Currently, 13 retirees meet these eligibility requirements. The School Corporation provides 100% of these postemployment benefits to certified personnel retired prior to 2002-2003. The School Corporation provides all postemployment benefits except \$450, paid annually by the retiree for health insurance, to certified personnel retiring after 2002-2003. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$153,478 were recognized for post-employment benefits.

D. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

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

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

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 27,154
Interest on net pension obligation	(4,653)
Adjustment to annual required contribution	5,302
Annual pension cost	27,803
Contributions made	39,968
Decrease in net pension obligation	(12,165)
Net pension obligation, beginning of year	(64,175)
Net pension obligation, end of year	\$ (76,340)
Contribution rates:	
School Corporation	5%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 35,210	144%	\$ (36,241)
	06-30-04	18,036	255%	(64,175)
	06-30-05	27,803	222%	(76,340)

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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 \$147,910, \$137,148, and \$133,680, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 701,525	\$ 471,833	\$ 229,692	149%	\$ 717,999	32%
07-01-04	719,883	537,388	182,495	134%	842,428	22%
07-01-05	750,336	674,375	75,961	111%	934,783	8%

LIBERTY-PERRY 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:		
Selma Elementary	\$ 2,635,000	\$ 545,000
Energy Savings	89,449	89,449
Bus	28,777	28,777
Bus	89,507	89,507
Bonds payable:		
General obligation bonds:		
Pension	<u>3,670,000</u>	<u>65,000</u>
Total governmental activities long-term debt	<u>\$ 6,512,733</u>	<u>\$ 817,733</u>

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
OTHER REPORT

The audit report presented herein was prepared in addition to another official report prepared for the individual School Corporation office listed below:

Selma Middle School

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

PERSONAL EXPENSES

Travel expenses were reimbursed to individuals or paid by credit cards for employees attending conferences two days before and two days after the actual conference dates. These expenses included lodging (\$1,073.91), car rental/parking (\$120.54) and meals (\$18.00). An airline ticket for the Superintendent's spouse was also charged to the credit card in the amount of \$348.19.

Credit card charges included meals that were not business related (\$89.73) and snow boots for the Superintendent's use (\$42.29).

We requested that the Superintendent reimburse the School Corporation for personal travel expenses, nonbusiness meals and snow boots purchased in an amount totaling \$798.77; the Assistant Superintendent reimburse the School Corporation for personal travel expenses in the amount of \$422.62; the Treasurer reimburse the School Corporation \$34.04 for nonbusiness meals and various certified staff reimburse the School Corporation for personal travel expenses totaling \$437.23. (See Summary, page 52)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

PROMOTION OF BUSINESS DISBURSEMENTS

Promotion of business disbursements exceeded the maximum amount allowed by Indiana Code 20-26-5-4(3) by \$5,148 for the calendar year 2006.

Indiana Code 20-26-5-4(3) states: "To appropriate from the school corporation's general fund an amount, not to exceed the greater of three thousand dollars (\$3,000) per budget year or one dollar (\$1) per pupil, not to exceed twelve thousand five hundred dollars (\$12,500), based on the school corporation's previous year's average daily membership (as defined in IC 20-43-1-7) to promote the best interests of the school corporation through: (A) the purchase of meals, decorations, memorabilia, or awards; (B) provision for expenses incurred in interviewing job applicants; or (C) developing relations with other governmental units."

APPROPRIATIONS

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

Fund	Year	Excess Amount Expended
Special Education Preschool	2004	\$ 5,500

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."

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

POSTING ERRORS

Property taxes, license excise and commercial vehicle tax distributions totaling \$125,333 in fiscal year 2004-2005, were posted to the Retirement/Severance Fund rather than the Retirement/Severance Bond Fund. Corrections were made to the records in fiscal year 2005-2006. The Treasurer attempted but was unsuccessful in correcting these errors in the financial information submitted to the Indiana Department of Education (Form 9) in both fiscal years.

A State distribution of \$424,051 in fiscal year 2004-2005, was erroneously posted to property taxes in the General Fund. Corrections were made to the records in fiscal year 2005-2006.

A State distribution in the amount of \$67,650 received by electronic funds was credited to the bank account on June 23, 2005, but was not posted to the records until July 14, 2005.

The Clearing Fund established for the processing of payroll and payroll taxes remitted by the Extra-Curricular Accounts had an ending balance as of June 30, 2006, of \$2,033. The ending balance is the result of erroneously posting payroll and payroll taxes from the General Fund rather than the Clearing Fund.

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)

ERRORS ON CLAIMS

The following deficiencies were noted on claims examined during the audit period:

- (1) One of the claims reviewed was not adequately itemized. None of the credit card claims were properly itemized.
- (2) Six of the claims did not have School Board approval.
- (3) One of the claims was not certified by the fiscal officer.
- (4) One of the claims was not properly posted.

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;

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (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."

TRANSFER TUITION

Some students, including children of employees, who do not live in the School Corporation District are being educated by the School Corporation and have not paid transfer tuition. There were no records maintained on amounts charged or paid for the students who did pay tuition. The amounts paid for transfer tuition did not agree to the formula established by Indiana Code 20-26-11-6.

Indiana Code 20-26-11-6 states in part:

"(b) A transfer may not be accepted unless the requesting parents or student pays transfer tuition in an amount determined under the formula established . . ."

SALARY RESOLUTION

Payments were made to substitute teachers and nurses for services performed, but the pay rates were not included on the salary resolution approved by the School Board.

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)

TRANSPORTATION FUND - RECORD OF HOURS WORKED

Twenty-five percent of the salary of the Superintendent is paid from the Transportation Fund. No auditable statistics to justify that salary percentage were presented for audit. A similar comment appeared in prior Report B24453.

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

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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 CASH BALANCES

The cash balance of the General Fund was overdrawn at June 30, 2005, in the amount of \$198,399.

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)

PAYROLL DISBURSEMENTS

Payments were made through payroll to School Corporation employees for attending workshops and for services performed after school hours. However, the amounts paid were not included in the employees' contracts. A similar comment appeared in prior Report B24453.

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)

DEPOSITS

Thirty-five percent of the receipts examined were deposited later than the next business day.

Indiana Code 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

RECEIPT ISSUANCE

Receipts were not written at the time the money was received. A similar comment appeared in prior Report B24453.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CAPITAL ASSET RECORDS

Information presented for audit did not indicate a current inventory or record of capital assets. Capital asset records had not been updated since 1999. A similar comment appeared in prior Report B24453.

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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)

TRAVEL POLICY

A travel policy was not presented for audit.

Each governmental unit should adopt a written travel policy in conformity with applicable statutes. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CREDIT CARDS

The School Corporation is using credit cards in some instances to purchase items without an approved credit card policy.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the board.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

(8) If properly authorized, an annual fee may be paid.

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

CONDITION OF RECORDS - TEXTBOOK RENTAL FUND

The financial information reported to the Indiana Department of Education (Form 9) did not accurately reflect the activity of the Textbook Rental Fund. Textbook Rental funds are maintained as an extra-curricular account at each school building and then combined for reporting on Form 9. Differences were found in the beginning balance as well as audit period receipts and disbursements. Additionally, reporting was done on a school year basis which ended on various dates rather than June 30th, the date of the School Corporation's financial statements. A similar comment appeared in prior Report B24453.

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)

AVERAGE DAILY MEMBERSHIP (ADM) - INCORRECT REPORTING TO THE STATE

The information presented for audit indicates the amount claimed for honors diplomas on Form 30A, Report of Average Daily Membership (ADM) for State Support, was incorrect for the school year ending June 30, 2005.

School Year	Count as Reported on Form 30A	Actual Enrollment Figures	Difference
FY 2004-2005	24	21	3

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)

FUND USES

The School Corporation paid \$1,250 in 2006, from the General Fund to a private accounting firm for a review and analysis of financial records of the Market Day fundraiser conducted by the PTO.

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

PENALTIES, INTEREST AND OTHER CHARGES

Information presented for audit indicated that late payment fees of \$495 were paid to gas companies and \$20 to credit card companies.

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. 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.

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

PAYMENT OF TUITION FEES

The School Corporation paid tuition fees for noncertified and certified employees from the General Fund and from various federal funds. Tuition fees paid from the federal funds were allowable costs. Tuition fees were reimbursed to individuals in some cases, once they successfully completed the class and in other cases tuition fees were paid in advance directly by the School Corporation. The fees paid for some employees represented approximately half the tuition fee but for other employees the fees paid represented the entire cost of the tuition. There was no evidence that these benefits were included as wages for employees or that a home rule resolution by the School Board was passed authorizing tuition.

Our attention is directed upon occasion to an isolated provision adopted by boards of school trustees or other governing bodies for reimbursing teachers for tuition fees and the cost of books for college and university courses. These courses are attended to meet requirements for professional improvement. The cost of any college course taken by teachers, whether during summer vacation or by evening extension classes during the period schools are in session, is the financial obligation of the teacher. The same applies to other employees of the school corporation. However, a school corporation could consider the provisions of Indiana Code 20-5-1.5-1 et seq., home rule, and we could so note accordingly in an audit report.

The governing body may include in the salary schedule certain interim steps between college degree levels by providing salary adjustments for the completion of a specific number of college credits beyond a bachelor's or master's degree. Indiana Code 20-6.1-5-1 states in part: "Computation of minimum salary shall be made each school year on the basis of the teacher's training, experience, and degree, completed as of the first day of service." Attorney General Official Opinion Number 14, dated August 22, 1975, states in part the following conclusion: "It is, therefore, my Official Opinion that (1) a school corporation which has agreed to a salary schedule which bases teachers' pay on training and experience completed as of the first day of service in the current school year, may, as part of that agreement, authorize an adjustment in teachers' pay during the school year by considering training and experience completed as of another date later in the school year . . ."

A school corporation which utilizes these provisions must consider carefully the fiscal impact, since Indiana Code 20-7.5-1-3 Collective Bargaining Law expressly states that: ". . . any contract which provide for deficit financing shall be void to that extent . . ." (The School Administrator; Volume 169)

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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)

DEPOSITS (Applies to Perry and Selma Elementary Schools)

Numerous receipts reviewed were not deposited.

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

USE OF FORM SA-7, CLAIM FOR PAYMENT (Applies to Selma Elementary School)

Claim forms did not contain all information necessary to constitute a valid claim. Proper signatures were not evident on several claims reviewed.

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)

SALES TAX (Applies to Wapahani High School)

Sales tax was paid for some purchases.

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 Extra-Curricular Accounts, Chapter 7)

OVERDRAWN FUND BALANCES (Applies to Selma Elementary School)

The Student Council Fund was overdrawn in the 2004-2005 school year.

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 Extra-Curricular Accounts, Chapter 7)

INTEREST ON INVESTMENTS (Applies to Perry Elementary School)

Interest earned on investments in some instances was automatically added to the principal and not recorded in the records.

Interest on investments should not be automatically added into the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

NONUSE OF FORM SA-1, PURCHASE ORDER ACCOUNTS PAYABLE VOUCHER
(Applies to Selma Elementary, Perry Elementary, and Wapahani High School)

The Extra-Curricular Account Treasurers did not always use Form SA-1, Purchase Order and Accounts Payable Voucher to support and document the disbursements made.

Due to the lack of supporting information, the validity and accountability for some monies disbursed could not be established.

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)

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 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 LIBERTY-PERRY COMMUNITY
SCHOOL CORPORATION, DELAWARE COUNTY, INDIANA

Compliance

We have audited the compliance of the Liberty-Perry 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 24, 2007

LIBERTY-PERRY 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		\$ 26,256	\$ -
		FY 2004-2005	-	27,542
		FY 2005-2006	-	-
Total for program			<u>26,256</u>	<u>27,542</u>
School Lunch Program	10.555		-	-
		FY 2004-2005	124,309	-
		FY 2005-2006	-	134,130
Total for program			<u>124,309</u>	<u>134,130</u>
Total for federal grantor agency			<u>150,565</u>	<u>161,672</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Greater Randolph Interlocal Cooperative Special Education Cluster Special Education - Grants to States	84.027		228,626	-
		14205-066-PN01	-	193,188
		14206-066-PN01	-	-
Total for program			<u>228,626</u>	<u>193,188</u>
Pass-Through Indiana Department of Education Title I Grants to Local Educational Agencies	84.010		6,555	-
		04-1895	70,222	6,247
		05-1895	-	67,211
		06-1895	-	-
Total for program			<u>76,777</u>	<u>73,458</u>
Safe and Drug Free Schools and Communities - State Grants	84.186		174	-
		01-209	3,190	-
		02-277	643	3,222
		03-244	-	-
Total for program			<u>4,007</u>	<u>3,222</u>
Eisenhower Professional Development State Grants	84.281		2,018	-
		01-194	-	-
Innovative Education Program Strategies	84.298		4,556	1,364
		02-230	-	123
		04-297	-	-
Total for program			<u>4,556</u>	<u>1,487</u>
Education Technology State Grants	84.318		119,183	12,346
		SY03-04	-	43,929
		SY04-05	-	-
Total for program			<u>119,183</u>	<u>56,275</u>
Improving Teacher Quality State Grants	84.367		34,706	-
		03-264	5,015	29,863
		04-239	-	8,224
		05-261	-	-
Total for Program			<u>39,721</u>	<u>38,087</u>
Total for federal grantor agency			<u>474,888</u>	<u>365,717</u>
Total federal awards expended			<u>\$ 625,453</u>	<u>\$ 527,389</u>

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

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

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

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

II. Noncash Assistance

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

Program Title	Federal CFDA Number	2005	2006
School Breakfast Program	10.553	\$ 4,791	\$ 3,628
School Lunch Program	10.555	13,731	15,776

LIBERTY-PERRY 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?	yes
Noncompliance material to financial statements noted?	yes

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
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Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.027	Child Nutrition Cluster Special Education – Grants to States

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

Auditee qualified as low-risk auditee?	no
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LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section II – Financial Statement Findings

FINDING 2006-1, RECEIPT ISSUANCE

Receipts were not written until the deposit was made.

This could result funds being received but not deposited.

Indiana Code 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance."

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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)

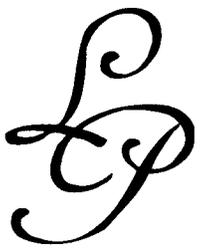
We recommended that School Officials write receipts when the money is received.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION

May 14, 2007
State Board of Accounts
Stan Mettler
302 W. Washington Street
Indianapolis, In 46204-2765

To Whom It May Concern:

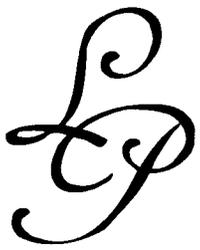
As the treasurer of Liberty Perry Community Schools I will take the following corrective action in regards to the money received by our schools. I will see to it that I receipt all the money we receive in a timely matter. Thank you.

Sincerely,

Julie Wake
Treasurer
Liberty Perry Community School Corp.

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on April 24, 2007, with Julie D. Wake, Treasurer; James L. Craig, Superintendent of Schools; Kevin Nemyer, President of the School Board; and Mike Elder, Technology Director. The official response has been made a part of this report and may be found on page 51.



LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION

4/25/2007

**To: The Indiana State Board of Accounts
From: Jim Craig**

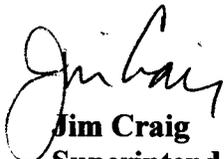
Please accept this letter as an "official response" to the exit interview that was conducted for Liberty-Perry Schools on April 24, 2007.

Representatives from your office conducted what I would consider a very thorough and complete inspection of our accounting process and procedures. During the course of the audit it was discovered that we had failed to follow some of the policies and guidelines that are expected from your office. These situations were highlighted during the exit meeting.

I want to assure your office that we have addressed many of the points in need of revision and will continue to develop practices that will "clean up" all of the issues that were found to be lacking in either control or execution. We take these matters seriously and certainly have made it our top priority to have things in order so future audits will be free of infractions or mistakes.

I also want to pay respect to the representatives from your office, Stephanie Heath and Teresa Alexander. They were meticulous and diligent in their duties and were always professional. I appreciate their willingness to provide observation and direction on what had to be a difficult if not challenging experience.

Respectfully,


**Jim Craig
Superintendent**

LIBERTY-PERRY COMMUNITY SCHOOL CORPORATION
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
James L. Craig, Superintendent of Schools:			
Personal Expenses, page 31	\$ 798.77	\$ 798.77	\$ -
Alice Mehaffey, Assistant Superintendent of Schools:			
Personal Expenses, page 31	422.62	422.62	-
Julie D. Wake, Treasurer:			
Personal Expenses, page 31	34.04	34.04	-
Other Certified Personnel:			
Personal Expenses, page 31	<u>437.23</u>	<u>437.23</u>	<u>-</u>
Totals	<u>\$ 1,692.66</u>	<u>\$ 1,692.66</u>	<u>\$ -</u>