

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

AUDIT REPORT

OF

JENNINGS COUNTY SCHOOL CORPORATION

JENNINGS COUNTY, INDIANA

July 1, 2004 to June 30, 2006



**FILED**

07/03/2007



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials.....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards .....	3-4
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.....	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Cash and Investments .....	6-7
Statement of Cash Activities .....	8-9
Fund Financial Statements:	
Governmental Funds:	
Statement of Receipts, Disbursements, and Cash and Investment Balances – Governmental Funds.....	10-11
Fiduciary Funds:	
Statement of Receipts, Disbursements, and Changes in Cash and Investments – Fiduciary Funds.....	12-13
Statement of Cash and Investments – Fiduciary Funds .....	14-15
Notes to Financial Statements .....	16-25
Required Supplementary Information:	
Schedule of Funding Progress .....	26
Supplementary Information:	
Schedule of Capital Assets.....	27
Schedule of Long-Term Debt.....	28
Audit Results and Comments:	
Excess Textbook Reimbursement .....	29-30
Academic Honors Figures – Incorrect Reporting to the State .....	30
Average Daily Membership (ADM) – Lack of Records .....	30-31
Optical Images of Checks.....	31
Condition of Records .....	31-32
Supplemental Audit of Federal Awards:	
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 .....	34-35
Schedule of Expenditures of Federal Awards.....	36
Note to Schedule of Expenditures of Federal Awards .....	37
Schedule of Findings and Questioned Costs.....	38-41
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings.....	42
Corrective Action Plans .....	43-44
Exit Conference.....	45
Official Response .....	46-47

### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Amber K. Fields	07-01-04 to 06-30-07
Superintendent of Schools	Dr. Michael J. Bushong	07-01-04 to 06-30-07
President of the School Board	Joyce Salyers Mark V. Davis	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 JENNINGS COUNTY SCHOOL  
CORPORATION, JENNINGS COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Jennings County 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 May 16, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

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

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

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

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

STATE BOARD OF ACCOUNTS

May 16, 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 JENNINGS COUNTY SCHOOL  
CORPORATION, JENNINGS COUNTY, INDIANA

We have audited the financial statements of the Jennings County School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated May 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

May 16, 2007

JENNINGS COUNTY SCHOOL CORPORATION  
 STATEMENT OF CASH AND INVESTMENTS  
 June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 10,665,375
Restricted assets:	
Cash and investments	<u>1,022,208</u>
Total assets	<u>\$ 11,687,583</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,022,208
Unrestricted	<u>10,665,375</u>
Total net assets	<u>\$ 11,687,583</u>

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

JENNINGS COUNTY SCHOOL CORPORATION  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 8,455,563
Restricted assets:	
Cash and investments	<u>1,192,018</u>
Total assets	<u>\$ 9,647,581</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,192,018
Unrestricted	<u>8,455,563</u>
Total net assets	<u>\$ 9,647,581</u>

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

JENNINGS COUNTY 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	\$ 15,648,486	\$ -	\$ 278,386	\$ (15,370,100)
Support services	22,091,894	1,222,138	1,152,797	(19,716,959)
Community services	440,421	-	-	(440,421)
Nonprogrammed charges	2,640,851	-	-	(2,640,851)
Debt service	5,105,009	-	-	(5,105,009)
<b>Total governmental activities</b>	<b>\$ 45,926,661</b>	<b>\$ 1,222,138</b>	<b>\$ 1,431,183</b>	<b>(43,273,340)</b>
General receipts:				
Property taxes				12,863,719
Other local sources				2,480,297
State aid				23,131,429
Grants and contributions not restricted				1,363,187
Bonds and loans				2,788,741
Sale of property, adjustments, and refunds				1,012,246
Investment earnings				180,501
Intergovernmental transfers				767,012
				<u>44,587,132</u>
				Change in cash and investments 1,313,792
				Net assets - beginning <u>10,373,791</u>
				Net assets - ending <u>\$ 11,687,583</u>

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

JENNINGS COUNTY 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	\$ 16,268,712	\$ -	\$ 189,089	\$ (16,079,623)
Support services	23,280,391	1,240,920	1,258,515	(20,780,956)
Community services	486,657	-	-	(486,657)
Nonprogrammed charges	2,944,433	-	-	(2,944,433)
Debt service	5,537,656	-	-	(5,537,656)
<b>Total governmental activities</b>	<b>\$ 48,517,849</b>	<b>\$ 1,240,920</b>	<b>\$ 1,447,604</b>	<b>(45,829,325)</b>
General receipts:				
Property taxes				13,127,084
Other local sources				2,386,092
State aid				24,481,547
Grants and contributions not restricted				1,299,646
Bonds and loans				715,925
Sale of property, adjustments, and refunds				598,187
Investment earnings				341,321
Intergovernmental transfers				839,521
				<u>43,789,323</u>
				Change in cash and investments (2,040,002)
				Net assets - beginning <u>11,687,583</u>
				Net assets - ending <u>\$ 9,647,581</u>

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

JENNINGS COUNTY SCHOOL CORPORATION  
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	\$ 7,019,303	\$ 2,607,238	\$ 2,495,725	\$ 2,872,522	\$ 239,217	\$ 1,508,828	\$ 16,742,833
Intermediate sources	1,853	-	-	-	-	1,969	3,822
State sources	23,388,976	-	-	-	-	353,666	23,742,642
Federal sources	2,971	-	-	-	-	2,180,185	2,183,156
Bonds and loans	2,063,752	724,989	-	-	-	-	2,788,741
Sale of property, adjustments and refunds	852,006	184	-	146,389	-	13,668	1,012,247
Intergovernmental transfers	100,000	-	-	-	-	667,012	767,012
<b>Total receipts</b>	<b>33,428,861</b>	<b>3,332,411</b>	<b>2,495,725</b>	<b>3,018,911</b>	<b>239,217</b>	<b>4,725,328</b>	<b>47,240,453</b>
Disbursements:							
Current:							
Instruction	14,832,007	-	-	-	-	816,479	15,648,486
Support services	13,500,079	2,726,932	-	2,929,315	154,737	2,780,831	22,091,894
Community services	320,429	-	-	-	-	119,992	440,421
Nonprogrammed charges	2,264,055	33,041	35,374	43,972	3,997	260,412	2,640,851
Debt services	2,215,535	491,929	2,202,650	-	-	194,895	5,105,009
<b>Total disbursements</b>	<b>33,132,105</b>	<b>3,251,902</b>	<b>2,238,024</b>	<b>2,973,287</b>	<b>158,734</b>	<b>4,172,609</b>	<b>45,926,661</b>
Excess of total receipts over total disbursements	296,756	80,509	257,701	45,624	80,483	552,719	1,313,792
Cash and investments - beginning	5,334,093	1,310,880	764,332	1,869,073	96,318	999,095	10,373,791
Cash and investments - ending	<u>\$ 5,630,849</u>	<u>\$ 1,391,389</u>	<u>\$ 1,022,033</u>	<u>\$ 1,914,697</u>	<u>\$ 176,801</u>	<u>\$ 1,551,814</u>	<u>\$ 11,687,583</u>

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

JENNINGS COUNTY SCHOOL CORPORATION  
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	\$ 6,907,122	\$ 2,819,708	\$ 2,530,370	\$ 2,922,398	\$ 165,025	\$ 1,750,007	\$ 17,094,630
Intermediate sources	130	-	-	-	-	656	786
State sources	24,649,901	-	-	-	-	321,792	24,971,693
Federal sources	-	-	-	-	-	2,257,105	2,257,105
Bonds and loans	-	715,925	-	-	-	-	715,925
Sale of property, adjustments and refunds	418,453	-	-	139,399	23	40,312	598,187
Intergovernmental transfers	298,200	-	-	-	55,000	486,321	839,521
<b>Total receipts</b>	<b>32,273,806</b>	<b>3,535,633</b>	<b>2,530,370</b>	<b>3,061,797</b>	<b>220,048</b>	<b>4,856,193</b>	<b>46,477,847</b>
Disbursements:							
Current:							
Instruction	15,501,621	-	-	-	-	767,091	16,268,712
Support services	13,470,356	2,777,841	-	3,700,752	396,607	2,934,835	23,280,391
Community services	323,704	-	-	-	-	162,953	486,657
Nonprogrammed charges	2,077,620	-	-	-	-	866,813	2,944,433
Debt services	2,063,753	724,989	2,360,950	-	-	387,964	5,537,656
<b>Total disbursements</b>	<b>33,437,054</b>	<b>3,502,830</b>	<b>2,360,950</b>	<b>3,700,752</b>	<b>396,607</b>	<b>5,119,656</b>	<b>48,517,849</b>
Excess (deficiency) of total receipts over (under) total disbursements	(1,163,248)	32,803	169,420	(638,955)	(176,559)	(263,463)	(2,040,002)
Cash and investments - beginning	5,630,849	1,391,389	1,022,033	1,914,697	176,801	1,551,814	11,687,583
Cash and investments - ending	<u>\$ 4,467,601</u>	<u>\$ 1,424,192</u>	<u>\$ 1,191,453</u>	<u>\$ 1,275,742</u>	<u>\$ 242</u>	<u>\$ 1,288,351</u>	<u>\$ 9,647,581</u>

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

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

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Additions:		
Local sources	\$ -	\$ 286
Bonds and loans	4,000,000	-
Transfers	<u>419,828</u>	<u>-</u>
Total additions	<u>4,419,828</u>	<u>286</u>
Deductions:		
Support services	4,316,745	-
Nonprogrammed charges	<u>-</u>	<u>500</u>
Total deductions	<u>4,316,745</u>	<u>500</u>
Excess (deficiency) of total additions over (under) total deductions	103,083	(214)
Cash and investments - beginning	<u>-</u>	<u>17,224</u>
Cash and investments - ending	<u>\$ 103,083</u>	<u>\$ 17,010</u>

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

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

	Pension Trust Funds	Private-Purpose Trust Funds
Addition:		
Local sources	\$ -	\$ 397
Deductions:		
Support services	97,375	-
Nonprogrammed charges	-	500
Total deductions	97,375	500
Deficiency of total additions under total deductions	(97,375)	(103)
Cash and investments - beginning	103,083	17,010
Cash and investments - ending	\$ 5,708	\$ 16,907

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

JENNINGS COUNTY SCHOOL CORPORATION  
 STATEMENT OF CASH AND INVESTMENTS  
 FIDUCIARY FUNDS  
 June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 103,083	\$ 17,010	\$ 4,172
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 103,083	\$ 17,010	

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

JENNINGS COUNTY SCHOOL CORPORATION  
 STATEMENT OF CASH AND INVESTMENTS  
 FIDUCIARY FUNDS  
 June 30, 2006

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 5,708	\$ 16,907	\$ 73,711
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 5,708	\$ 16,907	

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

JENNINGS COUNTY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

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

Joint Venture

The School Corporation is a participant with 7 other school corporations in a joint venture to operate Madison Area Special Services Unit (MASSU) which was created to provide educational services to handicapped students. The School Corporation is obligated by contract to pay an amount based on a formula set by the Board of Directors of the joint venture. For the school year ended June 30, 2006, the School Corporation remitted \$1,553,844 to MASSU. Complete financial statements for the MASSU can be obtained from MASSU's administrative office located at 702 Elm Street, Madison, Indiana. Jennings County School Corporation will no longer be a participant of the joint venture after June 30, 2006.

The School Corporation is a participant with 12 other school corporations in a joint venture to operate Southeastern Career Center (Career Center) which was created to provide vocational educational services. The School Corporation is obligated by contract to pay an amount based on a formula set by the Board of Directors of the joint venture. For the school year ended June 30, 2006, the School Corporation remitted \$325,716 to the Career Center. Complete financial statements for the Career Center can be obtained from the Career Center's administrative office in Versailles, Indiana.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

JENNINGS COUNTY 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, 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.

Additionally, the School Corporation reports the following fund types:

The pension trust funds account for the activities of future benefits of postretirement/severance since June 30, 2001, which accumulate resources for pension benefit payments.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the students of the school corporation.

Agency funds account for assets held by the School Corporation as an agent for various federal and state agencies, and private companies and serve as control of accounts for certain cash transactions during the time they are a liability to the School Corporation.

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.

JENNINGS COUNTY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

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

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 the rate of 10 to 11 days per year. Unused sick leave may be accumulated to a maximum of 90 days for noncertified employees and 150 days for certified employees. Upon retirement accumulated sick leave is paid to certified employees through cash payments of \$80 per day up to 34 days. For any accumulated sick day over 34, a certified employee will have a cash payment made to their annuity account in the amount equal to \$80 per day for the 35th day up to the maximum 150 days. Noncertified employees are paid in a cash payment of \$30 per day up to the maximum of 90 days.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

JENNINGS COUNTY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

c. Personal Leave

School Corporation certified employees earn personal leave at the rate of 3 days per year and noncertified employees earn personal leave at the rate of 2 days per year. Unused personal leave at the end of each school may be transferred to accumulated sick leave.

4. Capital Assets

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

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

Program Receipts

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

JENNINGS COUNTY 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. The effects of interfund services between funds, if any, are not eliminated in the Statement of Cash and Investments and the Statement of Cash Activities.

II. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

JENNINGS COUNTY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

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

2. Investments

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

Investment Policies

Indiana Code 5-13-9 authorizes the School Corporation to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the School Corporation and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the School Corporation may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

JENNINGS COUNTY SCHOOL CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

B. Interfund Transfers

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

Transfer From	Transfer To	2005
General Fund	Other governmental	\$ 250,000
General Fund	All others	<u>419,828</u>
 Total		 <u><u>\$ 669,828</u></u>

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

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Holding Corporation

The School Corporation has entered into a capital lease with Jennings County 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 year ended June 30, 2006, totaled \$1,860,302.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 55 with at least 10 years of service. As of June 30, 2006, 20 retirees meet these eligibility requirements. The School Corporation provides up to a maximum of \$4,800 per year per person for these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$98,248 were recognized for postemployment benefits.

JENNINGS COUNTY SCHOOL CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

D. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 179,774
Interest on net pension obligation	(20,396)
Adjustment to annual required contribution	23,242
Annual pension cost	182,620
Contributions made	226,544
Decrease in net pension obligation	(43,924)
Net pension obligation, beginning of year	(281,319)
Net pension obligation, end of year	\$ (325,243)

JENNINGS COUNTY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	PERF
Contribution rates:	
School Corporation	6%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

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	\$ 238,462	83%	\$ (247,874)
	06-30-04	179,466	119%	(281,319)
	06-30-05	182,620	126%	(325,243)

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.

JENNINGS COUNTY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

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

Funding Policy and Annual Pension Costs

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

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 7% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$532,033, \$471,148, and \$431,927, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

JENNINGS COUNTY 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 (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	\$ 3,712,984	\$ 3,706,349	\$ 6,635	100%	\$ 3,668,200	0%
07-01-04	3,786,287	3,821,373	(35,086)	99%	3,570,561	(1%)
07-01-05	3,966,043	4,142,193	(176,150)	96%	3,765,008	(5%)

JENNINGS COUNTY 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	\$ 712,000
Buildings	52,021,477
Improvements other than buildings	2,779,321
Machinery and equipment	8,707,501
Construction in progress	<u>2,012,653</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 66,232,952</u>

JENNINGS COUNTY 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:		
JCMS Holding Corp	\$ 4,540,000	\$ 555,000
JC School Bldg Corp (Sand Creek)	8,535,000	520,000
Scipio/Brush/JCMS	7,660,000	65,000
Loans payable:		
Common School Loans	402,035	232,035
Bonds payable:		
General obligation bonds:		
Pension Bonds	<u>3,715,000</u>	<u>205,000</u>
Total governmental activities long-term debt	<u>\$ 24,852,035</u>	<u>\$ 1,577,035</u>

JENNINGS COUNTY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS

EXCESS TEXTBOOK REIMBURSEMENT

We noted the following deficiencies on the original textbook reimbursement claims submitted to the Indiana Department of Education:

1. The School Corporation included amounts charged students for grades K through 8 for classroom fees and classroom supplies in their request for textbook reimbursement.

School Textbook Reimbursement Contingency Fund - Instructions state in part the following:

"The state does not reimburse for supplies or class fees."

2. The School Corporation erroneously used the rental amount charged to students in grades 9 through 12 in the "Total Cost of Textbooks" column on the textbook reimbursement claim rather than the actual cost of textbooks for school year 2004-2005.

School Textbook Reimbursement Contingency Fund - Instructions state in part the following:

"The cost of each textbook must be the price as listed on the official textbook adoption list(s) . . . Do not use textbook rental costs . . ."

3. The School Corporation erroneously included in their count of eligible students, students enrolled at the Early Learning Center that were not provided textbooks or workbooks.
4. The School Corporation did not present for audit a detail of students in grades 9 through 12 for school year 2005-2006 who were eligible for free textbooks.

School Textbook Reimbursement Contingency Fund - Instructions state in part the following:

"Each school must maintain complete and accurate information concerning the number of students determined to be eligible for assistance for the State Board of Accounts audit."

5. The School Corporation did not include the pro rata cost of consumable kit materials for eligible students.

School Textbook Reimbursement Contingency Fund - Instructions state in part the following:

"Consumable kit materials that are part of an adopted (or waived) textbook are reimbursable . . ."

6. The School Corporation did not include the pro rata cost of computer software for eligible students.

School Textbook Reimbursement Contingency Fund – Instructions (Commonly Asked Questions and Answers) state in part the following:

"If the computer software is on the official adoption list or if it is part of an adopted (or waived) textbook . . ."

We brought the above information to the attention of Amber K. Fields, Treasurer. Mrs. Fields prepared a revised textbook reimbursement claim. The following is a comparison of the revised reimbursement claims with original reimbursement claims submitted to the Indiana Department of Education:

JENNINGS COUNTY SCHOOL CORPORATION  
 AUDIT RESULTS AND COMMENTS  
 (Continued)

	School Year			Total
	2004-2005	2005-2006	2006-2007	
Original reimbursement claim	\$ 130,322.77	\$ 162,910.22	\$ 164,901.00	\$ 458,133.99
Revised reimbursement claim	<u>121,040.58</u>	<u>143,309.89</u>	<u>150,528.78</u>	<u>414,879.25</u>
Excess claimed	9,282.19	19,600.33	14,372.22	43,254.74
Percentage reimbursed by State	<u>70%</u>	<u>63%</u>	<u>59%</u>	<u>N/A</u>
Excess reimbursement	<u>\$ 6,497.53</u>	<u>\$ 12,348.21</u>	<u>\$ 8,479.61</u>	<u>\$ 27,325.35</u>

N/A = Not applicable

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

ACADEMIC HONORS FIGURES - INCORRECT REPORTING TO THE STATE

The information presented for audit indicates figures for academic honors reported to the State through the STN Application Center did not agree with the Jennings County High School Department of Guidance roster for students earning academic honors. The number of students earning Honor Diplomas was incorrect for the school year ending June 30, 2006, for the Class of 2005.

The honors diploma count as reported through the STN Application Center was 58. However, the actual verified count per School Corporation records was 57.

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)

AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS

Certified records from the individual schools were not presented for audit to support the ADM claimed by the School Corporation for the count on September 16, 2005. Instead a school-wide count record was presented that was certified by the Superintendent and the Corporation Treasurer.

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

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

JENNINGS COUNTY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (The School Administrator and Uniform Compliance Guidelines, Volume 163, September 2003, and Volume 142, June 1998)

OPTICAL IMAGES OF CHECKS

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned an optical image of only the front side of the checks.

Indiana Code 5-15-6-3(a) concerning optical imaging of checks states in part:

". . . 'original records' includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . ."

Furthermore, Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

CONDITION OF RECORDS (Applies to Scipio Elementary)

The following deficiency relating to recordkeeping was noted.

Record balances were not reconciled to depository balances. The "Bank Reconciliation Statement" has not agreed with the "Statement of Funds" since November 2004.

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

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

JENNINGS COUNTY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

The School's financial ledger software program has a transfer feature to report transfers between funds. The audit trail produced by the software program to document the transfer between funds is not adequate in that the financial ledger shows the receipt of the transfer into the funds as a negative disbursement. Furthermore, the financial ledger report totals generated from the software system summarizing financial activity includes both the amounts transferred out of the fund and the amount transferred into the funds net of total fund revenue. Also, the software program was ineffective in that it did not require information to be entered into the system allowing for cross referencing of the financial transaction to supporting documentation authorizing the transfer.

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)

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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## 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 JENNINGS COUNTY SCHOOL  
CORPORATION, JENNINGS COUNTY, INDIANA

### Compliance

We have audited the compliance of the Jennings County 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. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-1 and 2006-2.

### 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)

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the School Corporation's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-1 and 2006-2.

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 the 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. Our consideration of the internal control over compliance 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 considered to be material weaknesses. However, we considered the reportable conditions described above 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

May 16, 2007

JENNINGS COUNTY 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	SY 04-05	\$ 273,492	\$ -
		SY 05-06	-	306,201
National School Lunch Program	10.555	SY 04-05	795,993	-
		SY 05-06	-	889,232
Total for federal grantor agency			<u>1,069,485</u>	<u>1,195,433</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Title 1 Grants to Local Educational Agencies	84.010			
		04-4015	9,261	-
		05-4015	664,191	-
		06-4015	-	678,967
School Improvement		05-4015	<u>13,332</u>	<u>7,594</u>
Total for program			<u>686,784</u>	<u>686,561</u>
Safe and Drug Free Schools and Communities - State Grants	84.186			
		02-2316	239	-
		02-287	13,135	-
		03-2316	500	-
		03-265	13,236	13,189
		04-188	-	9,664
		05-143	-	82
Total for program			<u>27,110</u>	<u>22,935</u>
State Grants for Innovative Programs	84.298			
		03-173	30,629	3,941
		04-219	-	21,115
Total for program			<u>30,629</u>	<u>25,056</u>
Education Technology State Grants	84.318			
		SY 02-03	17,831	-
		SY 03-04	362	14,103
		SY 04-05	-	2,174
Total for program			<u>18,193</u>	<u>16,277</u>
Comprehensive School Reform Demonstration	84.332			
		SY 03-04	21,105	-
		SY 04-05	143,476	38,058
		SY 05-06	-	101,811
Total for program			<u>164,581</u>	<u>139,869</u>
Improving Teacher Quality State Grants	84.367			
		02-230	56,607	-
		03-172	184,129	35,345
		04-223	-	184,238
Total for program			<u>240,736</u>	<u>219,583</u>
Total for federal grantor agency			<u>1,168,033</u>	<u>1,110,281</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Pass-Through Purdue University				
Block Grants for Prevention and Treatment of Substance Abuse	93.959			
		SY 04-06	<u>15,824</u>	<u>17,739</u>
<u>CORPORATION OF NATIONAL AND COMMUNITY SERVICE</u>				
Pass-Through Indiana Department of Education				
Learn and Serve America - School and Community Based Programs	94.004			
		FY 04	<u>545</u>	<u>177</u>
Total federal awards expended			<u>\$ 2,253,887</u>	<u>\$ 2,323,630</u>

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

JENNINGS COUNTY SCHOOL CORPORATION  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Jennings County 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.

JENNINGS COUNTY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	yes
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? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.553/10.555	Child Nutrition Cluster
84.332	Comprehensive School Reform Demonstration
84.367	Improving Teacher Quality State Grants

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

JENNINGS COUNTY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-1, CASH MANAGEMENT

Federal Agency: U.S. Department of Education  
Federal Program: Improving Teacher Quality State Grants  
CFDA Number: 84.367  
Pass-Through Entity: Indiana Department of Education  
Federal Award Number: Project Numbers 03-172; 04-223; and 05-223

Procedures followed by Jennings County School Corporation in making cash drawdown requests have resulted in month-end balances of grant funds in excess of the following month's requirements. Twenty-one of the twenty-three instances noted were material to the federal program. Consequently, material amounts of grant funds were held in excess of one month prior to disbursement. Excess cash balances were on hand at month end for the period from July 2004 to June 2006 as follows:

<u>Period</u>	<u>End of the Month Cash Balance</u>	<u>Cash Needs Based Upon Subsequent Month's Actual Expenditures</u>	<u>Excess Cash On Hand In Comparison To Cash Flow Needs</u>
August 2004	\$ 41,818	\$ 19,843	\$ 21,975
September 2004	43,922	17,810	26,112
October 2004	48,059	18,023	30,036
November 2004	51,984	17,810	34,174
December 2004	56,121	18,642	37,479
January 2005	59,426	17,847	41,579
February 2005	63,527	17,960	45,567
March 2005	67,514	17,847	49,667
April 2005	71,619	17,847	53,772
May 2005	53,772	18,427	35,345
June 2005	35,345	16,777	18,568
July 2005	63,718	30,279	33,439
August 2005	78,589	22,660	55,929
September 2005	101,079	19,113	81,966
October 2005	127,117	15,929	111,188
November 2005	156,347	17,528	138,819
December 2005	138,819	15,642	123,178
January 2006	123,178	16,876	106,302
February 2006	106,302	15,957	90,345
March 2006	90,346	17,087	73,259
April 2006	73,259	14,891	58,368
May 2006	58,368	16,847	41,521
June 2006	78,961	18,199	60,762

34CFR 80.20(b) (7) states in part: "Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursements by grantees and subgrantees must be followed whenever advance payment procedures are used . . . Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

JENNINGS COUNTY SCHOOL CORPORATION  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 (Continued)

Failure to adhere to this requirement could cause the School Corporation to be deemed ineligible to receive federal awards in the future.

We recommended that the School Corporation implement procedures that will reduce the time elapsed between the transfer of funds and the disbursement of the funds.

FINDING 2006-2, CASH MANAGEMENT

Federal Agency: U.S. Department of Education  
 Federal Program: Comprehensive School Reform Demonstration  
 CFDA Number: 84.332  
 Pass-Through Entity: Indiana Department of Education  
 Federal Award Number: Project Numbers SY 03-04; SY 04-05; and SY 05-06

Procedures followed by Jennings County School Corporation in making cash drawdown requests have resulted in month-end balances of grant funds in excess of the following month's requirements. The average monthly grant expenditures during the 24 month period were \$12,685. There were 14 instances noted over the 24 month period in which the end of the month cash balance materially exceeded the subsequent month's expenditures. Consequently, material amounts of grant funds were held in excess of 1 month prior to disbursement. Excess cash balances were on hand at month end for the period from July 2004 to June 2006 as follows:

<u>Period</u>	<u>End of the Month Cash Balance</u>	<u>Cash Needs Based Upon Subsequent Month's Actual Expenditures</u>	<u>Excess Cash On Hand In Comparison To Cash Flow Needs</u>
September 2004	\$ 58,508	\$ 9,486	\$ 49,022
October 2004	49,021	14,068	34,953
November 2004	68,954	20,130	48,824
December 2004	48,823	2,160	46,663
January 2005	77,563	16,873	60,690
February 2005	60,690	22,693	37,997
March 2005	37,997	4,481	33,516
May 2005	54,637	16,579	38,058
June 2005	38,058	737	37,321
October 2005	55,800	24,044	31,756
November 2005	31,755	2,382	29,373
December 2005	59,646	1,043	58,603
January 2006	86,589	33,162	53,427
February 2006	53,427	10,891	42,536

34CFR 80.20(b) (7) states in part: "Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursements by grantees and subgrantees must be followed whenever advance payment procedures are used . . . Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

JENNINGS COUNTY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Failure to adhere to this requirement could cause the School Corporation to be deemed ineligible to receive federal awards in the future.

We recommended that the School Corporation implement procedures that will reduce the time elapsed between the transfer of funds and the disbursement of the funds.

JENNINGS COUNTY SCHOOL CORPORATION  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

34 Main Street, North Vernon, Indiana 47265

**Dr. Michael Bushong, Superintendent**

**Phone: (812) 346-4483**

**Fax: (812) 352-8194**

**Corrective Action Planned**

Finding Number 2006-01 Cash Management

Federal Agency:	U.S. Department of Education
Federal Program:	Improving Teacher Quality State Grants
CFDA Number:	84.367
Federal Award Number:	Project Numbers 03-172, 04-223, and 05-223
Audit Contact Person:	Amber Fields
Title of Contact Person:	Business Manager/Treasurer
Phone Number:	(812) 346-4483
Expected Completion Date:	Cannot be determined at this time

Corrective Action Planned:

To the extent possible, we will request draw downs for those amounts that will meet the current needs of federally funded projects.

Amber K. Fields  
Signature

4-3-07  
Date

34 Main Street, North Vernon, Indiana 47265

**Dr. Michael Bushong, Superintendent**  
**Phone: (812) 346-4483**  
**Fax: (812) 352-8194**

**Corrective Action Planned**

Finding Number 2006-02 Cash Management

Federal Agency:	U.S. Department of Education
Federal Program:	Comprehensive School Reform Demonstration
CFDA Number:	84.332
Audit Contact Person:	Amber Fields
Title of Contact Person:	Business Manager/Treasurer
Phone Number:	(812) 346-4483
Federal Award Number:	Project Numbers SY 03-04; SY 04-05; and SY 05-06
Expected Completion Date:	Cannot be determined at this time

Corrective Action Planned:

To the extent possible, we will request draw downs for those amounts that will meet the current needs of federally funded projects.

Amber K. Fields  
Signature

4-30-07  
Date

JENNINGS COUNTY SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on May 16, 2007, with Mark V. Davis, President of the School Board; Dr. Michael J. Bushong, Superintendent of Schools; Amber K. Fields, Treasurer; and Jo Anna Vance, Deputy Treasurer. The official response has been made a part of this report and may be found on pages 46 and 47.

34 Main Street, North Vernon, Indiana 47265

**Dr. Michael Bushong, Superintendent**

**Phone: (812) 346-4483**

**Fax: (812) 352-8194**

May 24, 2007

Mr. Chuck Nemeth  
Indiana State Board of Accounts  
302 W. Washington Street  
4<sup>th</sup> Floor, Room E418  
Indianapolis, Indiana 46204-2765

Dear Mr. Nemeth,

This letter is an official response to the issues raised at our exit conference on May 16, 2007. Prior to discussing specific issues, we would like to say that Jennings County Schools (JCS) appreciates the time and effort of your auditing staff, who at all times conducted themselves in a professional manner.

The following paragraphs respond to each item of the Audit Results and Comments for the period July 1, 2004 through June 30, 2006:

**Excess School Textbook Reimbursement**

Jennings County Schools is aware that discrepancies in claims submitted to the Indiana Department of Education should be reported so that any directed corrective action can take place. As discussed with the field examiner, the Textbook Reimbursement Claim forms for the school years 2004-05, 2005-06, and 2006-07 were adjusted and it was determined that Jennings County Schools had received an overpayment from the Indiana Department of Education. After the final Audit report is received from the State Board of Accounts, Jennings County Schools will forward to the Indiana Department of Education, the exact amount of overpayment and make arrangements for payment back to the State. In the future, the Curriculum Department and the Business Office of JCS will closely review Textbook Reimbursement procedures to assure that Indiana State Department of Education criteria are observed when submitting claims.

**Academic Honors Figures – Incorrect Reporting to the State**

Jennings County Schools reported to the Department of Education for the 2005-06 School year, 58 students graduating with the Academic Honors Diploma. The Guidance Office of Jennings County High School showed a total of 57 students actually graduating with the Academic Honors Diploma in the 2005-06 School Year. This discrepancy was submitted to the Indiana Department of Education and the overpayment of \$900.00 was reimbursed to the State in April of 2007.

**Average Daily Membership (ADM) – Lack of Records**

Jennings County Schools converted to a computer-based reporting method in 2005 for its ADM count provided to the State of Indiana Department of Education. This conversion did not maintain the required

# JCS JENNINGS COUNTY SCHOOLS

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34 Main Street, North Vernon, Indiana 47265

Dr. Michael Bushong, Superintendent

Phone: (812) 346-4483

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records established by IC 5-15-6-3(f), regarding the disposal of public records. In the future, Jennings County Schools will maintain a minimum record of names and locations to be retained for public inspection for the period specified by Indiana Code.

### Optical Images of Checks

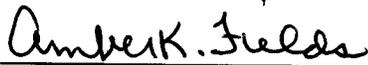
Jennings County Schools bank records for the specified audit period included the front-side only of optical images of checks. Corrective action has been taken to ensure that the front and back side of checks will be maintained and be available for inspection for future audits.

### Condition of Records (Scipio Elementary)

Jennings County Schools converted its ECA accounting software during the last audit period of July 1, 2004 through June 30, 2006. After the conversion, transfer actions were allowed that did not leave an adequate audit trail. In the future, Jennings County Schools officials and employees will ensure that adequate audit trails are available for all transfer transactions, and only prescribed or approved forms will be used.

We appreciate the opportunity to make this response a part of the audit report.

Sincerely,



Amber K. Fields  
Treasurer



JoAnna Vance  
Deputy Treasurer



Dr. Michael J. Bushong  
Superintendent