

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

AUDIT REPORT

OF

CANNELTON CITY SCHOOLS

PERRY COUNTY, INDIANA

July 1, 2005 to June 30, 2007



FILED

03/31/2008

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Judith G. Schneider Melissa B. Embry	07-01-05 to 06-30-07 07-01-07 to 06-30-08
Superintendent of Schools	Marion A. Chapman	07-01-05 to 06-30-08
President of the School Board	Jack Harris Christal Moskos	07-01-05 to 06-30-07 07-01-07 to 06-30-08



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

TO: THE OFFICIALS OF THE CANNELTON CITY SCHOOLS, PERRY COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cannelton City Schools (School Corporation), as of and for the years ended June 30, 2006 and 2007, 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, 2006 and 2007, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

The accompanying financial statements have been prepared assuming the School Corporation will continue as a going concern. As discussed in Note IV.B. to the financial statements, the School Corporation has entered into increasing debt obligations that raise substantial doubt about the school corporation's ability to continue as a going concern. Management's plans in regards to these matters are also described in Note IV.B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with Government Auditing Standards, we have also issued a report dated March 5, 2008, 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 Combining Schedules, as listed in the Table of Contents, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. 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 it.

STATE BOARD OF ACCOUNTS

March 5, 2008



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CANNELTON CITY SCHOOLS, PERRY COUNTY, INDIANA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cannelton City Schools (School Corporation), as of and for the years ended June 30, 2006 and 2007, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated March 5, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

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 grant agreements, 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 or other matters 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 2007-1.

The School Corporation's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, board of trustees, 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

March 5, 2008

CANNELTON CITY SCHOOLS
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u> <u>Operating Grants and Contributions</u>	<u>Net (Disbursement) Receipts and Changes in Net Assets</u> <u>Totals</u>
Governmental activities:			
Instruction	\$ 1,408,468	\$ 21,574	\$ (1,386,894)
Support services	1,631,442	96,110	(1,535,332)
Community services	22,898	-	(22,898)
Nonprogrammed charges	335,265	-	(335,265)
Debt service	<u>38,922</u>	<u>-</u>	<u>(38,922)</u>
Total governmental activities	<u>\$ 3,436,995</u>	<u>\$ 117,684</u>	<u>(3,319,311)</u>
General receipts:			
Property taxes			565,757
Other local sources			146,740
State aid			1,644,983
Bonds and loans			256,193
Grants and contributions not restricted to specific programs			746,730
Sale of property, adjustments, and refunds			9,513
Investment earnings			<u>3,605</u>
Total general receipts			<u>3,373,521</u>
Change in net assets			54,210
Net assets - beginning			<u>181,703</u>
Net assets - ending			<u>\$ 235,913</u>
<u>Assets</u>			
Cash and investments			\$ 230,167
Restricted assets:			
Cash and investments			<u>5,746</u>
Total assets			<u>\$ 235,913</u>
<u>Net Assets</u>			
Restricted for:			
Debt service			\$ 5,746
Unrestricted			<u>230,167</u>
Total net assets			<u>\$ 235,913</u>

The notes to the financial statements are an integral part of this statement.

CANNELTON CITY SCHOOLS
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts Operating Grants and Contributions</u>	<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
			<u>Totals</u>
Governmental activities:			
Instruction	\$ 1,247,309	\$ 15,375	\$ (1,231,934)
Support services	1,642,602	91,752	(1,550,850)
Community services	27,002	-	(27,002)
Nonprogrammed charges	36,146	-	(36,146)
Debt service	<u>258,630</u>	<u>-</u>	<u>(258,630)</u>
Total governmental activities	<u>\$ 3,211,689</u>	<u>\$ 107,127</u>	<u>(3,104,562)</u>
General receipts:			
Property taxes			362,779
Other local sources			97,156
State aid			1,518,162
Bonds and loans			800,000
Grants and contributions not restricted to specific programs			328,909
Investment earnings			<u>10,897</u>
Total general receipts			<u>3,117,903</u>
Change in net assets			13,341
Net assets - beginning			<u>235,913</u>
Net assets - ending			<u>\$ 249,254</u>
<u>Assets</u>			
Cash and investments			\$ 245,532
Restricted assets:			
Cash and investments			<u>3,722</u>
Total assets			<u>\$ 249,254</u>
<u>Net Assets</u>			
Restricted for:			
Debt service			\$ 3,722
Unrestricted			<u>245,532</u>
Total net assets			<u>\$ 249,254</u>

The notes to the financial statements are an integral part of this statement.

CANNELTON CITY SCHOOLS
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

	General	Transportation Operating	School Lunch	Early Care Grant	Title I	GAP/REAP Grant	Math and Science Partnership Grant	Improving Teacher Quality Grant
Receipts:								
Local sources	\$ 519,004	\$ 1,312	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intermediate sources	1,072	-	-	-	-	-	-	-
State sources	1,655,057	-	567	50,805	-	-	-	-
Federal sources	-	-	93,852	317,413	64,709	-	80,000	38,044
Bonds and loans	256,193	-	-	-	-	-	-	-
Sale of property, adjustments and refunds	75	-	-	-	-	-	-	-
Total receipts	2,431,401	1,312	94,419	368,218	64,709	-	80,000	38,044
Disbursements:								
Current:								
Instruction	1,187,953	-	-	27,385	57,022	420	-	2,965
Support services	1,258,847	-	55,340	59,821	10,430	14,529	-	4,290
Community services	21,888	-	-	-	-	-	-	-
Nonprogrammed charges	46,600	-	-	253,664	-	-	-	-
Debt services	30,008	-	-	-	-	-	-	-
Total disbursements	2,545,296	-	55,340	340,870	67,452	14,949	-	7,255
Excess (deficiency) of receipts over disbursements	(113,895)	1,312	39,079	27,348	(2,743)	(14,949)	80,000	30,789
Other financing sources (uses):								
Transfers in	43,581	-	-	-	-	-	-	-
Transfers out	-	-	-	(43,581)	-	-	-	(17,642)
Total other financing sources (uses)	43,581	-	-	(43,581)	-	-	-	(17,642)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(70,314)	1,312	39,079	(16,233)	(2,743)	(14,949)	80,000	13,147
Cash and investments - beginning	121,343	(3,161)	60,250	16,233	36,887	13,001	-	20,711
Cash and investments - ending	\$ 51,029	\$ (1,849)	\$ 99,329	\$ -	\$ 34,144	\$ (1,948)	\$ 80,000	\$ 33,858
Cash and Investment Assets - Ending								
Cash and investments	\$ 51,029	\$ (1,849)	\$ 99,329	\$ -	\$ 34,144	\$ (1,948)	\$ 80,000	\$ 33,858
Restricted assets:								
Cash and investments	-	-	-	-	-	-	-	-
Total cash and investment assets - ending	\$ 51,029	\$ (1,849)	\$ 99,329	\$ -	\$ 34,144	\$ (1,948)	\$ 80,000	\$ 33,858
Cash and Investment Fund Balance - Ending								
Restricted for:								
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	51,029	(1,849)	99,329	-	34,144	(1,948)	80,000	33,858
Total cash and investment fund balance - ending	\$ 51,029	\$ (1,849)	\$ 99,329	\$ -	\$ 34,144	\$ (1,948)	\$ 80,000	\$ 33,858

The notes to the financial statements are an integral part of this statement.

CANNELTON CITY SCHOOLS
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006
(Continued)

	Tech Literacy Grant	Tech Literacy II	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ -	\$ -	\$ 6,750	\$ 128,234	\$ 6,121	\$ 54,520	\$ 715,941
Intermediate sources	-	-	-	-	-	-	1,072
State sources	-	-	-	-	-	106,626	1,813,055
Federal sources	46,525	-	-	-	-	54,107	694,650
Bonds and loans	-	-	-	-	-	-	256,193
Sale of property, adjustments and refunds	-	-	-	-	-	10,219	10,294
Total receipts	46,525	-	6,750	128,234	6,121	225,472	3,491,205
Disbursements:							
Current:							
Instruction	14,233	-	-	12,818	-	105,672	1,408,468
Support services	7,427	-	3,375	114,600	9,300	93,483	1,631,442
Community services	-	-	-	-	-	1,010	22,898
Nonprogrammed charges	-	-	-	-	-	35,001	335,265
Debt services	-	-	8,914	-	-	-	38,922
Total disbursements	21,660	-	12,289	127,418	9,300	235,166	3,436,995
Excess (deficiency) of receipts over disbursements	24,865	-	(5,539)	816	(3,179)	(9,694)	54,210
Other financing sources (uses):							
Transfers in	-	-	-	-	-	29,227	72,808
Transfers out	-	-	-	(11,585)	-	-	(72,808)
Total other financing sources (uses)	-	-	-	(11,585)	-	29,227	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	24,865	-	(5,539)	(10,769)	(3,179)	19,533	54,210
Cash and investments - beginning	-	-	11,285	(64,439)	-	(30,407)	181,703
Cash and investments - ending	\$ 24,865	\$ -	\$ 5,746	\$ (75,208)	\$ (3,179)	\$ (10,874)	\$ 235,913
Cash and Investment Assets - Ending							
Cash and investments	\$ 24,865	\$ -	\$ -	\$ (75,208)	\$ (3,179)	\$ (10,874)	\$ 230,167
Restricted assets:							
Cash and investments	-	-	5,746	-	-	-	5,746
Total cash and investment assets - ending	\$ 24,865	\$ -	\$ 5,746	\$ (75,208)	\$ (3,179)	\$ (10,874)	\$ 235,913
Cash and Investment Fund Balance - Ending							
Restricted for:							
Debt service	\$ -	\$ -	\$ 5,746	\$ -	\$ -	\$ -	\$ 5,746
Unrestricted	24,865	-	-	(75,208)	(3,179)	(10,874)	230,167
Total cash and investment fund balance - ending	\$ 24,865	\$ -	\$ 5,746	\$ (75,208)	\$ (3,179)	\$ (10,874)	\$ 235,913

The notes to the financial statements are an integral part of this statement.

CANNELTON CITY SCHOOLS
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007

	General	Transportation Operating	School Lunch	Early Care Grant	Title I	GAP/REAP Grant	Math and Science Partnership Grant	Improving Teacher Quality Grant
Receipts:								
Local sources	\$ 358,287	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intermediate sources	2,710	-	-	-	-	-	-	-
State sources	1,522,995	-	616	-	-	-	-	-
Federal sources	-	-	89,732	-	60,409	45,413	155,879	-
Bonds and loans	800,000	-	-	-	-	-	-	-
Total receipts	2,683,992	-	90,348	-	60,409	45,413	155,879	-
Disbursements:								
Current:								
Instruction	1,107,075	-	-	-	57,405	-	14,731	732
Support services	1,226,246	5,291	112,923	-	20,382	-	130,487	307
Community services	27,002	-	-	-	-	-	-	-
Nonprogrammed charges	36,146	-	-	-	-	-	-	-
Debt services	258,630	-	-	-	-	-	-	-
Total disbursements	2,655,099	5,291	112,923	-	77,787	-	145,218	1,039
Excess (deficiency) of receipts over disbursements	28,893	(5,291)	(22,575)	-	(17,378)	45,413	10,661	(1,039)
Other financing sources (uses):								
Transfers in	12,819	-	-	-	-	-	-	-
Transfers out	(24,922)	-	-	-	-	-	-	-
Total other financing sources (uses)	(12,103)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	16,790	(5,291)	(22,575)	-	(17,378)	45,413	10,661	(1,039)
Cash and investments - beginning	51,029	(1,849)	99,329	-	34,144	(1,948)	80,000	33,858
Cash and investments - ending	\$ 67,819	\$ (7,140)	\$ 76,754	\$ -	\$ 16,766	\$ 43,465	\$ 90,661	\$ 32,819
Cash and Investment Assets - Ending								
Cash and investments	\$ 67,819	\$ (7,140)	\$ 76,754	\$ -	\$ 16,766	\$ 43,465	\$ 90,661	\$ 32,819
Restricted assets:								
Cash and investments	-	-	-	-	-	-	-	-
Total cash and investment assets - ending	\$ 67,819	\$ (7,140)	\$ 76,754	\$ -	\$ 16,766	\$ 43,465	\$ 90,661	\$ 32,819
Cash and Investment Fund Balance - Ending								
Restricted for:								
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	67,819	(7,140)	76,754	-	16,766	43,465	90,661	32,819
Total cash and investment fund balance - ending	\$ 67,819	\$ (7,140)	\$ 76,754	\$ -	\$ 16,766	\$ 43,465	\$ 90,661	\$ 32,819

The notes to the financial statements are an integral part of this statement.

CANNELTON CITY SCHOOLS
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007
(Continued)

	Tech Literacy Grant	Tech Literacy II	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ -	\$ -	\$ 1,520	\$ 81,108	\$ 7,420	\$ 19,787	\$ 468,122
Intermediate sources	-	-	-	-	-	-	2,710
State sources	-	-	-	-	-	47,764	1,571,375
Federal sources	21,390	10,000	-	-	-	-	382,823
Bonds and loans	-	-	-	-	-	-	800,000
Total receipts	21,390	10,000	1,520	81,108	7,420	67,551	3,225,030
Disbursements:							
Current:							
Instruction	3,594	-	-	626	-	63,146	1,247,309
Support services	9,593	-	3,544	123,061	340	10,428	1,642,602
Community services	-	-	-	-	-	-	27,002
Nonprogrammed charges	-	-	-	-	-	-	36,146
Debt services	-	-	-	-	-	-	258,630
Total disbursements	13,187	-	3,544	123,687	340	73,574	3,211,689
Excess (deficiency) of receipts over disbursements	8,203	10,000	(2,024)	(42,579)	7,080	(6,023)	13,341
Other financing sources (uses):							
Transfers in	12,059	20,000	-	-	-	26,044	70,922
Transfers out	(20,000)	-	-	-	-	(26,000)	(70,922)
Total other financing sources (uses)	(7,941)	20,000	-	-	-	44	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	262	30,000	(2,024)	(42,579)	7,080	(5,979)	13,341
Cash and investments - beginning	24,865	-	5,746	(75,208)	(3,179)	(10,874)	235,913
Cash and investments - ending	\$ 25,127	\$ 30,000	\$ 3,722	\$ (117,787)	\$ 3,901	\$ (16,853)	\$ 249,254
Cash and Investment Assets - Ending							
Cash and investments	\$ 25,127	\$ 30,000	\$ -	\$ (117,787)	\$ 3,901	\$ (16,853)	\$ 245,532
Restricted assets:							
Cash and investments	-	-	3,722	-	-	-	3,722
Total cash and investment assets - ending	\$ 25,127	\$ 30,000	\$ 3,722	\$ (117,787)	\$ 3,901	\$ (16,853)	\$ 249,254
Cash and Investment Fund Balance - Ending							
Restricted for:							
Debt service	\$ -	\$ -	\$ 3,722	\$ -	\$ -	\$ -	\$ 3,722
Unrestricted	25,127	30,000	-	(117,787)	3,901	(16,853)	245,532
Total cash and investment fund balance - ending	\$ 25,127	\$ 30,000	\$ 3,722	\$ (117,787)	\$ 3,901	\$ (16,853)	\$ 249,254

The notes to the financial statements are an integral part of this statement.

CANNELTON CITY SCHOOLS
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For the Year Ended June 30, 2006

	Private-Purpose Trust Funds	Agency Funds
Additions:		
Contributions:		
Other	\$ 33,728	
	12,438	
Deductions:		
Administrative and general	12,438	
Excess of total additions over total deductions	21,290	
Cash and investment fund balance - beginning	12,401	
Cash and investment fund balance - ending	\$ 33,691	
Net assets:		
Cash and investments	\$ 33,691	\$ (57,271)
Total net assets - cash and investment basis held in trust	\$ 33,691	\$ (57,271)

The notes to the financial statements are an integral part of this statement.

CANNELTON CITY SCHOOLS
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For the Year Ended June 30, 2007

	Private-Purpose Trust Funds	Agency Funds
Additions:		
Contributions:		
Other	\$ 10,930	
Deductions:		
Administrative and general	31,332	
Excess (deficiency) of total additions over total deductions	(20,402)	
Cash and investment fund balance - beginning	33,691	
Cash and investment fund balance - ending	<u>\$ 13,289</u>	
Net assets:		
Cash and investments	\$ 13,289	\$ 30,913
Total net assets - cash and investment basis held in trust	<u>\$ 13,289</u>	<u>\$ 30,913</u>

The notes to the financial statements are an integral part of this statement.

CANNELTON CITY SCHOOLS
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: Cannelton City Schools

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 Dubois, Spencer and Perry County schools in a joint venture to operate the Dubois-Spencer-Perry Exceptional Children's Cooperative, which was created to provide joint employment and purchase of supplies and equipment for an exceptional children's program. The School Corporation is obligated by contract to remit a proportionate share monthly to supplement the Dubois-Spencer-Perry Exceptional Children's Cooperative. Complete financial statements for the Dubois-Spencer-Perry Exceptional Children's Cooperative can be obtained from Greater Jasper Consolidated Schools, Attn: Sara Harpenau (Telephone (812)-482-6661), 1520 St. Charles Street, Suite 1, Jasper, Indiana, 47546.

The School Corporation is a participant with other Southwest Indiana schools in a joint venture to operate the Patoka Valley Career and Technical Cooperative which was created to provide programs and services for vocational education. The School Corporation is obligated by contract to remit a proportionate share quarterly to supplement the Cooperative. Complete financial statements for the cooperative can be obtained from Patoka Valley Career and Technical Cooperative, Attn: Glenn Weil (Telephone (812)-482-7662), 1520 Saint Charles Street, Jasper, Indiana, 47546.

The School Corporation is a participant in the Southern Indiana Education Center which was created to allow participating school corporations to share certain programs and services. The School Corporation is obligated by contract to remit a proportionate share semi-annually to supplement the Education Center. Complete financial statements for the Education Center can be obtained from Southern Indiana Education Center, Attn: J. Scott Turney (Telephone (812)-482-6641), 1102 Tree Lane Drive, Jasper, Indiana, 47546.

CANNELTON CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statements of Activities and Net Assets - Cash and Investment Basis display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

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

The school bus replacement fund is used to account for receipts and disbursements concerning the acquisition and disposal of school buses.

The school lunch fund is used to account for all receipts from the sale of lunches and breakfasts and the corresponding federal and state reimbursements, gifts and other receipts, as well as all disbursements for personal services, food supplies and equipment for the operation of the school lunch and breakfast programs.

The early care grant fund accounts for grant monies received for starting an all-day preschool at the Corporation.

The Title I grant fund accounts for federal grant monies received for the improvement of reading skills.

The GAP/REAP grant fund accounts for grant monies received for extending kindergarten services.

CANNELTON CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

The math and science partnership grant fund accounts for grant monies for the development of math and science skills.

The improving teacher quality grant fund accounts for grant monies received for professional development.

The tech literacy grant fund accounts for grant monies used in providing professional development in the use of educational technology.

The tech literacy II fund accounts for grant monies used in providing professional development in the use of educational technology.

Additionally, the School Corporation reports the following fund types:

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the individuals residing within the School Corporation district limits.

Agency funds account for assets held by the School Corporation as an agent for other governments 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. Receipts are recorded when received and disbursements are recorded when paid.

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

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

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

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

CANNELTON CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, except for the June 2007 distribution, which was not made until July 26, 2007.

3. Compensated Absences

a. Sick Leave

Certified employees earn sick leave at the rate of 33 days per year. Noncertified employees earn sick leave at the rate of 23 days per year. Unused sick leave may be accumulated indefinitely for certified employees and to a maximum of 30 days for noncertified employees. Accumulated sick leave is paid to certified employees through cash payments upon retirement. Accumulated sick leave is not paid to noncertified employees.

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. Certified employees do not earn vacation leave because they are contracted for less than a full year.

c. Personal Leave

Certified employees do not earn personal leave. Noncertified employees are authorized 5 days per school year. At the end of each school year, unused personal leave for noncertified employees shall be transferred to emergency leave, which is cumulative to a maximum of 6 days. Any unused personal leave days, which, when transferred to emergency leave, would extend past the maximum of 6 days, shall be transferred to accumulated sick leave, which is limited to a maximum of 30 days for noncertified employees. Accumulated personal leave is not paid to employees.

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.

CANNELTON CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Long-Term Debt

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

6. Equity Classification

Government-Wide Statements

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

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

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

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

CANNELTON CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 Activities and Net Assets – Cash and Investment Basis 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 Activities and Net Assets – Cash and Investment Basis.

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.

CANNELTON CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Disbursements in Excess of Appropriations

For the years ended December 31, 2005 and 2006, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Fund	2005	2006
General	\$ -	\$ 990,215
Debt Service	6,750	8,914
Capital Projects	-	98,656
Transportation Operating	1,313	4,184
Special Education - Preschool	24,628	2,740
Totals	<u>\$ 32,691</u>	<u>\$ 1,104,709</u>

C. Cash and Investment Balance Deficits

At June 30, 2006 and 2007, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

Fund	2006	2007
Transportation Operating	\$ (1,849)	\$ (7,140)
GAP/REAP	(1,948)	-
Capital Projects	(75,208)	(117,787)
Transportation Bus Replacement	(3,179)	-
Other governmental funds:		
Intelenet	(3,349)	-
Tech Plan Grant	(7,046)	-
Top Hat ISIAP	(1,465)	-
Perry County Substance Abuse Grant	-	(4,719)
Gifted and Talented	(1,846)	-
Professional Development Capacity	(4,086)	-
Drug Free Schools	(1,947)	-
Wrap Around	(4,324)	-
Ed Tech II	(51,462)	(65,028)
Miscellaneous Programs No. 2	(8,645)	(8,645)
Private-purpose funds:		
Miscellaneous Programs No. 1	-	(68)
Indiana Student Achievement Grant	(397)	-
IN Next Leadership Training	(150)	-
Non-English Speaking Grant	(296)	-

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.

CANNELTON CITY SCHOOLS
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. At June 30, 2007, 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.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2006 and 2007, were as follows:

Transfer From	Transfer To	2006	2007
General Fund	Other governmental funds	\$ -	\$ 24,922
Tech Literacy Grant Fund	Tech Literacy II Fund	-	20,000
Capital Projects Fund	Other governmental funds	11,585	-
Improving Teacher Quality Fund	Other governmental funds	17,642	-
Early Care Grant Fund	General Fund	43,581	-
Other governmental funds	General Fund	-	12,819
Other governmental funds	Tech Literacy Grant Fund	-	12,059
Other governmental funds	Other governmental funds	-	1,122
Totals		<u>\$ 72,808</u>	<u>\$ 70,922</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.

CANNELTON CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

B. Subsequent Event – Declining Financial Condition

The School Corporation General Fund has been experiencing a decline in financial condition for the past few years. The impact of the decline could require the School Corporation to attempt to borrow additional funds and to substantially reduce services in order to pay operating expenses when they come due. The following items demonstrate problems indicating a declining financial position:

1. The School Corporation at June 30, 2006, owed \$800,000 in outstanding loans for continuing operations. The debt originated in 2003 as a tax anticipation warrant with Indiana Bond Bank and was rolled over twice with the Bond Bank and refinanced with a local bank, but never fully repaid. The School Corporation subsequently borrowed an additional \$800,000 with another local bank for continuing operations. The School Corporation has only been able to pay \$200,000 in principal and a portion of the interest on these loans. The debt has grown to \$1,500,000 in principal and \$18,590 in interest by December 31, 2007. The School Corporation also owes \$62,148 in principal and \$15,478 in interest on a capital lease with Fifth Third Bank on the William Bennett Early Learning Center at December 31, 2007.
2. The City of Cannelton, which is the taxing district for the School Corporation, has lost approximately 51% of its population since 1980. Because the City has very little industry and a few small shops, the tax base consists largely of residential property. The combination of these factors has resulted in a decrease in the assessed valuation. The decrease in population has a definite impact on the amount of residential property that is occupied, which in turn, has a direct impact on the School Corporation's ability to raise property taxes to increase revenue support.
3. The assessed valuation for the City of Cannelton, which supports Cannelton City Schools, decreased by nearly 17% from 2002 to 2006. The maximum homestead credit for property taxes has increased from \$6,000 to \$45,000 in recent years. The School Corporation's management, as well as the County Auditor, agrees that the City of Cannelton has not experienced any significant industrial or residential growth in a number of years. Management does not foresee significant growth in the near future.
4. The School Corporation's enrollment has seen approximately a 25% reduction over the last 15 years. The tuition support received from the State is decreasing in accordance with that decline in enrollment.
5. The School Corporation owes \$544,709 for Average Daily Membership (ADM) enrollment for reporting errors made over the last few years. The School Corporation over reported the enrollment in the 2003-2004 school year by 16 students. The amount the School Corporation owes may be reduced due to under reporting in the 2005-2006 school year.

As of the date of this report, management has not prepared specific plans to deal with the declining financial condition described above.

CANNELTON CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health, dental vision, and life insurance benefits, as authorized by Indiana Code 5-10-8, to all certified employees who retire from the School Corporation on or after attaining age 50 with at least 17 years of service. Currently, 2 retirees meet these eligibility requirements. The School Corporation provides 100% of these postemployment benefits for full-time employees, and the School Corporation and retirees provide 59% and 41% of the postemployment benefits, respectively, for part-time employees. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2007, disbursements of \$16,118 were recognized for postemployment 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.

CANNELTON CITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 5,150
Interest on net pension obligation	(2,502)
Adjustment to annual required contribution	2,851
Annual pension cost	5,499
Contributions made	5,679
Decrease in net pension obligation	(180)
Net pension obligation, beginning of year	(34,507)
Net pension obligation, end of year	\$ (34,687)
 Contribution rates:	
School Corporation	6%
Plan members	3%
Actuarial valuation date	07-01-06
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	06-30-04	\$ 2,041	222%	\$ (33,130)
	06-30-05	3,477	140%	(34,507)
	06-30-06	5,499	163%	(34,687)

CANNELTON CITY SCHOOLS
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, 2007, 2006, and 2005, were \$45,979, \$47,609, and \$45,047, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

CANNELTON CITY SCHOOLS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 52,458	\$ 45,310	\$ 7,148	116%	\$ 68,622	10%
07-01-05	56,310	58,865	(2,555)	96%	82,703	(3%)
07-01-06	79,394	66,852	12,542	119%	116,753	11%

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006

	Special Education Preschool	Textbook Rental	Criminal Justice	Early Intervention Grant	Minority Awareness	Intelenet
Receipts:						
Local sources	\$ 24,628	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	17,084	1,691	-	-	-	-
Federal sources	-	-	-	-	-	-
Sale of property, adjustments and refunds	-	-	-	-	-	-
Total receipts	41,712	1,691	-	-	-	-
Disbursements:						
Current:						
Instruction	4,153	-	-	-	-	514
Support services	-	350	400	-	-	13,984
Community services	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-
Total disbursements	4,153	350	400	-	-	14,498
Excess (deficiency) of receipts over disbursements	37,559	1,341	(400)	-	-	(14,498)
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	37,559	1,341	(400)	-	-	(14,498)
Cash and investments - beginning	(16,518)	7,795	1,522	2,299	1,720	11,149
Cash and investments - ending	<u>\$ 21,041</u>	<u>\$ 9,136</u>	<u>\$ 1,122</u>	<u>\$ 2,299</u>	<u>\$ 1,720</u>	<u>\$ (3,349)</u>
Cash and Investment Assets - Ending						
Cash and investments	<u>\$ 21,041</u>	<u>\$ 9,136</u>	<u>\$ 1,122</u>	<u>\$ 2,299</u>	<u>\$ 1,720</u>	<u>\$ (3,349)</u>
Cash and Investment Fund Balance - Ending						
Unrestricted	<u>\$ 21,041</u>	<u>\$ 9,136</u>	<u>\$ 1,122</u>	<u>\$ 2,299</u>	<u>\$ 1,720</u>	<u>\$ (3,349)</u>

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006
 (Continued)

	Technology Plan Buddy	Tech Plan Grant	Top Hat ISIAP	Perry County Substance Abuse	Gifted and Talented	Professional Development Portfolio
Receipts:						
Local sources	\$ -	\$ -	\$ -	\$ 10,050	\$ -	\$ -
State sources	-	35,178	-	-	10,542	-
Federal sources	-	-	-	-	-	-
Sale of property, adjustments and refunds	-	-	-	-	-	-
Total receipts	-	35,178	-	10,050	10,542	-
Disbursements:						
Current:						
Instruction	1,398	31,228	1,105	9,568	5,797	-
Support services	2,522	14,606	6,301	-	1,315	785
Community services	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-
Total disbursements	3,920	45,834	7,406	9,568	7,112	785
Excess (deficiency) of receipts over disbursements	(3,920)	(10,656)	(7,406)	482	3,430	(785)
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(3,920)	(10,656)	(7,406)	482	3,430	(785)
Cash and investments - beginning	5,872	3,610	5,941	-	(5,276)	949
Cash and investments - ending	\$ 1,952	\$ (7,046)	\$ (1,465)	\$ 482	\$ (1,846)	\$ 164
Cash and Investment Assets - Ending						
Cash and investments	\$ 1,952	\$ (7,046)	\$ (1,465)	\$ 482	\$ (1,846)	\$ 164
Cash and Investment Fund Balance - Ending						
Unrestricted	\$ 1,952	\$ (7,046)	\$ (1,465)	\$ 482	\$ (1,846)	\$ 164

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006
 (Continued)

	Professional Development Capacity	United Way of Perry County	Title I	ECIA Title VI	Chapter 2	Title V, Part A Innovative
Receipts:						
Local sources	\$ -	\$ 1,500	\$ -	\$ -	\$ -	\$ -
State sources	4,920	-	-	-	-	-
Federal sources	-	-	-	-	-	2,755
Sale of property, adjustments and refunds	-	-	-	-	-	-
Total receipts	4,920	1,500	-	-	-	2,755
Disbursements:						
Current:						
Instruction	345	-	-	539	-	-
Support services	7,010	-	-	-	1,290	-
Community services	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-
Total disbursements	7,355	-	-	539	1,290	-
Excess (deficiency) of receipts over disbursements	(2,435)	1,500	-	(539)	(1,290)	2,755
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(2,435)	1,500	-	(539)	(1,290)	2,755
Cash and investments - beginning	(1,651)	-	6,276	1,753	1,290	-
Cash and investments - ending	\$ (4,086)	\$ 1,500	\$ 6,276	\$ 1,214	\$ -	\$ 2,755
Cash and Investment Assets - Ending						
Cash and investments	\$ (4,086)	\$ 1,500	\$ 6,276	\$ 1,214	\$ -	\$ 2,755
Cash and Investment Fund Balance - Ending						
Unrestricted	\$ (4,086)	\$ 1,500	\$ 6,276	\$ 1,214	\$ -	\$ 2,755

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006
 (Continued)

	Drug Free Schools	Title II Eisenhower	After School Program	Natural Helpers	SACC-LHDC	Tobacco Grant
Receipts:						
Local sources	\$ -	\$ -	\$ 16,650	\$ -	\$ -	\$ -
State sources	-	-	-	-	-	5,705
Federal sources	6,352	-	-	-	-	-
Sale of property, adjustments and refunds	-	-	-	-	-	781
Total receipts	<u>6,352</u>	<u>-</u>	<u>16,650</u>	<u>-</u>	<u>-</u>	<u>6,486</u>
Disbursements:						
Current:						
Instruction	11,524	127	19,690	-	500	4,823
Support services	-	-	1,111	-	-	-
Community services	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-
Total disbursements	<u>11,524</u>	<u>127</u>	<u>20,801</u>	<u>-</u>	<u>500</u>	<u>4,823</u>
Excess (deficiency) of receipts over disbursements	<u>(5,172)</u>	<u>(127)</u>	<u>(4,151)</u>	<u>-</u>	<u>(500)</u>	<u>1,663</u>
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(5,172)</u>	<u>(127)</u>	<u>(4,151)</u>	<u>-</u>	<u>(500)</u>	<u>1,663</u>
Cash and investments - beginning	<u>3,225</u>	<u>997</u>	<u>4,593</u>	<u>1,038</u>	<u>753</u>	<u>(1,384)</u>
Cash and investments - ending	<u><u>\$ (1,947)</u></u>	<u><u>\$ 870</u></u>	<u><u>\$ 442</u></u>	<u><u>\$ 1,038</u></u>	<u><u>\$ 253</u></u>	<u><u>\$ 279</u></u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	<u><u>\$ (1,947)</u></u>	<u><u>\$ 870</u></u>	<u><u>\$ 442</u></u>	<u><u>\$ 1,038</u></u>	<u><u>\$ 253</u></u>	<u><u>\$ 279</u></u>
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	<u><u>\$ (1,947)</u></u>	<u><u>\$ 870</u></u>	<u><u>\$ 442</u></u>	<u><u>\$ 1,038</u></u>	<u><u>\$ 253</u></u>	<u><u>\$ 279</u></u>

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006
 (Continued)

	Wrap Around	Learn and Serve Grant	Workforce Development Grant	Class Size Reduction	Special Ed Technology	Ed Tech Competitive Grant
Receipts:						
Local sources	\$ -	\$ 1,692	\$ -	\$ -	\$ -	\$ -
State sources	-	-	31,456	-	-	-
Federal sources	-	5,000	-	-	-	40,000
Sale of property, adjustments and refunds	-	-	-	-	-	-
Total receipts	-	6,692	31,456	-	-	40,000
Disbursements:						
Current:						
Instruction	-	4,948	5,360	1,941	-	1,536
Support services	-	75	21,157	1,315	-	606
Community services	-	1,010	-	-	-	-
Nonprogrammed charges	-	-	-	-	1	-
Total disbursements	-	6,033	26,517	3,256	1	2,142
Excess (deficiency) of receipts over disbursements	-	659	4,939	(3,256)	(1)	37,858
Other financing sources (uses):						
Transfers in	-	-	-	17,642	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	659	4,939	14,386	(1)	37,858
Cash and investments - beginning	(4,324)	(450)	1,027	(14,386)	2,214	(37,480)
Cash and investments - ending	<u>\$ (4,324)</u>	<u>\$ 209</u>	<u>\$ 5,966</u>	<u>\$ -</u>	<u>\$ 2,213</u>	<u>\$ 378</u>
Cash and Investment Assets - Ending						
Cash and investments	<u>\$ (4,324)</u>	<u>\$ 209</u>	<u>\$ 5,966</u>	<u>\$ -</u>	<u>\$ 2,213</u>	<u>\$ 378</u>
Cash and Investment Fund Balance - Ending						
Unrestricted	<u>\$ (4,324)</u>	<u>\$ 209</u>	<u>\$ 5,966</u>	<u>\$ -</u>	<u>\$ 2,213</u>	<u>\$ 378</u>

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006
 (Continued)

	Ed Tech II	Special Arts Grant	Miscellaneous Programs No. 2	Miscellaneous Programs No. 3	High Tech Grant	Totals
Receipts:						
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 54,520
State sources	-	50	-	-	-	106,626
Federal sources	-	-	-	-	-	54,107
Sale of property, adjustments and refunds	-	-	-	9,438	-	10,219
Total receipts	-	50	-	9,438	-	225,472
Disbursements:						
Current:						
Instruction	576	-	-	-	-	105,672
Support services	20,656	-	-	-	-	93,483
Community services	-	-	-	-	-	1,010
Nonprogrammed charges	-	-	-	-	35,000	35,001
Total disbursements	21,232	-	-	-	35,000	235,166
Excess (deficiency) of receipts over disbursements	(21,232)	50	-	9,438	(35,000)	(9,694)
Other financing sources (uses):						
Transfers in	11,585	-	-	-	-	29,227
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(9,647)	50	-	9,438	(35,000)	19,533
Cash and investments - beginning	(41,815)	450	(8,645)	2,049	35,000	(30,407)
Cash and investments - ending	\$ (51,462)	\$ 500	\$ (8,645)	\$ 11,487	\$ -	\$ (10,874)
Cash and Investment Assets - Ending						
Cash and investments	\$ (51,462)	\$ 500	\$ (8,645)	\$ 11,487	\$ -	\$ (10,874)
Cash and Investment Fund Balance - Ending						
Unrestricted	\$ (51,462)	\$ 500	\$ (8,645)	\$ 11,487	\$ -	\$ (10,874)

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007

	Special Education Preschool	Textbook Rental	Criminal Justice	Early Intervention Grant	Minority Awareness	Even Start Preschool
Receipts:						
Local sources	\$ 438	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	19,700	1,404	-	-	-	6,000
Total receipts	<u>20,138</u>	<u>1,404</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,000</u>
Disbursements:						
Current:						
Instruction	25,220	4,776	-	61	264	500
Support services	-	525	-	-	-	-
Total disbursements	<u>25,220</u>	<u>5,301</u>	<u>-</u>	<u>61</u>	<u>264</u>	<u>500</u>
Excess (deficiency) of receipts over disbursements	<u>(5,082)</u>	<u>(3,897)</u>	<u>-</u>	<u>(61)</u>	<u>(264)</u>	<u>5,500</u>
Other financing sources (uses):						
Transfers in	-	-	-	1,122	264	-
Transfers out	-	-	(1,122)	(3,360)	(1,720)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,122)</u>	<u>(2,238)</u>	<u>(1,456)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(5,082)</u>	<u>(3,897)</u>	<u>(1,122)</u>	<u>(2,299)</u>	<u>(1,720)</u>	<u>5,500</u>
Cash and investments - beginning	<u>21,041</u>	<u>9,136</u>	<u>1,122</u>	<u>2,299</u>	<u>1,720</u>	<u>-</u>
Cash and investments - ending	<u>\$ 15,959</u>	<u>\$ 5,239</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,500</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	<u>\$ 15,959</u>	<u>\$ 5,239</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,500</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	<u>\$ 15,959</u>	<u>\$ 5,239</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,500</u>

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007
 (Continued)

	Weyerhauser Grant	Intelenet	Technology Plan Buddy	Tech Plan Grant	Top Hat ISIAP	Perry County Substance Abuse
Receipts:						
Local sources	\$ 3,000	\$ -	\$ -	\$ -	\$ -	\$ 9,200
State sources	-	-	990	-	-	-
Total receipts	<u>3,000</u>	<u>-</u>	<u>990</u>	<u>-</u>	<u>-</u>	<u>9,200</u>
Disbursements:						
Current:						
Instruction	2,919	-	563	-	-	14,401
Support services	-	-	1,594	-	-	-
Total disbursements	<u>2,919</u>	<u>-</u>	<u>2,157</u>	<u>-</u>	<u>-</u>	<u>14,401</u>
Excess (deficiency) of receipts over disbursements	<u>81</u>	<u>-</u>	<u>(1,167)</u>	<u>-</u>	<u>-</u>	<u>(5,201)</u>
Other financing sources (uses):						
Transfers in	-	3,349	-	7,046	1,465	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>3,349</u>	<u>-</u>	<u>7,046</u>	<u>1,465</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	81	3,349	(1,167)	7,046	1,465	(5,201)
Cash and investments - beginning	<u>-</u>	<u>(3,349)</u>	<u>1,952</u>	<u>(7,046)</u>	<u>(1,465)</u>	<u>482</u>
Cash and investments - ending	<u>\$ 81</u>	<u>\$ -</u>	<u>\$ 785</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,719)</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	<u>\$ 81</u>	<u>\$ -</u>	<u>\$ 785</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,719)</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	<u>\$ 81</u>	<u>\$ -</u>	<u>\$ 785</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,719)</u>

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007
 (Continued)

	Gifted and Talented	Professional Development Portfolio	Professional Development Capacity	United Way of Perry County	Title I	ECIA Title VI
Receipts:						
Local sources	\$ -	\$ -	\$ -	\$ 2,804	\$ -	\$ -
State sources	10,542	-	-	-	-	-
Total receipts	10,542	-	-	2,804	-	-
Disbursements:						
Current:						
Instruction	-	79	-	3,935	-	-
Support services	-	-	266	-	-	-
Total disbursements	-	79	266	3,935	-	-
Excess (deficiency) of receipts over disbursements	10,542	(79)	(266)	(1,131)	-	-
Other financing sources (uses):						
Transfers in	1,846	79	4,352	-	-	-
Transfers out	-	(164)	-	-	(6,276)	-
Total other financing sources (uses)	1,846	(85)	4,352	-	(6,276)	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	12,388	(164)	4,086	(1,131)	(6,276)	-
Cash and investments - beginning	(1,846)	164	(4,086)	1,500	6,276	1,214
Cash and investments - ending	\$ 10,542	\$ -	\$ -	\$ 369	\$ -	\$ 1,214
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ 10,542	\$ -	\$ -	\$ 369	\$ -	\$ 1,214
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	\$ 10,542	\$ -	\$ -	\$ 369	\$ -	\$ 1,214

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007
 (Continued)

	Title V, Part A Innovative	Drug Free Schools	Title II Eisenhower	After School Program	Natural Helpers	SACC-LHDC
Receipts:						
Local sources	\$ -	\$ -	\$ -	\$ 4,343	\$ -	\$ -
State sources	-	-	-	-	-	-
Total receipts	-	-	-	4,343	-	-
Disbursements:						
Current:						
Instruction	-	-	170	2,816	-	250
Support services	-	-	-	525	-	-
Total disbursements	-	-	170	3,341	-	250
Excess (deficiency) of receipts over disbursements	-	-	(170)	1,002	-	(250)
Other financing sources (uses):						
Transfers in	-	1,947	-	-	-	250
Transfers out	-	-	-	-	(1,038)	(253)
Total other financing sources (uses)	-	1,947	-	-	(1,038)	(3)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	1,947	(170)	1,002	(1,038)	(253)
Cash and investments - beginning	2,755	(1,947)	870	442	1,038	253
Cash and investments - ending	<u>\$ 2,755</u>	<u>\$ -</u>	<u>\$ 700</u>	<u>\$ 1,444</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	<u>\$ 2,755</u>	<u>\$ -</u>	<u>\$ 700</u>	<u>\$ 1,444</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	<u>\$ 2,755</u>	<u>\$ -</u>	<u>\$ 700</u>	<u>\$ 1,444</u>	<u>\$ -</u>	<u>\$ -</u>

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007
 (Continued)

	Tobacco Grant	Wrap Around	Learn and Serve Grant	Workforce Development Grant	Special Ed Technology	Ed Tech Competitive Grant
Receipts:						
Local sources	\$ -	\$ -	\$ 2	\$ -	\$ -	\$ -
State sources	1,568	-	-	7,560	-	-
Total receipts	1,568	-	2	7,560	-	-
Disbursements:						
Current:						
Instruction	887	-	203	6,100	-	-
Support services	-	-	-	6,011	-	-
Total disbursements	887	-	203	12,111	-	-
Excess (deficiency) of receipts over disbursements	681	-	(201)	(4,551)	-	-
Other financing sources (uses):						
Transfers in	-	4,324	-	-	-	-
Transfers out	-	-	(8)	-	-	-
Total other financing sources (uses)	-	4,324	(8)	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	681	4,324	(209)	(4,551)	-	-
Cash and investments - beginning	279	(4,324)	209	5,966	2,213	378
Cash and investments - ending	\$ 960	\$ -	\$ -	\$ 1,415	\$ 2,213	\$ 378
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ 960	\$ -	\$ -	\$ 1,415	\$ 2,213	\$ 378
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	\$ 960	\$ -	\$ -	\$ 1,415	\$ 2,213	\$ 378

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007
 (Continued)

	Ed Tech II	Special Arts Grant	Miscellaneous Programs No. 2	Miscellaneous Programs No. 3	Totals
Receipts:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ 19,787
State sources	-	-	-	-	47,764
Total receipts	-	-	-	-	67,551
Disbursements:					
Current:					
Instruction	-	2	-	-	63,146
Support services	1,507	-	-	-	10,428
Total disbursements	1,507	2	-	-	73,574
Excess (deficiency) of receipts over disbursements	(1,507)	(2)	-	-	(6,023)
Other financing sources (uses):					
Transfers in	-	-	-	-	26,044
Transfers out	(12,059)	-	-	-	(26,000)
Total other financing sources (uses)	(12,059)	-	-	-	44
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(13,566)	(2)	-	-	(5,979)
Cash and investments - beginning	(51,462)	500	(8,645)	11,487	(10,874)
Cash and investments - ending	\$ (65,028)	\$ 498	\$ (8,645)	\$ 11,487	\$ (16,853)
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ (65,028)	\$ 498	\$ (8,645)	\$ 11,487	\$ (16,853)
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	\$ (65,028)	\$ 498	\$ (8,645)	\$ 11,487	\$ (16,853)

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PRIVATE-PURPOSE TRUST FUNDS
 For the Year Ended June 30, 2006

	<u>Welborn Family/School Activities</u>	<u>Miscellaneous Programs No. 1</u>	<u>Indiana Student Achievement Grant</u>	<u>Perry County Community Foundation</u>	<u>IN Next Leadership Training</u>
Additions:					
Contributions:					
Other	\$ 22,000	\$ -	\$ -	\$ 300	\$ -
Deductions:					
Administrative and general	<u>8,749</u>	<u>619</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of total additions over total deductions	13,251	(619)	-	300	-
Cash and investment fund balance - beginning	<u>-</u>	<u>8,080</u>	<u>(397)</u>	<u>536</u>	<u>(150)</u>
Cash and Investments - June 30	<u>\$ 13,251</u>	<u>\$ 7,461</u>	<u>\$ (397)</u>	<u>\$ 836</u>	<u>\$ (150)</u>
Net assets:					
Cash and investments	<u>\$ 13,251</u>	<u>\$ 7,461</u>	<u>\$ (397)</u>	<u>\$ 836</u>	<u>\$ (150)</u>
Total net assets - cash and investment basis held in trust	<u>\$ 13,251</u>	<u>\$ 7,461</u>	<u>\$ (397)</u>	<u>\$ 836</u>	<u>\$ (150)</u>

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PRIVATE-PURPOSE TRUST FUNDS
 For the Year Ended June 30, 2006
 (Continued)

	SINE-Model School	8 Gates Foundation	Non-English Speaking Grant	Vision Athena	Totals
Additions:					
Contributions:					
Other	\$ 11,428	\$ -	\$ -	\$ -	\$ 33,728
Deductions:					
Administrative and general	2,430	-	-	640	12,438
Excess (deficiency) of total additions over total deductions	8,998	-	-	(640)	21,290
Cash and investment fund balance - beginning	(644)	314	(296)	4,958	12,401
Cash and Investments - June 30	<u>\$ 8,354</u>	<u>\$ 314</u>	<u>\$ (296)</u>	<u>\$ 4,318</u>	<u>\$ 33,691</u>
Net assets:					
Cash and investments	<u>\$ 8,354</u>	<u>\$ 314</u>	<u>\$ (296)</u>	<u>\$ 4,318</u>	<u>\$ 33,691</u>
Total net assets - cash and investment basis held in trust	<u>\$ 8,354</u>	<u>\$ 314</u>	<u>\$ (296)</u>	<u>\$ 4,318</u>	<u>\$ 33,691</u>

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PRIVATE-PURPOSE TRUST FUNDS
 For the Year Ended June 30, 2007

	<u>Welborn Family/School Activities</u>	<u>Miscellaneous Programs No. 1</u>	<u>Indiana Student Achievement Grant</u>	<u>Perry County Community Foundation</u>	<u>IN Next Leadership Training</u>
Additions:					
Contributions:					
Other	\$ 7,500	\$ 1,836	\$ 397	\$ -	\$ 150
Deductions:					
Administrative and general	<u>13,451</u>	<u>9,366</u>	-	-	-
Excess (deficiency) of total additions over total deductions	(5,951)	(7,530)	397	-	150
Cash and investment fund balance - beginning	<u>13,250</u>	<u>7,462</u>	<u>(397)</u>	<u>836</u>	<u>(150)</u>
Cash and Investments - June 30	<u>\$ 7,299</u>	<u>\$ (68)</u>	<u>\$ -</u>	<u>\$ 836</u>	<u>\$ -</u>
Net assets:					
Cash and investments	<u>\$ 7,299</u>	<u>\$ (68)</u>	<u>\$ -</u>	<u>\$ 836</u>	<u>\$ -</u>
Total net assets - cash and investment basis held in trust	<u>\$ 7,299</u>	<u>\$ (68)</u>	<u>\$ -</u>	<u>\$ 836</u>	<u>\$ -</u>

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PRIVATE-PURPOSE TRUST FUNDS
 For the Year Ended June 30, 2007
 (Continued)

	SINE-Model School	8 Gates Foundation	Non-English Speaking Grant	Vision Athena	Totals
Additions:					
Contributions:					
Other	\$ -	\$ -	\$ 296	\$ 751	\$ 10,930
Deductions:					
Administrative and general	3,581	314	-	4,620	31,332
Excess (deficiency) of total additions over total deductions	(3,581)	(314)	296	(3,869)	(20,402)
Cash and investment fund balance - beginning	8,354	314	(296)	4,318	33,691
Cash and Investments - June 30	<u>\$ 4,773</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 449</u>	<u>\$ 13,289</u>
Net assets:					
Cash and investments	\$ 4,773	\$ -	\$ -	\$ 449	\$ 13,289
Total net assets - cash and investment basis held in trust	<u>\$ 4,773</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 449</u>	<u>\$ 13,289</u>

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For the Year Ended June 30, 2006

	<u>Corporation Payroll</u>	<u>Group Insurance</u>	<u>Payroll Net</u>	<u>Federal Withholding</u>	<u>FICA</u>	<u>State Withholding</u>	<u>County Withholding</u>	<u>Teacher Retirement</u>
Net assets:								
Cash and investments	\$ (29,363)	\$ 6,434	\$ 582	\$ (2,254)	\$ (50,002)	\$ (25,867)	\$ 29,375	\$ 7,263
Total net assets - cash and investment basis held in trust	<u>\$ (29,363)</u>	<u>\$ 6,434</u>	<u>\$ 582</u>	<u>\$ (2,254)</u>	<u>\$ (50,002)</u>	<u>\$ (25,867)</u>	<u>\$ 29,375</u>	<u>\$ 7,263</u>

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For the Year Ended June 30, 2006
 (Continued)

	<u>PERF</u>	<u>Group Insurance</u>	<u>Medicare</u>	<u>Teachers' Dues</u>	<u>United Way</u>	<u>American Fidelity</u>	<u>National Traveler</u>
Net assets:							
Cash and investments	\$ (5,273)	\$ (6,467)	\$ 4,939	\$ (587)	\$ 1,188	\$ 2,425	\$ 6,398
Total net assets - cash and investment basis held in trust	<u>\$ (5,273)</u>	<u>\$ (6,467)</u>	<u>\$ 4,939</u>	<u>\$ (587)</u>	<u>\$ 1,188</u>	<u>\$ 2,425</u>	<u>\$ 6,398</u>

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For the Year Ended June 30, 2006
 (Continued)

	<u>Horace Mann</u>	<u>AFLAC</u>	<u>Anthem</u>	<u>Advantage Care</u>	<u>Lincoln Financial</u>	<u>American General</u>	<u>Totals</u>
Net assets:							
Cash and investments	\$ 10	\$ (465)	\$ 629	\$ (856)	\$ 4,217	\$ 403	\$ (57,271)
Total net assets - cash and investment basis held in trust	<u>\$ 10</u>	<u>\$ (465)</u>	<u>\$ 629</u>	<u>\$ (856)</u>	<u>\$ 4,217</u>	<u>\$ 403</u>	<u>\$ (57,271)</u>

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For the Year Ended June 30, 2007

	<u>Corporation Payroll</u>	<u>Group Insurance</u>	<u>Payroll Net</u>	<u>Federal Withholding</u>	<u>FICA</u>	<u>State Withholding</u>	<u>County Withholding</u>	<u>Teacher Retirement</u>
Net assets:								
Cash and investments	\$ (29,363)	\$ 6,434	\$ 51,856	\$ 20,208	\$ (39,519)	\$ (23,531)	\$ 30,064	\$ 7,263
Total net assets - cash and investment basis held in trust	<u>\$ (29,363)</u>	<u>\$ 6,434</u>	<u>\$ 51,856</u>	<u>\$ 20,208</u>	<u>\$ (39,519)</u>	<u>\$ (23,531)</u>	<u>\$ 30,064</u>	<u>\$ 7,263</u>

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For the Year Ended June 30, 2007
 (Continued)

	<u>PERF</u>	<u>Group Insurance</u>	<u>Medicare</u>	<u>Teachers' Dues</u>	<u>United Way</u>	<u>American Fidelity</u>	<u>National Traveler</u>
Net assets:							
Cash and investments	\$ (5,273)	\$ (8,160)	\$ 7,391	\$ (586)	\$ 867	\$ 1,385	\$ 7,803
Total net assets - cash and investment basis held in trust	<u>\$ (5,273)</u>	<u>\$ (8,160)</u>	<u>\$ 7,391</u>	<u>\$ (586)</u>	<u>\$ 867</u>	<u>\$ 1,385</u>	<u>\$ 7,803</u>

CANNELTON CITY SCHOOLS
 COMBINING SCHEDULE OF CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For the Year Ended June 30, 2007
 (Continued)

	<u>Horace Mann</u>	<u>AFLAC</u>	<u>Anthem</u>	<u>Advantage Care</u>	<u>Lincoln Financial</u>	<u>American General</u>	<u>Totals</u>
Net assets:							
Cash and investments	\$ 12	\$ (553)	\$ 657	\$ (839)	\$ 4,312	\$ 485	\$ 30,913
Total net assets - cash and investment basis held in trust	<u>\$ 12</u>	<u>\$ (553)</u>	<u>\$ 657</u>	<u>\$ (839)</u>	<u>\$ 4,312</u>	<u>\$ 485</u>	<u>\$ 30,913</u>

CANNELTON CITY SCHOOLS
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2007

The School Corporation has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Capital leases:		
William Bennett Early Learning Center	\$ 64,143	\$ 10,125
Notes and loans payable		
Loan - First State Bank	800,000	800,000
Loan - Fifth Third Bank	<u>600,000</u>	<u>605,338</u>
Total governmental activities long-term debt	<u>\$ 1,464,143</u>	<u>\$ 1,415,463</u>

CANNELTON CITY SCHOOLS
AUDIT RESULTS AND COMMENTS

DECLINING FINANCIAL CONDITION

The balances and additional items during the audit period as well as a subsequent period which could have an effect on the School Corporation's General Fund are summarized as follows:

	<u>06-30-06</u>	<u>06-30-07</u>	<u>12-31-07</u>
General Fund Cash Balance, End of Period	\$ 51,029	\$ 67,819	\$ (44,735)
Additional Items:			
ADM Judgment owed to the State of Indiana*	(339,243)	(441,953)	(544,709)
Outstanding Principal owed on Bennett Building Capital Lease	(66,090)	(62,148)	(62,148)
Outstanding Principal owed on Bank Loans	(800,000)	(1,400,000)	(1,500,000)
Outstanding Interest owed on Bank Loans and Capital Lease	(21,655)	(22,194)	(34,068)

*ADM Judgment as specified in February 14, 2008, letter from Indiana Department of Education

Please refer to Notes to the Financial Statements, IV.B. Subsequent Event – Declining Financial Condition. Also refer to any of the following Audit Results and Comments concerning Average Daily Membership (ADM).

Furthermore, normal operating transactions which could have a material effect on the General Fund are not listed in the aforementioned schedule. Monthly gross payroll (paid on a semimonthly basis) averages approximately \$140,000. Monthly tuition support for February 2008 was \$112,014.

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

AVERAGE DAILY MEMBERSHIP (ADM) - AMOUNT PAID
TO STATE OF INDIANA DUE TO CORRECTED FIGURES

The prior report noted a difference between the student counts reported for Average Daily Membership (ADM) and the verified enrollment rosters of 14 students for the 2001-2002 school year and 4 students for the 2002-2003 school year. The report concluded that School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment the School Corporation has received or could receive in the future because of incorrect reporting.

The Department of Education notified the School Corporation by a letter dated August 25, 2004, of the recalculation of the Basic Grant based upon the State Board of Accounts audit and subsequent corrected counts for average daily membership (ADM) which resulted in the School Corporation being required to refund a total of \$50,427 to the State of Indiana for the 2001-2002 school year and \$10,598 for the 2002-2003 school year.

CANNELTON CITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

After receiving only a partial payment, the Department of Education notified the School Corporation by a letter dated February 28, 2006, that the School Corporation still owed \$30,025 to the State of Indiana for overcounts that occurred in the 2001-2002 and 2002-2003 school years. The \$30,025 was withheld from the School Corporation's April 2006 monthly distribution in order for the State to recover the remaining amount.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

AVERAGE DAILY MEMBERSHIP (ADM) - AMOUNT DUE THE STATE

The prior report noted a difference between the student count reported for Average Daily Membership and the verified enrollment rosters resulting in an over reporting of 16 students for the 2003-2004 school year and an underreporting of 1 student for the 2004-2005 school year. The Department of Education notified the School Corporation by letter dated January 25, 2008, that the incorrect counts had never been addressed by either the School Corporation or the Department of Education. The School Corporation was instructed by the Department of Education to refile corrected counts for the affected years in order for the Office of Financial Management, Analysis, and Reporting to make any necessary corrections.

The Department of Education notified the School Corporation by letter dated February 14, 2008, of the recalculation of the Basic Grant based upon the State Board of Accounts audit and subsequent corrected counts for average daily membership which resulted in the School Corporation being required to refund a total of \$544,709.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (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 enrollment figures on Form Number 30A, Report of Average Daily Membership (ADM) for State Support, were incorrect for the school year ending June 30, 2006.

The enrollment count dates for FY 2006 was September 16, 2005. The difference between the count reported on the ADM and the verified enrollment rosters resulted in an underreporting as shown below:

CANNELTON CITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

School Year	Grade	Count as Reported on Form Number 30A	Actual Enrollment Figures	Difference
2005-2006	Kindergarten	7.5	7.5	0
2005-2006	1 Through 12	206	210	4

A similar comment was contained in the prior report.

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

Records were not presented for audit to support the average daily membership (ADM) claimed by the School Corporation. The software that the School Corporation used in 2005-2006 was removed from the systems and no hard copy documents were retained. Only class attendance books in some cases could be used to verify enrollment and withdrawals.

The building level official (Principal, Assistant Principal, etc.) did not provide written certification of ADM for 2005-2006.

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 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 142, June 1998, and Volume 163, September 2003)

HONORS DIPLOMAS - AMOUNT DUE FROM STATE

The prior report noted an error in the reporting of the honors diploma figures reported on Form 30A. The difference between the Form 30A and the School Corporation's records for the school year 2004-2005 resulted in an undercount of one student. The report concluded that School Corporation Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment the School Corporation has received or could receive in the future because of incorrect reporting.

The Department of Education notified the School Corporation by a letter dated January 25, 2008, that the incorrect counts had never been addressed by either the School Corporation or the Department of Education. The School Corporation was instructed by the Department of Education to refile corrected counts for the affected years in order for the Office of Financial Management, Analysis, and Reporting to make any necessary corrections.

CANNELTON CITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

INDEBTEDNESS

The School Corporation issued a tax anticipation warrant in 2003 that has been rolled over and refinanced, but never actually repaid in full at any one time. The School Corporation entered into a loan with Fifth Third Bank, which originated as a line of credit in 2004. The School Corporation eventually borrowed a total of \$800,000 from Fifth Third Bank by June 30, 2006, to finance operations and to pay off the 2003 tax anticipation warrant from the Indiana Bond Bank. In 2007, the School Corporation entered into a promissory note with First State Bank. A portion of the loan proceeds of \$800,000 were used to pay \$200,000 on the debt with Fifth Third Bank and the remainder was used to finance operations. An additional \$100,000 was borrowed from First State Bank in October of 2007. The promissory note with First State Bank was due on December 31, 2007. As of December 31, 2007, the School Corporation owed \$1,500,000 in principal and over \$34,000 in interest to the banks. A similar comment was contained in the prior report.

A governmental unit may not incur indebtedness unless specifically allowed by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

NO WRITTEN POLICY OF NONCERTIFIED BENEFITS

A noncertified employee was paid for vacation leave earned in the prior year. There is no formal personnel policy stating that leave can be accumulated from prior years. A similar comment was contained in the prior report.

All types of employee benefits should be detailed in a written policy. Payments for expenses not authorized in a written policy cannot be allowed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

OVERDRAWN CASH BALANCES

The cash balances of the Transportation Operating Fund, GAP/REAP Grant Fund, Capital Projects Fund, School Bus Replacement Fund, Intelenet Fund, Tech Plan Grant Fund, Top Hat ISIAP Fund, Gifted and Talented Fund, Professional Development Capacity Fund, Drug-Free Schools Fund, Wrap Around Fund, Ed Tech II Fund, Miscellaneous Programs No. 2 Fund, Indiana Student Achievement Grant, IN Next Leadership Training, and Non-English Speaking Grant were overdrawn at June 30, 2006. The cash balances of the Transportation Operating Fund, the Capital Projects Fund, Perry County Substance Abuse Fund, Ed Tech II Fund, Miscellaneous Programs No. 1 Fund, and the Miscellaneous Programs No. 2 Fund were overdrawn at June 30, 2007. A similar comment was contained in the prior report.

CANNELTON CITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

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

APPROPRIATIONS

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

<u>Fund</u>	<u>Years</u>	<u>Excess Amount Expended</u>
General	2006	\$ 990,215
Capital Projects	2006	98,656
Transportation Operating	2005	1,313
Transportation Operating	2006	4,134
Debt Service	2005	6,750
Debt Service	2006	8,914
Special Education Preschool	2005	24,628
Special Education Preschool	2006	2,740

A similar comment was contained in the prior report.

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."

PENALTIES, INTEREST AND OTHER CHARGES

Penalties totaling \$1,039.92 were paid to the Internal Revenue Service on June 30, 2006, for the tax period ending March 31, 2006.

Late payment fees of \$168.75 were paid to Fifth Third Bank on January 17, 2007. A late payment fee of \$35 was paid to Fifth Third Bank Credit on September 8, 2006.

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

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)

CANNELTON CITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

EXPENSE REIMBURSEMENT ITEMIZATION

Records presented for audit included claims for reimbursement totaling \$333.75 for meals for more than one individual. Detailed documentation was not attached to the information presented for reimbursement which would enable a determination that all expenses were for employees conducting governmental business.

All claims, invoices, receipts and accounts payable vouchers, including those presented to the governing body for approval in accordance with Indiana Code 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for whom amounts are claimed, including the nature, name and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

ERRORS ON CLAIMS

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

- (1) Claims were not prepared for all disbursements.
- (2) Claims were not adequately itemized.
- (3) All claims did not have board approval.
- (4) Claims or invoices did not have evidence to support receipt of goods or services.

A similar comment was contained in the prior report.

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

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

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

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

CANNELTON CITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

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 9)

SUPPORTING DOCUMENTATION

Several payments were observed which did not contain adequate supporting documentation, such as receipts, invoices, and other public records. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established. A similar comment was contained in the prior report.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CREDIT CARDS

The Cannelton City Schools 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.

CANNELTON CITY SCHOOLS
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)

CAPITAL ASSET RECORDS

Information presented for audit did not indicate an inventory or record of capital assets. A similar comment was contained in the prior report.

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)

PRESCRIBED FORMS (Applies to Cannelton Elementary School)

The following prescribed or approved forms were not always in use or not used correctly:

Extra-Curricular Ledger (Form SA-6)
Receipt (Form SA-3)
Purchase Order (Form 98)

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)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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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 CANNELTON CITY SCHOOLS, PERRY COUNTY, INDIANA

Compliance

We have audited the compliance of the Cannelton City Schools (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, 2006 and 2007. 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 of America; 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, 2006 and 2007.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

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)

A control deficiency in a School Corporation's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

The School Corporation's response to the findings identified in our audit is described in the accompanying Corrective Action Plan section of the report. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, board of trustees, 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

March 5, 2008

CANNELTON CITY SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2006 and 2007

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 06-30-06	Total Federal Awards Expended 06-30-07
U.S. DEPARTMENT OF AGRICULTURE				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 28,303	\$ 28,647
National School Lunch Program	10.555		57,443	65,738
Summer Food Service Program for Children	10.559		<u>5,708</u>	<u>9,623</u>
Total for federal grantor agency			<u>91,454</u>	<u>104,008</u>
U.S. DEPARTMENT OF EDUCATION				
Pass-Through Indiana Department of Education				
Title 1 Grants to Local Educational Agencies				
FY 04-05	84.010	04-6340	-	6,276
FY 05-06		05-6340	67,452	34,144
FY 06-07		06-6340	<u>-</u>	<u>43,643</u>
Total for program			<u>67,452</u>	<u>84,063</u>
Safe and Drug Free Schools and Communities - State Grants				
FY 03-04	84.186	03-6340	2,759	-
FY 04-05		04-337	2,508	-
FY 05-06		05-062	<u>1,085</u>	<u>-</u>
Total for program			<u>6,352</u>	<u>-</u>
Pass-Through Indiana Department of Workforce Development				
Tech-Prep Education				
FY 05-06	84.243	TP-6-213	26,057	-
FY 06-07		TP-6-213	<u>-</u>	<u>12,111</u>
Total for program			<u>26,057</u>	<u>12,111</u>
Pass-Through Indiana Department of Education				
State Grants for Innovative Programs				
FY 03-04	84.298	03-058	<u>539</u>	<u>-</u>
Education Technology State Grants				
FY 05-06	84.318	06-6340	21,660	-
FY 06-07		07-6340	<u>2,142</u>	<u>33,187</u>
Total for program			<u>23,802</u>	<u>33,187</u>
Rural Education Achievement Program (REAP)				
FY 05-06	84.358	06-6340	<u>14,949</u>	<u>-</u>
Mathematics and Science Partnerships				
FY 05-06	84.366	06-6340	21,233	13,566
FY 06-07		07-6340	<u>-</u>	<u>145,218</u>
Total for program			<u>21,233</u>	<u>158,784</u>
Improving Teacher Quality State Grants				
FY 02-03	84.367	02-6340	1,580	-
FY 03-04		03-6340	19,131	-
FY 04-05		04-267	-	1,038
FY 05-06		05-080	<u>37,782</u>	<u>-</u>
Total for program			<u>58,493</u>	<u>1,038</u>
Total for federal grantor agency			<u>218,877</u>	<u>289,183</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Pass-Through Indiana Child Care Fund, Inc.				
Child Care Cluster				
Child Care Mandatory and Matching Funds of the Child Care and Development Fund				
Early Care Bridge Grant	93.596	49-05-87-2247 ECSTC-08	<u>384,451</u>	<u>-</u>
U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE				
Pass-Through Indiana Department of Education				
Learn and Serve America - School and Community Based Programs	94.004	06-6340	<u>5,000</u>	<u>-</u>
Total federal awards expended			<u>\$ 699,782</u>	<u>\$ 393,191</u>

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

CANNELTON CITY SCHOOLS
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 Cannelton City Schools (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, 2006 and 2007. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2006	2007
Child Nutrition Cluster	10.555	\$ 4,882	\$ 4,252

CANNELTON CITY SCHOOLS
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? no

Federal Awards:

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
93.596	Child Nutrition Cluster Child Care Mandatory and Matching Funds of the Child Care and Development Fund

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

Auditee qualified as low-risk auditee? no

CANNELTON CITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section II – Financial Statement Findings

FINDING 2007-1, CAPITAL ASSET RECORDS

The Cannelton City Schools did not maintain detailed capital asset records.

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)

Failure to conduct adequate inventories of capital assets and reconciling the results to the detailed capital assets ledger may result in property and equipment being lost, stolen, or otherwise misappropriated and not being detected.

We recommended that the School Corporation design and properly monitor procedures that would ensure that inventories of property and equipment are conducted at least once every two years and reconciled to the detail capital assets ledger. Any significant differences should be investigated and the appropriate adjustments made to the records.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CANNELTON CITY SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2005-1

Prior Audit Report Number: B26926
Auditee Contact Person: Melissa B. Embry
Auditee Title: Treasurer
Phone Number: 812-547-2637

Status of Finding: Unit is working to maintain a Capital Asset Ledger.

FINDING 2005-2

Prior Audit Report Number: B26926
Auditee Contact Person: Melissa B. Embry
Title of Contact Person: Treasurer
Phone Number: 812-547-2637

Status of Finding: Unit is working to maintain a Capital Asset Ledger.

Cannelton City Schools

Marion A. Chapman, Superintendent

125 S Sixth Street-Cannelton, IN 47520

Melissa B. Embry, Treasurer

Kim Biever, Deputy Treasurer

March 5, 2008

Corrective Action Plan

FINDING NUMBER: 2007-1
AUDITEE CONTACT PERSON: Marion A. Chapman
TITLE OF CONTACT PERSON: Superintendent
CONTACT NUMBER: 812-547-2637

CORRECTIVE ACTION:

Capital assets will be added to the capital asset ledger at their acquisition value. Complete and accurate inventories will be conducted and the results reconciled to the capital asset ledger.



Marion A. Chapman
Superintendent
Cannelton City School Corporation

CANNELTON CITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on March 18, 2008, with Marion A. Chapman, Superintendent of Schools; Melissa B. Embry, Treasurer; Judith G. Schneider, former Treasurer; Christal Moskos, President of the School Board; and Barbara L. Beard, School Board member.