

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

AUDIT REPORT
OF
SOUTH HENRY SCHOOL CORPORATION
HENRY COUNTY, INDIANA
July 1, 2008 to June 30, 2010



FILED

03/15/2011

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Susan Waggoner Emily Cupp	07-01-08 to 06-30-10 07-01-10 to 06-30-11
Superintendent of Schools	Robert Myers William Roberson Candis Haskell	07-01-08 to 08-10-08 08-11-08 to 06-30-09 07-01-09 to 06-30-11
President of the School Board	Joel Magiera Scott Lightfoot	07-01-08 to 06-30-10 07-01-10 to 06-30-11



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

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Henry School Corporation (School Corporation), as of and for the years ended June 30, 2009 and 2010, 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, 2009 and 2010, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated February 7, 2011, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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 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 School Corporation has not presented Management's Discussion and Analysis, Schedules of Funding Progress, Schedule of Contributions From the Employer and Other Contributing Entities, 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, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The 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 Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

February 7, 2011



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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 SOUTH HENRY SCHOOL CORPORATION, HENRY COUNTY, INDIANA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Henry School Corporation (School Corporation), as of and for the years ended June 30, 2009 and 2010, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated February 7, 2011. 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

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. We consider the deficiencies described in item 2010-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

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.

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)

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. However, of the significant deficiencies described above, we consider item 2010-1 to be a material weakness.

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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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, school board, 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

February 7, 2011

SOUTH HENRY SCHOOL CORPORATION
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2009

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Totals</u>
Governmental activities:				
Instruction	\$ 3,169,047	\$ -	\$ 101,351	\$ (3,067,696)
Support services	2,493,707	225,808	133,696	(2,134,203)
Noninstructional services	505,508	-	-	(505,508)
Facilities acquisition and construction	112,084	-	-	(112,084)
Debt service	2,138,124	-	-	(2,138,124)
Nonprogrammed charges	614,545	-	-	(614,545)
Total governmental activities	<u>\$ 9,033,015</u>	<u>\$ 225,808</u>	<u>\$ 235,047</u>	<u>(8,572,160)</u>
General receipts:				
Property taxes				2,420,137
Other local sources				442,018
State aid				3,842,378
Bonds and loans				1,311,584
Grants and contributions not restricted to specific programs				633,915
Sale of property				2,536
Investment earnings				15,651
Other				142,417
Total general receipts				<u>8,810,636</u>
Change in net assets				238,476
Net assets - beginning				<u>1,223,885</u>
Net assets - ending				<u>\$ 1,462,361</u>
<u>Assets</u>				
Cash and investments				\$ 1,192,275
Restricted assets:				
Cash and investments				<u>270,086</u>
Total assets				<u>\$ 1,462,361</u>
<u>Net Assets</u>				
Restricted for:				
Debt service				\$ 270,086
Unrestricted				<u>1,192,275</u>
Total net assets				<u>\$ 1,462,361</u>

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

SOUTH HENRY SCHOOL CORPORATION
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2010

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Totals</u>
Governmental activities:				
Instruction	\$ 3,436,219	\$ -	\$ 113,966	\$ (3,322,253)
Support services	2,795,329	199,858	182,638	(2,412,833)
Noninstructional services	421,248	-	-	(421,248)
Facilities acquisition and construction	114,989	-	-	(114,989)
Debt service	1,819,760	-	-	(1,819,760)
Nonprogrammed charges	689,228	-	-	(689,228)
Total governmental activities	<u>\$ 9,276,773</u>	<u>\$ 199,858</u>	<u>\$ 296,604</u>	<u>(8,780,311)</u>
General receipts:				
Property taxes				3,074,310
Other local sources				451,007
State aid				4,900,090
Bonds and loans				478,798
Grants and contributions not restricted to specific programs				457,440
Sale of property				150,231
Investment earnings				4,894
Other				42,767
Total general receipts				<u>9,559,537</u>
Change in net assets				779,226
Net assets - beginning				<u>1,462,361</u>
Net assets - ending				<u>\$ 2,241,587</u>
<u>Assets</u>				
Cash and investments				\$ 1,677,719
Restricted assets:				
Cash and investments				<u>563,868</u>
Total assets				<u>\$ 2,241,587</u>
<u>Net Assets</u>				
Restricted for:				
Debt service				\$ 563,868
Unrestricted				<u>1,677,719</u>
Total net assets				<u>\$ 2,241,587</u>

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

SOUTH HENRY SCHOOL CORPORATION
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, 2009

	General	Transportation Operating	Fiscal Stabilization	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 1,411,673	\$ 404,938	\$ -	\$ 216,441	\$ 568,689	\$ 126,172	\$ 375,285	\$ 3,103,198
Intermediate sources	172	-	-	-	-	-	244	416
State sources	3,954,157	-	-	-	-	-	63,955	4,018,112
Federal sources	-	-	428,334	-	-	-	264,894	693,228
Temporary loans	-	-	-	-	123,444	-	-	123,444
Other	136,213	6,204	-	-	-	-	-	142,417
Total receipts	5,502,215	411,142	428,334	216,441	692,133	126,172	704,378	8,080,815
Disbursements:								
Current:								
Instruction	2,999,290	-	-	-	-	-	169,757	3,169,047
Support services	1,373,421	437,971	-	-	398,059	83,158	201,098	2,493,707
Noninstructional services	185,127	-	-	-	-	-	320,381	505,508
Facilities acquisition and construction	-	-	-	-	106,853	-	5,231	112,084
Debt services	978,234	193,877	-	447,683	297,680	-	220,650	2,138,124
Nonprogrammed charges	614,545	-	-	-	-	-	-	614,545
Total disbursements	6,150,617	631,848	-	447,683	802,592	83,158	917,117	9,033,015
Excess (deficiency) of receipts over disbursements	(648,402)	(220,706)	428,334	(231,242)	(110,459)	43,014	(212,739)	(952,200)
Other financing sources (uses):								
Proceeds of long-term debt	116,214	240,720	-	434,194	397,012	-	-	1,188,140
Sale of capital assets	-	-	-	-	-	-	2,536	2,536
Transfers in	1,081	-	-	-	-	-	222,700	223,781
Transfers out	(10,000)	-	-	-	(171,000)	(41,700)	(1,081)	(223,781)
Total other financing sources (uses)	107,295	240,720	-	434,194	226,012	(41,700)	224,155	1,190,676
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(541,107)	20,014	428,334	202,952	115,553	1,314	11,416	238,476
Cash and investments - beginning	598,221	182,677	-	57,772	193,381	1,170	190,664	1,223,885
Cash and investments - ending	\$ 57,114	\$ 202,691	\$ 428,334	\$ 260,724	\$ 308,934	\$ 2,484	\$ 202,080	\$ 1,462,361
Cash and investments	\$ 57,114	\$ 202,691	\$ 428,334	\$ -	\$ 308,934	\$ 2,484	\$ 192,718	\$ 1,192,275
Restricted assets:								
Cash and investments	-	-	-	260,724	-	-	9,362	270,086
Total cash and investment assets - ending	\$ 57,114	\$ 202,691	\$ 428,334	\$ 260,724	\$ 308,934	\$ 2,484	\$ 202,080	\$ 1,462,361
Cash and Investment Fund Balance - Ending								
Restricted for:								
Debt service	\$ -	\$ -	\$ -	\$ 260,724	\$ -	\$ -	\$ 9,362	\$ 270,086
Unrestricted	57,114	202,691	428,334	-	308,934	2,484	192,718	1,192,275
Total cash and investment fund balance - ending	\$ 57,114	\$ 202,691	\$ 428,334	\$ 260,724	\$ 308,934	\$ 2,484	\$ 202,080	\$ 1,462,361

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

SOUTH HENRY SCHOOL CORPORATION
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, 2010

	General	Transportation Operating	Fiscal Stabilization	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 30,106	\$ 684,565	\$ -	\$ 1,101,105	\$ 817,166	\$ 600,536	\$ 493,195	\$ 3,726,673
Intermediate sources	-	-	-	-	-	-	75	75
State sources	5,010,235	-	-	-	-	-	127,594	5,137,829
Federal sources	-	-	174,399	-	-	-	345,226	519,625
Other	36,423	6,344	-	-	-	-	-	42,767
Total receipts	5,076,764	690,909	174,399	1,101,105	817,166	600,536	966,090	9,426,969
Disbursements:								
Current:								
Instruction	2,352,848	-	602,335	-	-	-	481,036	3,436,219
Support services	1,496,453	415,991	398	-	499,686	218,447	164,354	2,795,329
Noninstructional services	195,185	-	-	-	-	-	226,063	421,248
Facilities acquisition and construction	-	-	-	-	109,180	-	5,809	114,989
Debt services	116,214	273,257	-	896,648	452,031	-	81,610	1,819,760
Nonprogrammed charges	689,228	-	-	-	-	-	-	689,228
Total disbursements	4,849,928	689,248	602,733	896,648	1,060,897	218,447	958,872	9,276,773
Excess (deficiency) of receipts over disbursements	226,836	1,661	(428,334)	204,457	(243,731)	382,089	7,218	150,196
Other financing sources (uses):								
Proceeds of long-term debt	-	197,649	-	34,623	246,526	-	-	478,798
Sale of capital assets	129,844	-	-	-	-	-	20,387	150,231
Transfers in	168,831	-	-	-	-	-	147,125	315,956
Transfers out	-	(50,000)	-	-	-	(82,000)	(183,956)	(315,956)
Total other financing sources (uses)	298,675	147,649	-	34,623	246,526	(82,000)	(16,444)	629,029
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	525,511	149,310	(428,334)	239,080	2,795	300,089	(9,226)	779,225
Cash and investments - beginning	57,114	202,692	428,334	260,723	308,934	2,484	202,081	1,462,362
Cash and investments - ending	\$ 582,625	\$ 352,002	\$ -	\$ 499,803	\$ 311,729	\$ 302,573	\$ 192,855	\$ 2,241,587
Cash and Investment Assets - Ending								
Cash and investments	\$ 582,625	\$ 352,002	\$ -	\$ -	\$ 311,729	\$ 302,573	\$ 128,790	\$ 1,677,719
Restricted assets:								
Cash and investments	-	-	-	499,803	-	-	64,065	563,868
Total cash and investment assets - ending	\$ 582,625	\$ 352,002	\$ -	\$ 499,803	\$ 311,729	\$ 302,573	\$ 192,855	\$ 2,241,587
Cash and Investment Fund Balance - Ending								
Restricted for:								
Debt service	\$ -	\$ -	\$ -	\$ 499,803	\$ -	\$ -	\$ 64,065	\$ 563,868
Unrestricted	582,625	352,002	-	-	311,729	302,573	128,790	1,677,719
Total cash and investment fund balance - ending	\$ 582,625	\$ 352,002	\$ -	\$ 499,803	\$ 311,729	\$ 302,573	\$ 192,855	\$ 2,241,587

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

SOUTH HENRY SCHOOL CORPORATION
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For the Year Ended June 30, 2009

	Pension Trust Fund	Private-Purpose Trust Funds
Additions:		
Contributions:		
Other	\$ -	\$ 12,365
Total contributions	-	12,365
Benefits	25,832	-
Other	135,000	-
Administrative and general	-	12,231
Total deductions	160,832	12,231
Excess (deficiency) of total additions over total deductions	(160,832)	134
Cash and investment fund balance - beginning	247,922	59
Cash and investment fund balance - ending	\$ 87,090	\$ 193
Net assets:		
Cash and investments	\$ 87,090	\$ 193
Total net assets - cash and investment basis held in trust	\$ 87,090	\$ 193

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

SOUTH HENRY SCHOOL CORPORATION
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For the Year Ended June 30, 2010

	Pension Trust Fund	Private-Purpose Trust Funds
Additions:		
Contributions:		
Other	\$ -	\$ 11,845
Total contributions	-	11,845
Deductions:		
Benefits	30,087	-
Administrative and general	-	11,194
Total deductions	30,087	11,194
Excess (deficiency) of total additions over total deductions	(30,087)	651
Cash and investment fund balance - beginning	87,090	193
Cash and investment fund balance - ending	\$ 57,003	\$ 844
Net assets:		
Cash and investments	\$ 57,003	\$ 844
Total net assets - cash and investment basis held in trust	\$ 57,003	\$ 844

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

SOUTH HENRY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Primary Government: South Henry School Corporation

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

Joint Venture

The School Corporation is a participant in a joint venture to operate New Castle Area Program for Exceptional Children (Co-op) which was created to provide instruction for handicap children. The New Castle Area Program for Exceptional Children (Co-op)'s continued existence depends on continued funding by the School Corporation. Complete financial statements for the New Castle Area Program for Exceptional Children (Co-op) can be obtained from New Castle Community School Corporation 522 Elliott Avenue, New Castle, IN 47362.

The School Corporation is a participant in a joint venture to operate New Castle Area Vocational School which was created to provide instruction to vocational students. The New Castle Area Vocational School's continued existence depends on continued funding by the School Corporation. Complete financial statements for the New Castle Area Vocational School can be obtained from New Castle Community School Corporation 522 Elliott Avenue, New Castle, IN 47362.

The School Corporation is a participant in a joint venture to operate East Central Indiana Educational Service Center (Co-op) which was created to take advantage of bulk purchasing power, centralized repair of equipment, and joint in-service training programs. The Co-op's governing board consists of a member selected by each participating school corporation. The board has full authority to manage the Co-op's operations and also maintains the treasury functions. Complete financial statements for the East Central Indiana Educational Service Center (co-op) can be obtained from East Central Indiana Educational Service Center, 1601 Indiana Avenue, Connersville, IN 47331.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

SOUTH HENRY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

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

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

The fiscal stabilization fund accounts for receipts and disbursements of cash received from the federal government to be used to supplement funding of local, state and federal programs.

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 of buildings; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

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

Additionally, the School Corporation reports the following fund types:

The pension trust fund accounts for bonds and payments anticipated to be made to employees on or after the termination of employment or to pay postretirement or severance benefits held by the School Cooperation in a trustee capacity. The School Corporation transferred \$135,000 from the pension trust to the general fund to use for general fund purposes.

The private-purpose trust funds report trust arrangements under which principal and income benefit a selected group of students or provide transportation for athletic events.

SOUTH HENRY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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

D. Assets and Cash and Investment Balances

1. Restricted Assets

All restricted assets, as presented in the accompanying financial statements, are restricted due to enabling legislation.

2. 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.

3. Property Taxes

Normally, 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. 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 may 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.

4. Capital Assets

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

SOUTH HENRY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as a liability 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."

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

Program Receipts

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

F. Internal and Interfund 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 in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.
4. Interfund loans – Flow of assets from one fund to another where repayment is expected is reported as interfund loans.

SOUTH HENRY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Government-Wide Financial Statements

Interfund activity, if any, is 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 - The effects of interfund loans and services between funds, if any, are not eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

G. Rounding Differences

The financial statements may contain immaterial differences due to rounding of amounts when the statements were compiled. These differences are considered trivial and do not affect the overall presentation of the financial statements.

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 January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. Prior to November 1, 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 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.

SOUTH HENRY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Cash Balance Deficits

At June 30, 2009 and 2010, the following funds reported deficits in cash, which are violations of the Uniform Compliance Guidelines as authorized by State statute:

Fund	2009	2010
Title I 2008-2009	\$ 4,671	\$ -
Title II Part A 2008-2009	-	484

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

III. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. IC 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive State funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The School Corporation does not have a deposit policy for custodial credit risk. At June 30, 2010, the School Corporation had deposit balances in the amount of \$2,217,122.

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.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2009 and 2010, were as follows:

Transfer From	Transfer To	2009	2010
General Fund	Other Governmental Funds	\$ 10,000	\$ -
Capital Projects Fund	Other Governmental Funds	171,000	-
School Bus Replacement Fund	Other Governmental Funds	41,700	82,000
Transportation Operating Fund	Other Governmental Funds	-	50,000
Other Governmental Funds	General Fund	1,081	168,831
	Other Governmental Funds	-	15,125
Totals		\$ 223,781	\$ 315,956

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

SOUTH HENRY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

IV. Other Information

A. Risk Management

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

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters are covered by commercial insurance from independent third parties.

Settled claims from risks covered by commercial insurance have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Holding Corporation

The School Corporation has entered into a capital lease with South Henry Multi School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the years 2009 and 2010 totaled \$94,000 and \$96,000, respectively.

C. Subsequent Events

The Indiana Department of Education approved the School Corporation's application to issue Qualified School Construction Bonds and allocated an amount from Indiana's total allocation. The School Corporation has assigned the allocation to the Building Corporation. The Building Corporation is obligated to pay the interest due on the bonds without regard to whether the Building Corporation receives the direct payments. The total proceeds of the Qualified School Construction Bonds were \$1,137,000 to be used for construction and equipping of leased premises and associated costs.

D. Termination Benefits

Three teachers were offered \$20,000 each to be paid in two equal installments. The first installment was made July 1, 2010, and the final payment was made January 1, 2011.

E. Other Postemployment Benefits

Agent Multiple-Employer Defined Benefit Healthcare Plan

Plan Description

The School Corporation's defined benefit postemployment healthcare plan, East Central Indiana School Trust, provides medical, vision, life and long-term disability to eligible retired School Corporation employees and their beneficiaries. The plan is an agent multiple-employer post-employment healthcare plan administered by East Central Indiana School Trust. Indiana State Teachers Association Contract and board policy assigns the authority to establish and amend the

SOUTH HENRY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

benefit provisions of the plans to the respective employer entities that participate in the plan; for the plan, that authority rests with the School Corporation. The East Central Indiana School Trust issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by contacting the plan administrator:

East Central Indiana School Trust
1601 Indiana Avenue
Connersville, IN 47331
1-800-937-3585

Funding Policy

The contribution requirements of plan members and the School Corporation are established and may be amended by the plans board of trustees. The plan member receiving benefits contributes \$406 per month for retiree-only coverage to age 65.

The School Corporation is required to contribute the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The current ARC rate is 0% of annual covered payroll.

F. 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

SOUTH HENRY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The total contributions made to PERF by the School Corporation during the period were \$92,591.

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

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's contributions to the plan during the period were \$204,663.

SOUTH HENRY SCHOOL CORPORATION
 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, 2009

	Rainy Day	Special Ed. Preschool	School Lunch	Textbook Rental	Levy Excess	Latchkey/ Step Ahead	Educational License Plate	Safe Haven
Receipts:								
Local sources	\$ -	\$ 3,782	\$ 196,327	\$ 123,105	\$ -	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	-	-	-	244	-
State sources	-	28,549	-	-	-	-	-	-
Federal sources	-	-	137,274	-	-	-	-	-
Total receipts	-	32,331	333,601	123,105	-	-	244	-
Disbursements:								
Current:								
Instruction	-	16,714	-	-	-	-	-	-
Support services	-	-	6,395	129,568	-	-	-	-
Noninstructional services	-	-	313,781	-	6,600	-	-	-
Facilities acquisition and construction	-	-	1,492	3,739	-	-	-	-
Debt services	179,022	-	-	-	-	-	-	-
Total disbursements	179,022	16,714	321,668	133,307	6,600	-	-	-
Excess (deficiency) of receipts over disbursements	(179,022)	15,617	11,933	(10,202)	(6,600)	-	244	-
Other financing sources (uses):								
Sale of capital assets	-	-	2,536	-	-	-	-	-
Transfers in	212,700	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total other financing sources (uses)	212,700	-	2,536	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	33,678	15,617	14,469	(10,202)	(6,600)	-	244	-
Cash and investments - beginning	-	22,595	18,496	25,628	6,600	1,025	2,213	-
Cash and investments - ending	\$ 33,678	\$ 38,212	\$ 32,965	\$ 15,426	\$ -	\$ 1,025	\$ 2,457	\$ -
Cash and Investment Assets - Ending								
Cash and investments	\$ 33,678	\$ 38,212	\$ 32,965	\$ 15,426	\$ -	\$ 1,025	\$ 2,457	\$ -
Restricted assets:								
Cash and investments	-	-	-	-	-	-	-	-
Total cash and investment assets - ending	\$ 33,678	\$ 38,212	\$ 32,965	\$ 15,426	\$ -	\$ 1,025	\$ 2,457	\$ -
Cash and Investment Fund Balance - Ending								
Restricted for:								
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	33,678	38,212	32,965	15,426	-	1,025	2,457	-
Total cash and investment fund balance - ending	\$ 33,678	\$ 38,212	\$ 32,965	\$ 15,426	\$ -	\$ 1,025	\$ 2,457	\$ -

SOUTH HENRY SCHOOL CORPORATION
 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, 2009
 (Continued)

	Safe Haven 2	Elementary Technical Assistance	Non Speaking English	Technology Loan	School Technology	Technology Grants	Gifted and Talented 2007-2008
Receipts:							
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	-	-	-	-
State sources	2,680	-	-	4,004	-	-	-
Federal sources	-	-	-	-	1,920	-	-
Total receipts	2,680	-	-	4,004	1,920	-	-
Disbursements:							
Current:							
Instruction	-	117	-	-	-	-	2,878
Support services	1,681	-	-	-	-	57,875	-
Noninstructional services	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-
Total disbursements	1,681	117	-	-	-	57,875	2,878
Excess (deficiency) of receipts over disbursements	999	(117)	-	4,004	1,920	(57,875)	(2,878)
Other financing sources (uses):							
Sale of capital assets	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	999	(117)	-	4,004	1,920	(57,875)	(2,878)
Cash and investments - beginning	-	117	184	-	24	57,875	2,878
Cash and investments - ending	\$ 999	\$ -	\$ 184	\$ 4,004	\$ 1,944	\$ -	\$ -
Cash and Investment Assets - Ending							
Cash and investments	\$ 999	\$ -	\$ 184	\$ 4,004	\$ 1,944	\$ -	\$ -
Restricted assets:							
Cash and investments	-	-	-	-	-	-	-
Total cash and investment assets - ending	\$ 999	\$ -	\$ 184	\$ 4,004	\$ 1,944	\$ -	\$ -
Cash and Investment Fund Balance - Ending							
Restricted for:							
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	999	-	184	4,004	1,944	-	-
Total cash and investment fund balance - ending	\$ 999	\$ -	\$ 184	\$ 4,004	\$ 1,944	\$ -	\$ -

SOUTH HENRY SCHOOL CORPORATION
 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, 2009
 (Continued)

	Gifted and Talented 2008-2009	Title I 2007-2008	Title I 2008-2009	Title V 2008-2009	Drug Free Grant 2007-2008	Drug Free Grant 2008-2009	Eisenhower Grant
Receipts:							
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	-	-	-	-
State sources	28,722	-	-	-	-	-	-
Federal sources	-	-	75,055	1,245	-	-	2,000
Total receipts	28,722	-	75,055	1,245	-	-	2,000
Disbursements:							
Current:							
Instruction	22,454	13,865	76,227	-	696	580	-
Support services	-	-	3,499	-	-	-	-
Noninstructional services	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-
Total disbursements	22,454	13,865	79,726	-	696	580	-
Excess (deficiency) of receipts over disbursements	6,268	(13,865)	(4,671)	1,245	(696)	(580)	2,000
Other financing sources (uses):							
Sale of capital assets	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	6,268	(13,865)	(4,671)	1,245	(696)	(580)	2,000
Cash and investments - beginning	-	13,865	-	-	2,610	580	-
Cash and investments - ending	\$ 6,268	\$ -	\$ (4,671)	\$ 1,245	\$ 1,914	\$ -	\$ 2,000
Cash and Investment Assets - Ending							
Cash and investments	\$ 6,268	\$ -	\$ (4,671)	\$ 1,245	\$ 1,914	\$ -	\$ 2,000
Restricted assets:							
Cash and investments	-	-	-	-	-	-	-
Total cash and investment assets - ending	\$ 6,268	\$ -	\$ (4,671)	\$ 1,245	\$ 1,914	\$ -	\$ 2,000
Cash and Investment Fund Balance - Ending							
Restricted for:							
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	6,268	-	(4,671)	1,245	1,914	-	2,000
Total cash and investment fund balance - ending	\$ 6,268	\$ -	\$ (4,671)	\$ 1,245	\$ 1,914	\$ -	\$ 2,000

SOUTH HENRY SCHOOL CORPORATION
 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, 2009
 (Continued)

	Title II, Part A 2007-2008	Title II, Part A 2008-2009	Title II, Part D Enhancing Ed	Title I ARRA	Retirement/ Severance Bond Fund Debt Service	Vocational Reimbursement	Totals
Receipts:							
Local sources	\$ -	\$ -	\$ -	\$ -	\$ 52,071	\$ -	\$ 375,285
Intermediate sources	-	-	-	-	-	-	244
State sources	-	-	-	-	-	-	63,955
Federal sources	-	19,400	-	28,000	-	-	264,894
Total receipts	-	19,400	-	28,000	52,071	-	704,378
Disbursements:							
Current:							
Instruction	8,414	27,812	-	-	-	-	169,757
Support services	-	-	2,080	-	-	-	201,098
Noninstructional services	-	-	-	-	-	-	320,381
Facilities acquisition and construction	-	-	-	-	-	-	5,231
Debt services	-	-	-	-	41,628	-	220,650
Total disbursements	8,414	27,812	2,080	-	41,628	-	917,117
Excess (deficiency) of receipts over disbursements	(8,414)	(8,412)	(2,080)	28,000	10,443	-	(212,739)
Other financing sources (uses):							
Sale of capital assets	-	-	-	-	-	-	2,536
Transfers in	10,000	-	-	-	-	-	222,700
Transfers out	-	-	-	-	(1,081)	-	(1,081)
Total other financing sources (uses)	10,000	-	-	-	(1,081)	-	224,155
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	1,586	(8,412)	(2,080)	28,000	9,362	-	11,416
Cash and investments - beginning	9,925	23,381	2,106	-	-	562	190,664
Cash and investments - ending	\$ 11,511	\$ 14,969	\$ 26	\$ 28,000	\$ 9,362	\$ 562	\$ 202,080
<u>Cash and Investment Assets - Ending</u>							
Cash and investments	\$ 11,511	\$ 14,969	\$ 26	\$ 28,000	\$ -	\$ 562	\$ 192,718
Restricted assets:							
Cash and investments	-	-	-	-	9,362	-	9,362
Total cash and investment assets - ending	\$ 11,511	\$ 14,969	\$ 26	\$ 28,000	\$ 9,362	\$ 562	\$ 202,080
<u>Cash and Investment Fund Balance - Ending</u>							
Restricted for:							
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 9,362	\$ -	\$ 9,362
Unrestricted	11,511	14,969	26	28,000	-	562	192,718
Total cash and investment fund balance - ending	\$ 11,511	\$ 14,969	\$ 26	\$ 28,000	\$ 9,362	\$ 562	\$ 202,080

SOUTH HENRY SCHOOL CORPORATION
 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, 2010

	Rainy Day	Special Ed. Preschool	School Lunch	Textbook Rental	Latchkey/ Step Ahead	Educational License Plate	Safe Haven	Safe Haven 2	Non Speaking English
Receipts:									
Local sources	\$ -	\$ -	\$ 184,651	\$ 172,231	\$ -	\$ -	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	-	-	75	-	-	-
State sources	15,125	-	-	-	-	-	5,709	-	-
Federal sources	-	-	185,957	-	-	-	-	-	-
Total receipts	15,125	-	370,608	172,231	-	75	5,709	-	-
Disbursements:									
Current:									
Instruction	30,250	23,087	119,535	-	-	-	1,568	999	-
Support services	-	-	9,892	149,278	-	-	-	-	-
Noninstructional services	-	-	226,063	-	-	-	-	-	-
Facilities acquisition and construction	-	-	1,480	4,329	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Total disbursements	30,250	23,087	356,970	153,607	-	-	1,568	999	-
Excess (deficiency) of receipts over disbursements	(15,125)	(23,087)	13,638	18,624	-	75	4,141	(999)	-
Other financing sources (uses):									
Sale of capital assets	-	-	20,387	-	-	-	-	-	-
Transfers in	147,125	-	-	-	-	-	-	-	-
Transfers out	(165,678)	(15,125)	-	-	(1,025)	-	-	-	(184)
Total other financing sources (uses)	(18,553)	(15,125)	20,387	-	(1,025)	-	-	-	(184)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(33,678)	(38,212)	34,025	18,624	(1,025)	75	4,141	(999)	(184)
Cash and investments - beginning	33,678	38,212	32,965	15,427	1,025	2,456	-	999	184
Cash and investments - ending	\$ -	\$ -	\$ 66,990	\$ 34,051	\$ -	\$ 2,531	\$ 4,141	\$ -	\$ -
Cash and Investment Assets - Ending									
Cash and investments	\$ -	\$ -	\$ 66,990	\$ 34,051	\$ -	\$ 2,531	\$ 4,141	\$ -	\$ -
Restricted assets:									
Cash and investments	-	-	-	-	-	-	-	-	-
Total cash and investment assets - ending	\$ -	\$ -	\$ 66,990	\$ 34,051	\$ -	\$ 2,531	\$ 4,141	\$ -	\$ -
Cash and Investment Fund Balance - Ending									
Restricted for:									
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	-	-	66,990	34,051	-	2,531	4,141	-	-
Total cash and investment fund balance - ending	\$ -	\$ -	\$ 66,990	\$ 34,051	\$ -	\$ 2,531	\$ 4,141	\$ -	\$ -

SOUTH HENRY SCHOOL CORPORATION
 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, 2010
 (Continued)

	Technology Loan	School Technology	Technology Grants	Gifted and Talented 2008-2009	Gifted and Talented 2009-2010	Title I 2009-2010	Title I 2008-2009	Title V 2008-2009	Drug Free Grant 2007-2008
Receipts:									
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	78,196	-	-	-	28,564	-	-	-	-
Federal sources	-	-	-	-	-	82,975	7,959	486	-
Total receipts	78,196	-	-	-	28,564	82,975	7,959	486	-
Disbursements:									
Current:									
Instruction	82,200	-	-	6,268	26,977	75,494	3,288	-	1,914
Support services	-	-	-	-	-	3,426	-	1,731	-
Noninstructional services	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-
Total disbursements	82,200	-	-	6,268	26,977	78,920	3,288	1,731	1,914
Excess (deficiency) of receipts over disbursements	(4,004)	-	-	(6,268)	1,587	4,055	4,671	(1,245)	(1,914)
Other financing sources (uses):									
Sale of capital assets	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	(1,944)	-	-	-	-	-	-	-
Total other financing sources (uses)	-	(1,944)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(4,004)	(1,944)	-	(6,268)	1,587	4,055	4,671	(1,245)	(1,914)
Cash and investments - beginning	4,004	1,944	-	6,268	-	-	(4,671)	1,245	1,914
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ 1,587	\$ 4,055	\$ -	\$ -	\$ -
Cash and Investment Assets - Ending									
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ 1,587	\$ 4,055	\$ -	\$ -	\$ -
Restricted assets:									
Cash and investments	-	-	-	-	-	-	-	-	-
Total cash and investment assets - ending	\$ -	\$ -	\$ -	\$ -	\$ 1,587	\$ 4,055	\$ -	\$ -	\$ -
Cash and Investment Fund Balance - Ending									
Restricted for:									
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	-	-	-	-	1,587	4,055	-	-	-
Total cash and investment fund balance - ending	\$ -	\$ -	\$ -	\$ -	\$ 1,587	\$ 4,055	\$ -	\$ -	\$ -

SOUTH HENRY SCHOOL CORPORATION
 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, 2010
 (Continued)

	Eisenhower Grant	Title II, Part A 2007-2008	Title II, Part A 2008-2009	Title II, Part A 2009-2010	Title II, Part D Enhancing Ed	Title I ARRA	Retirement/ Severance Bond Fund Debt Service	Vocational Reimbursement	Totals
Receipts:									
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 136,313	\$ -	\$ 493,195
Intermediate sources	-	-	-	-	-	-	-	-	75
State sources	-	-	-	-	-	-	-	-	127,594
Federal sources	-	-	13,151	35,181	-	19,517	-	-	345,226
Total receipts	-	-	13,151	35,181	-	19,517	136,313	-	966,090
Disbursements:									
Current:									
Instruction	-	11,511	28,604	23,886	-	45,030	-	425	481,036
Support services	-	-	-	-	27	-	-	-	164,354
Noninstructional services	-	-	-	-	-	-	-	-	226,063
Facilities acquisition and construction	-	-	-	-	-	-	-	-	5,809
Debt services	-	-	-	-	-	-	81,610	-	81,610
Total disbursements	-	11,511	28,604	23,886	27	45,030	81,610	425	958,872
Excess (deficiency) of receipts over disbursements	-	(11,511)	(15,453)	11,295	(27)	(25,513)	54,703	(425)	7,218
Other financing sources (uses):									
Sale of capital assets	-	-	-	-	-	-	-	-	20,387
Transfers in	-	-	-	-	-	-	-	-	147,125
Transfers out	-	-	-	-	-	-	-	-	(183,956)
Total other financing sources (uses)	-	-	-	-	-	-	-	-	(16,444)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(11,511)	(15,453)	11,295	(27)	(25,513)	54,703	(425)	(9,226)
Cash and investments - beginning	2,000	11,511	14,969	-	27	28,000	9,362	562	202,081
Cash and investments - ending	\$ 2,000	\$ -	\$ (484)	\$ 11,295	\$ -	\$ 2,487	\$ 64,065	\$ 137	\$ 192,855
Cash and Investment Assets - Ending									
Cash and investments	\$ 2,000	\$ -	\$ (484)	\$ 11,295	\$ -	\$ 2,487	\$ -	\$ 137	\$ 128,790
Restricted assets:									
Cash and investments	-	-	-	-	-	-	64,065	-	64,065
Total cash and investment assets - ending	\$ 2,000	\$ -	\$ (484)	\$ 11,295	\$ -	\$ 2,487	\$ 64,065	\$ 137	\$ 192,855
Cash and Investment Fund Balance - Ending									
Restricted for:									
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 64,065	\$ -	\$ 64,065
Unrestricted	2,000	-	(484)	11,295	-	2,487	-	137	128,790
Total cash and investment fund balance - ending	\$ 2,000	\$ -	\$ (484)	\$ 11,295	\$ -	\$ 2,487	\$ 64,065	\$ 137	\$ 192,855

SOUTH HENRY SCHOOL CORPORATION
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PRIVATE-PURPOSE TRUST FUNDS
 For the Year Ended June 30, 2009

	Donations/ Schools	Athletic Fund	Totals
Additions:			
Contributions:			
Other	\$ -	\$ 12,365	\$ 12,365
Total additions	-	12,365	12,365
Deductions:			
Administrative and general	-	12,231	12,231
Excess of total additions over total deductions	-	134	134
Cash and investment fund balance - beginning	98	(39)	59
Cash and investments - June 30	98	95	193
Net assets:			
Cash and investments	98	95	193
Total net assets - cash and investment basis held in trust	98	95	193

SOUTH HENRY SCHOOL CORPORATION
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PRIVATE-PURPOSE TRUST FUNDS
 For the Year Ended June 30, 2010

	Donations/ Schools	Henry County Foundation	Athletic Fund	Totals
Additions:				
Contributions:				
Other	\$ -	\$ 1,200	\$ 10,645	\$ 11,845
Total additions	-	1,200	10,645	11,845
Deductions:				
Administrative and general	98	-	11,096	11,194
Excess (deficiency) of total additions over total deductions	(98)	1,200	(451)	651
Cash and investment fund balance - beginning	98	-	95	193
Cash and investments - June 30	\$ -	\$ 1,200	\$ (356)	\$ 844
Net assets:				
Cash and investments	\$ -	\$ 1,200	\$ (356)	\$ 844
Total net assets - cash and investment basis held in trust	\$ -	\$ 1,200	\$ (356)	\$ 844

SOUTH HENRY SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 June 30, 2010

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 24,000
Buildings	2,815,950
Improvements other than buildings	2,647,663
Machinery and equipment	<u>1,119,797</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 6,607,410</u>

SOUTH HENRY SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2010

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:		
School building - 2008	\$ 4,237,000	\$ 306,000
Notes and loans payable:		
Common School Loan A0454	2,779,420	277,942
Common School Loan A1375	82,200	28,508
Common School Loan A1475	80,600	14,239
Bonds payable:		
General obligation bonds:		
Retirement/Severance bonds	685,000	79,415
Qualified School Construction Bond 2010	1,137,000	33,494
Total governmental activities debt	<u>\$ 9,001,220</u>	<u>\$ 739,598</u>

SOUTH HENRY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted deficiencies in the internal control system of the School Corporation related to financial transactions and reporting.

1. Lack of Segregation of Duties: Control activities were not selected and developed at various levels of the School Corporation to reduce risks to achievement of financial reporting objectives. The School Corporation has not separated incompatible activities related to receipts, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to be undetected.
2. Monitoring of Controls: The School Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the School Corporation at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the School Corporation has no process to identify or communicate corrective actions to improve controls.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

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

DISBURSEMENT DOCUMENTATION

Three of the claims examined did were not accompanied by adequate supporting documentation such as receipts, and invoices.

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

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)

ECA EDUCATIONAL FEES

Some educational fees were being receipted to and retained in an extra-curricular fund. Lab fees for kindergarten science lab and technology lab fees are retained in the extra-curricular account instead of being transferred to the School Corporation Central Office.

SOUTH HENRY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

IC 20-26-4-1(d) concerning duties of the School Corporation Treasurer states in part:

"The treasurer is the official custodian of all funds of the school corporation and is responsible for the proper safeguarding and accounting for the funds . . ." Therefore, all grant monies and properly authorized fees at an individual building should be transferred to the School Corporation Central Office on a timely and regular basis for receipting into the appropriate school corporation fund. The School Corporation Attorney should provide written guidance concerning whether fees are appropriate in regards to Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

HONORS DIPLOMAS - INCORRECT REPORTING TO THE STATE

The information presented for audit indicates honors diploma award figures reported to the Indiana Department of Education were overreported by one student for the school year ending June 30, 2010.

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

Class rosters presented for audit to support the ADM claimed by the School Corporation were not certified by the appropriate building level official.

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 163, September 2003, and Volume 182, June 2008)

TRANSPORTATION FUND EXPENDITURES – ATHLETIC DIRECTOR AND CORPORATION TREASURER

Portions of the Athletic Director's and School Corporation Treasurer's salaries were paid from the Transportation Fund and the General Fund.

IC 20-40-6-6(a) regarding the Transportation Fund states in part:

"The following costs are payable from the fund: (1) The salaries paid to bus drivers, transportation supervisors, mechanics and garage employees, clerks, and other transportation related employees. . . ."

SOUTH HENRY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Percentages or parts of salaries of teaching personnel or principals are not attributable to transportation. However, parts of salaries of instructional aides who are assigned to assist with the school transportation program are attributable to transportation. The costs described in this subsection (other than instructional aide costs) may not be budgeted for payment or paid from the fund."

The Conclusion of Attorney General Advisory Number 96-78 states in part:

"The school transportation fund was established to cover costs which are attributable to transportation. Indiana Code 21-2-11.5-2(b)(1) through (b)(7) (now 20-40-6-6) set forth the costs which may be attributed to transportation. According to subsection (b)(1), the salaries of "transportation-related" employees may be paid from this fund. As the school superintendent and school corporation treasurer do not appear to be positions that are transportation-related, payment from the transportation fund of the salaries attached to these positions would be improper." (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

OVERDRAWN CASH BALANCES

The cash balances of the Title I Fund and Title II, Part A Fund were overdrawn in 2008-2009 and 2009-2010, respectively.

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)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
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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 SOUTH HENRY SCHOOL CORPORATION, HENRY COUNTY, INDIANA

Compliance

We have audited the compliance of the South Henry School Corporation (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2009 and 2010. 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, 2009 and 2010.

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.

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

February 7, 2011

SOUTH HENRY SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2009 and 2010

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 06-30-09	Total Federal Awards Expended 06-30-10
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	FY 08-09	\$ 23,800	\$ 32,528
National School Lunch Program	10.555	FY 09-10	<u>127,137</u>	<u>155,746</u>
Total for federal grantor agency			<u>150,937</u>	<u>188,274</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Title I Part A Cluster				
Title I Grants to Local Educational Agencies	84.010	07-3415	13,865	-
		08-3415	79,726	3,288
		09-3415	<u>-</u>	<u>78,920</u>
Total for program			<u>93,591</u>	<u>82,208</u>
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY 09-10	<u>-</u>	<u>45,030</u>
Total for cluster			<u>93,591</u>	<u>127,238</u>
Education Technology State Grants Cluster				
Education Technology State Grants	84.318	FY 07-08	8,415	11,511
		FY 08-09	<u>2,080</u>	<u>27</u>
Total for program			<u>10,495</u>	<u>11,538</u>
State Fiscal Stabilization Fund Cluster				
ARRA - State Fiscal Stabilization Fund - Education				
State Grants, Recovery Act (SFSF)	84.394	FY 09-10	<u>-</u>	<u>602,733</u>
Safe and Drug Free Schools and Communities - State Grants				
	84.186	FY 06-07	580	-
		FY 07-08	<u>696</u>	<u>1,917</u>
Total for program			<u>1,276</u>	<u>1,917</u>
State Grants for Innovative Programs	84.218	FY 06-07	<u>-</u>	<u>1,731</u>
Improving Teacher Quality - State Grants				
	84.367	08-3415	27,812	28,604
		09-3415	<u>-</u>	<u>23,886</u>
Total for program			<u>27,812</u>	<u>52,490</u>
Total for federal grantor agency			<u>133,174</u>	<u>797,647</u>
Total federal awards expended			<u>\$ 284,111</u>	<u>\$ 985,921</u>

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

SOUTH HENRY SCHOOL CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the South Henry School Corporation (School Corporation) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

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, 2009 and 2010. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2009	2010
National School Lunch Program	10.555	\$ 17,112	\$ 16,708

SOUTH HENRY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Significant deficiencies 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:

Name of Federal Program or Cluster
Child Nutrition Cluster
State Fiscal Stabilization Fund Cluster

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2010-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities were not selected and developed at various levels of the School Corporation to reduce risks to achievement of financial reporting objectives. The School Corporation has not separated incompatible activities related to receipts, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to be undetected.

SOUTH HENRY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2. Monitoring of Controls: Effective internal control over financial reporting requires the School Board to monitor and assess the quality of the School Corporation's system of internal control. The School Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the School Corporation at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the School Board has no process to identify or communicate corrective actions to improve controls.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

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

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

SOUTH HENRY SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

SOUTH HENRY SCHOOL CORPORATION

6972 S. St. Rd. 103
Straughn, IN 47387
(765) 987-7882
FAX: (765) 987-7589
Candis Haskell
Superintendent
chaskell@shenry.k12.in.us

Finding: Segregation of Duties

Contact Person: Emily Cupp, Treasurer

South Henry School Corporation is aware of the risks associated with a limited staff and has determined the benefits of hiring additional staff, in order that all accounting functions are performed by different individuals, are not sufficient to justify the increase in personnel cost to the taxpayers of South Henry School Corporation.

Bank balances are reconciled monthly and balanced to the Fund totals. The Board of School Trustees is provided monthly reports showing Fund Activity, Bank Balances, Interest Earned, and Appropriation Activity.

In addition to the above reports, a cash flow worksheet is provided to the Superintendent on a monthly balance.



Candis Haskell, Superintendent



Emily Cupp, Treasurer



SOUTH HENRY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 7, 2011, with Emily Cupp, Treasurer; Lisa Butler, Payroll/Deputy Treasurer; Candis Haskell, Superintendent of Schools; and Scott Lightfoot, President of the School Board. The officials concurred with our audit findings.