

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

AUDIT REPORT
OF
NORTH KNOX SCHOOL CORPORATION
KNOX COUNTY, INDIANA
July 1, 2008 to June 30, 2010



FILED
03/30/2011

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer/Director of Business	Sandra Beaman	07-01-08 to 06-30-10
	Peggy E. Smith	07-01-10 to 06-30-11
Superintendent of Schools	Joseph H. Adams	07-01-08 to 06-30-10
	Darrel L. Bobe	07-01-10 to 06-30-11
President of the School Board	Max Nickless	07-01-08 to 06-30-09
	Matt Sandefer	07-01-09 to 06-30-10
	Vacant	07-01-10 to 07-29-10
	James E. Franklin	07-30-10 to 06-30-11



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

TO: THE OFFICIALS OF THE NORTH KNOX SCHOOL CORPORATION, KNOX COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Knox 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 March 15, 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 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, 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.

The School Corporation's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

March 15, 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 NORTH KNOX SCHOOL CORPORATION, KNOX COUNTY, INDIANA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Knox 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 March 15, 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 items 2010-1 and 2010-2 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 items 2010-1 and 2010-2 to be material weaknesses.

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 Official Response and 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

March 15, 2011

NORTH KNOX 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	\$ 7,390,666	\$ -	\$ 185,291	\$ (7,205,375)
Support services	5,014,596	301,251	400,653	(4,312,692)
Noninstructional services	989,426	-	-	(989,426)
Facilities acquisition and construction	628,301	-	-	(628,301)
Debt service	816,866	-	-	(816,866)
Nonprogrammed charges	<u>258,504</u>	<u>-</u>	<u>-</u>	<u>(258,504)</u>
Total governmental activities	<u>\$ 15,098,359</u>	<u>\$ 301,251</u>	<u>\$ 585,944</u>	<u>(14,211,164)</u>
General receipts:				
Property taxes				5,376,994
Other local sources				722,514
State aid				7,375,554
Grants and contributions not restricted to specific programs				1,649,952
Sale of property				528
Investment earnings				43,660
Other				<u>316,908</u>
Total general receipts				<u>15,486,110</u>
Change in net assets				1,274,946
Net assets - beginning				<u>5,018,124</u>
Net assets - ending				<u>\$ 6,293,070</u>
<u>Assets</u>				
Cash and investments				\$ 4,295,039
Restricted assets:				
Cash and investments				<u>1,998,031</u>
Total assets				<u>\$ 6,293,070</u>
<u>Net Assets</u>				
Restricted for:				
Debt service				\$ 263,214
Other purposes				1,734,817
Unrestricted				<u>4,295,039</u>
Total net assets				<u>\$ 6,293,070</u>

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

NORTH KNOX 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	\$ 7,360,014	\$ -	\$ 177,877	\$ (7,182,137)
Support services	4,704,689	434,139	382,126	(3,888,424)
Noninstructional services	1,080,007	-	-	(1,080,007)
Facilities acquisition and construction	561,774	-	-	(561,774)
Debt service	819,377	-	-	(819,377)
Nonprogrammed charges	899,195	-	-	(899,195)
Total governmental activities	<u>\$ 15,425,056</u>	<u>\$ 434,139</u>	<u>\$ 560,003</u>	<u>(14,430,914)</u>
General receipts:				
Property taxes				4,458,513
Other local sources				594,764
State aid				9,158,454
Grants and contributions not restricted to specific programs				1,550,280
Investment earnings				803
Other				298,662
Total general receipts				<u>16,061,476</u>
Change in net assets				1,630,562
Net assets - beginning				<u>6,293,070</u>
Net assets - ending				<u>\$ 7,923,632</u>
<u>Assets</u>				
Cash and investments				\$ 6,013,884
Restricted assets:				
Cash and investments				<u>1,909,748</u>
Total assets				<u>\$ 7,923,632</u>
<u>Net Assets</u>				
Restricted for:				
Debt service				\$ 565,752
Other purposes				1,343,996
Unrestricted				<u>6,013,884</u>
Total net assets				<u>\$ 7,923,632</u>

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

NORTH KNOX 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	Rainy Day	Fiscal Stabilization - Education	Other	Totals
Receipts:						
Local sources	\$ 2,730,455	\$ 1,111,267	\$ -	\$ -	\$ 2,591,643	\$ 6,433,365
Intermediate sources	533	-	-	-	525	1,058
State sources	7,529,351	-	-	-	129,500	7,658,851
Federal sources	-	-	-	799,910	1,152,688	1,952,598
Other	155,000	2,408	-	-	-	157,408
Total receipts	10,415,339	1,113,675	-	799,910	3,874,356	16,203,280
Disbursements:						
Current:						
Instruction	6,756,073	-	-	-	634,593	7,390,666
Support services	3,004,086	1,111,200	46,746	48,271	804,293	5,014,596
Noninstructional services	237,998	-	-	-	751,428	989,426
Facilities acquisition and construction	-	-	-	-	628,301	628,301
Debt services	-	-	-	-	816,866	816,866
Nonprogrammed charges	186,719	-	-	20,418	51,367	258,504
Total disbursements	10,184,876	1,111,200	46,746	68,689	3,686,848	15,098,359
Excess (deficiency) of receipts over disbursements	230,463	2,475	(46,746)	731,221	187,508	1,104,921
Other financing sources (uses):						
Sale of capital assets	528	-	-	-	-	528
Transfers in	6,404	-	-	-	505,001	511,405
Transfers out	-	-	(455,000)	-	(56,405)	(511,405)
Total other financing sources (uses)	6,932	-	(455,000)	-	448,596	528
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	237,395	2,475	(501,746)	731,221	636,104	1,105,449
Cash and investments - beginning	972,065	282,976	1,848,342	-	349,421	3,452,804
Cash and investments - ending	<u>\$ 1,209,460</u>	<u>\$ 285,451</u>	<u>\$ 1,346,596</u>	<u>\$ 731,221</u>	<u>\$ 985,525</u>	<u>4,558,253</u>
Amounts reported for governmental activities in the Statement of Cash Activities and Net Assets - Cash and Investment Basis are different because:						
Internal service funds are used by management to charge the costs of certain services to individual funds. The receipts and disbursements of the internal service funds are included in governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis.						
						1,734,817
Net assets of governmental activities						<u>\$ 6,293,070</u>
Cash and Investment Assets - Ending						
Cash and investments	\$ 1,209,460	\$ 285,451	\$ 1,346,596	\$ 731,221	\$ 722,311	\$ 4,295,039
Restricted assets:						
Cash and investments	-	-	-	-	263,214	263,214
Total cash and investment assets - ending	<u>\$ 1,209,460</u>	<u>\$ 285,451</u>	<u>\$ 1,346,596</u>	<u>\$ 731,221</u>	<u>\$ 985,525</u>	<u>\$ 4,558,253</u>
Cash and Investment Fund Balance - Ending						
Restricted for:						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 263,214	\$ 263,214
Unrestricted	1,209,460	285,451	1,346,596	731,221	722,311	4,295,039
Total cash and investment fund balance - ending	<u>\$ 1,209,460</u>	<u>\$ 285,451</u>	<u>\$ 1,346,596</u>	<u>\$ 731,221</u>	<u>\$ 985,525</u>	<u>\$ 4,558,253</u>

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

NORTH KNOX 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	Rainy Day	Fiscal Stabilization - Education	Other	Totals
Receipts:						
Local sources	\$ 28,331	\$ 1,797,267	\$ -	\$ -	\$ 3,518,776	\$ 5,344,374
Intermediate sources	533	-	-	-	313	846
State sources	9,305,541	-	-	-	128,112	9,433,653
Federal sources	-	-	-	271,097	1,700,517	1,971,614
Other	79,351	-	-	-	-	79,351
Total receipts	9,413,756	1,797,267	-	271,097	5,347,718	16,829,838
Disbursements:						
Current:						
Instruction	5,696,934	-	-	764,182	898,898	7,360,014
Support services	2,578,095	1,105,015	45,998	151,357	824,224	4,704,689
Noninstructional services	207,897	-	-	25,526	846,584	1,080,007
Facilities acquisition and construction	95	-	-	-	561,679	561,774
Debt services	-	-	-	-	819,377	819,377
Nonprogrammed charges	201,045	-	-	61,253	20,296	282,594
Total disbursements	8,684,066	1,105,015	45,998	1,002,318	3,971,058	14,808,455
Excess (deficiency) of receipts over disbursements	729,690	692,252	(45,998)	(731,221)	1,376,660	2,021,383
Other financing sources (uses):						
Transfers in	56,284	-	455,000	-	34,862	546,146
Transfers out	-	-	-	-	(546,146)	(546,146)
Total other financing sources (uses)	56,284	-	455,000	-	(511,284)	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	785,974	692,252	409,002	(731,221)	865,376	2,021,383
Cash and investments - beginning	1,209,460	285,451	1,346,596	731,221	985,525	4,558,253
Cash and investments - ending	<u>\$ 1,995,434</u>	<u>\$ 977,703</u>	<u>\$ 1,755,598</u>	<u>\$ -</u>	<u>\$ 1,850,901</u>	6,579,636
Amounts reported for governmental activities in the Statement of Cash Activities and Net Assets - Cash and Investment Basis are different because:						
Internal service funds are used by management to charge the costs of certain services to individual funds. The receipts and disbursements of the internal service funds are included in governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis.						<u>1,343,996</u>
Net assets of governmental activities						<u>\$ 7,923,632</u>
Cash and Investment Assets - Ending						
Cash and investments	\$ 1,995,434	\$ 977,703	\$ 1,755,598	\$ -	\$ 1,285,149	\$ 6,013,884
Restricted assets:						
Cash and investments	-	-	-	-	565,752	565,752
Total cash and investment assets - ending	<u>\$ 1,995,434</u>	<u>\$ 977,703</u>	<u>\$ 1,755,598</u>	<u>\$ -</u>	<u>\$ 1,850,901</u>	<u>\$ 6,579,636</u>
Cash and Investment Fund Balance - Ending						
Restricted for:						
Debt service	\$ -	\$ -	\$ -	\$ -	565,752	\$ 565,752
Unrestricted	1,995,434	977,703	1,755,598	-	1,285,149	6,013,884
Total cash and investment fund balance - ending	<u>\$ 1,995,434</u>	<u>\$ 977,703</u>	<u>\$ 1,755,598</u>	<u>\$ -</u>	<u>\$ 1,850,901</u>	<u>\$ 6,579,636</u>

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

NORTH KNOX SCHOOL CORPORATION
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
For the Year Ended June 30, 2009

	Insurance Fund
Operating receipts:	
Charges for services	\$ 169,497
Cash and investment fund balance - beginning	1,565,320
Cash and investment fund balance - ending	\$ 1,734,817
 <u>Cash and Investment Assets - Ending</u>	
Restricted assets:	
Cash and investments	\$ 1,734,817
 <u>Cash and Investment Fund Balance - Ending</u>	
Restricted for:	
Other purposes	\$ 1,734,817

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

NORTH KNOX SCHOOL CORPORATION
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
For the Year Ended June 30, 2010

	Insurance Fund
Operating receipts:	
Charges for services	\$ 225,780
Operating disbursements:	
Insurance claims and expense	616,601
Deficiency of operating receipts under operating disbursements	(390,821)
Cash and investment fund balance - beginning	1,734,817
Cash and investment fund balance - ending	\$ 1,343,996
 <u>Cash and Investment Assets - Ending</u>	
Restricted assets:	
Cash and investments	\$ 1,343,996
 <u>Cash and Investment Fund Balance - Ending</u>	
Restricted for:	
Other purposes	\$ 1,343,996

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

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

	Pension Trust Funds	Private-Purpose Trust Funds	Agency Funds
Additions:			
Contributions:			
Other	\$ -	\$ 57,169	
Deductions:			
Benefits	26,325	-	
Administrative and general	-	59,444	
Total deductions	26,325	59,444	
Deficiency of total additions under total deductions	(26,325)	(2,275)	
Cash and investment fund balance - beginning	655,341	15,373	
Cash and investment fund balance - ending	\$ 629,016	\$ 13,098	\$ 3,771
Net assets:			
Cash and investments	\$ 629,016	\$ 13,098	\$ 3,771
Total net assets - cash and investment basis held in trust	\$ 629,016	\$ 13,098	\$ 3,771

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

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

	Pension Trust Funds	Private-Purpose Trust Funds	Agency Funds
Additions:			
Contributions:			
Other	\$ -	\$ 11,967	
Deductions:			
Benefits	102,094	-	
Administrative and general	-	17,157	
Total deductions	102,094	17,157	
Deficiency of total additions under total deductions	(102,094)	(5,190)	
Cash and investment fund balance - beginning	629,016	13,098	
Cash and investment fund balance - ending	\$ 526,922	\$ 7,908	\$ 7,090
Net assets:			
Cash and investments	\$ 526,922	\$ 7,908	\$ 7,090
Total net assets - cash and investment basis held in trust	\$ 526,922	\$ 7,908	\$ 7,090

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

NORTH KNOX 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: North Knox School Corporation

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

Joint Ventures

The School Corporation is a participant in a joint venture to operate Knox County Special Education Cooperative which was created to operate programs and services for handicapped children. The School Corporation is obligated by contract to remit monthly payments to supplement the Cooperative. The Cooperative's continued existence depends on continued funding by the School Corporation. The School Corporation is obligated for the debts of the Cooperative equal to their proportionate share. Complete financial statements for the Knox County Special Education Cooperative can be obtained from Vincennes Lincoln High School, 1545 South Hart St. Rd., Vincennes, IN 47591.

The School Corporation is a participant in a joint venture to operate Southern Indiana Education Center (SIEC) which was created to operate and maintain an educational service center in order to allow participating school corporations to cooperate and share certain programs and services. The School Corporation is obligated by contract to remit annually a fee for membership in an amount determined by the governing board of SIEC. The Southern Indiana Education Center (SIEC)'s continued existence depends on continued funding by the School Corporation. The member School Corporations are obligated for the debts of SIEC. Complete financial statements for the Southern Indiana Education Center (SIEC) can be obtained from Southwest Dubois County School Corporation, 113 North Jackson Street, Huntingburg, IN 47542.

The School Corporation is a participant in a joint venture to operate Twin Rivers Vocational Area which was created to provide vocational programs for students of participating school corporations. The School Corporation is obligated by contract to remit annually its share of the budget as determined by the Vocational Area's governing Board. The Twin Rivers Vocational Area's continued existence depends on continued funding by the School Corporation. Complete financial statements for the Twin Rivers Vocational Area can be obtained from the Twin Rivers Vocational Area Administrative Office, 20 North 3rd St., Vincennes, IN 47591.

NORTH KNOX SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Related Organizations

The School Corporation's officials are also responsible for appointing the voting majority of the boards of other organizations, but the School Corporation's accountability for these organizations does not extend beyond making the appointments. The School Corporation appoints the voting majority of the Bicknell-Vigo Public Library.

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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. However, the Corporation does not have business-type activities.

Fund Financial Statements

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

The School Corporation reports the following major governmental funds:

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

The Transportation Operating Fund accounts for financial resources for the transportation of school children to and from school.

The Rainy Day Fund is used to account for funds in accordance with IC 36-1-8-5.1 and a locally adopted resolution.

The Fiscal Stabilization - Education Fund is used to account for funds granted to the Corporation through the America Recovery and Reinvestment Act of 2009. Funds are used for any general purpose allowed under the act guidelines.

Additionally, the School Corporation reports the following fund types:

The internal service fund accounts for group health insurance and related expenditures.

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.

NORTH KNOX SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the annual disbursement of scholarship funds to eligible students.

Agency funds account for assets held by the School Corporation as an agent for employee payroll withholdings 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, proprietary fund, and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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.

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.

NORTH KNOX SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as 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. 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, and (2) operating grants and contributions. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

NORTH KNOX SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 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.

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 except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. 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.

NORTH KNOX SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

B. Disbursements in Excess of Appropriations

For the years ended December 31, 2009, disbursements exceeded budgeted appropriations in the following fund by the amounts below:

Fund	2009
Capital Projects	\$ 33,946

These disbursements were funded by available fund balances not budgeted for expenditure by the DLGF.

C. 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
Group Insurance	\$ 8,628	\$ 745
Social Security	-	42
Athletic - Payroll	-	519

Cash and investment deficits arose primarily from disbursements exceeding receipts in the agency funds due to improper transfers to payroll withholding funds.

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

NORTH KNOX SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$8,319,939.

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:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2009</u>	<u>2010</u>
Rainy Day Fund	Other Governmental Funds	\$ 455,000	\$ -
Other Governmental Funds	General Fund	6,404	56,284
	Rainy Day Fund	-	455,000
	Other Governmental Funds	<u>50,001</u>	<u>34,862</u>
Totals		<u>\$ 511,405</u>	<u>\$ 546,146</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; 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; and natural disasters are covered by commercial insurance from independent third parties.

Medical Benefits to Employees

The School Corporation has chosen to establish a risk financing fund for risks associated with Medical Benefits to Employees. The risk financing fund is accounted for in the Insurance Fund, an internal service fund, where assets are set aside for claim settlements. The School Corporation purchases commercial insurance for claims in excess of coverage provided by the fund. Interfund premiums are based upon an overall premium percentage which is applied to each affected fund and are reported as quasi-external interfund transactions.

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.

NORTH KNOX SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Holding Corporation

The School Corporation has entered into a capital lease with North Knox School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the years ended June 30, 2009 and 2010, totaled \$513,021, and \$511,371, respectively.

C. Subsequent Event

On November 16, 2010, the School Corporation passed a resolution to begin negotiations with the North Knox School Building Corporation on a 5th amendment to the original lease for the building corporation to issue Qualified Zone Academy Bonds (QZAB) not to exceed \$2,000,000. The bond issue proceeds will be used to remodel the North Knox High School roof and other miscellaneous improvement projects on corporation buildings. The terms of the lease rental payments to the building corporation will be over 20 years, not to exceed \$245,000 semi-annually. The planned issuance of the bonds will occur during 2011 with the first lease rental payment due to the building corporation on July 1, 2012.

D. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 55 with at least 15 years of service. Currently, 4 retirees meet these eligibility requirements. The School Corporation provides 100% of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the period ended June 30, 2010, disbursements of \$79,884 were recognized for postemployment benefits.

E. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plan

a. 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:

NORTH KNOX SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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 \$139,492.

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 \$254,251.

NORTH KNOX SCHOOL CORPORATION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-07	\$ 1,183,138	\$ 1,296,018	\$ (112,880)	91%	\$ 712,708	(16%)
07-01-08	1,185,001	1,345,751	(160,750)	88%	789,741	(20%)
07-01-09	1,249,955	1,499,832	(249,877)	83%	828,084	(30%)

NORTH KNOX 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

	<u>Special Ed Pre-School</u>	<u>School Lunch</u>	<u>Textbook Rental</u>	<u>Education License Plate</u>	<u>Alternative Education Grant</u>
Receipts:					
Local sources	\$ 5,964	\$ 286,587	\$ 84,113	\$ -	\$ -
Intermediate sources	-	-	-	525	-
State sources	41,396	6,130	46,440	-	541
Federal sources	-	348,083	-	-	-
	<u>47,360</u>	<u>640,800</u>	<u>130,553</u>	<u>525</u>	<u>541</u>
Disbursements:					
Current:					
Instruction	245	-	-	-	-
Support services	-	-	153,164	-	-
Noninstructional services	-	692,162	-	-	-
Facilities acquisition and construction	-	-	-	-	-
Debt services	-	-	-	-	-
Nonprogrammed charges	14,815	-	-	-	-
	<u>15,060</u>	<u>692,162</u>	<u>153,164</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>32,300</u>	<u>(51,362)</u>	<u>(22,611)</u>	<u>525</u>	<u>541</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	32,300	(51,362)	(22,611)	525	541
Cash and investments - beginning	<u>(14,019)</u>	<u>91,637</u>	<u>117,369</u>	<u>9,076</u>	<u>1,388</u>
Cash and investments - ending	<u>\$ 18,281</u>	<u>\$ 40,275</u>	<u>\$ 94,758</u>	<u>\$ 9,601</u>	<u>\$ 1,929</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ 18,281	\$ 40,275	\$ 94,758	\$ 9,601	\$ 1,929
Restricted assets:					
Cash and investments	-	-	-	-	-
Total cash and investment assets - ending	<u>\$ 18,281</u>	<u>\$ 40,275</u>	<u>\$ 94,758</u>	<u>\$ 9,601</u>	<u>\$ 1,929</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	<u>18,281</u>	<u>40,275</u>	<u>94,758</u>	<u>9,601</u>	<u>1,929</u>
Total cash and investment fund balance - ending	<u>\$ 18,281</u>	<u>\$ 40,275</u>	<u>\$ 94,758</u>	<u>\$ 9,601</u>	<u>\$ 1,929</u>

NORTH KNOX 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)

	Early Intervention Grant	Gifted and Talented High Ability	Gifted and Talented High Ability 2008-2009	Gifted and Talented 2005-2006	Title I 2007-2008
Receipts:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	-	-
State sources	3,500	-	31,493	-	-
Federal sources	-	-	-	-	5,869
Total receipts	<u>3,500</u>	<u>-</u>	<u>31,493</u>	<u>-</u>	<u>5,869</u>
Disbursements:					
Current:					
Instruction	-	673	30,882	-	29,411
Support services	-	-	-	-	2,236
Noninstructional services	-	-	-	-	17,721
Facilities acquisition and construction	-	-	-	-	-
Debt services	-	-	-	-	-
Nonprogrammed charges	3,500	-	-	-	-
Total disbursements	<u>3,500</u>	<u>673</u>	<u>30,882</u>	<u>-</u>	<u>49,368</u>
Excess (deficiency) of receipts over disbursements	-	(673)	611	-	(43,499)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	(16,405)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,405)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(673)	611	-	(59,904)
Cash and investments - beginning	<u>6,500</u>	<u>673</u>	<u>-</u>	<u>8,469</u>	<u>59,904</u>
Cash and investments - ending	<u>\$ 6,500</u>	<u>\$ -</u>	<u>\$ 611</u>	<u>\$ 8,469</u>	<u>\$ -</u>
Cash and Investment Assets - Ending					
Cash and investments	\$ 6,500	\$ -	\$ 611	\$ 8,469	\$ -
Restricted assets:					
Cash and investments	-	-	-	-	-
Total cash and investment assets - ending	<u>\$ 6,500</u>	<u>\$ -</u>	<u>\$ 611</u>	<u>\$ 8,469</u>	<u>\$ -</u>
Cash and Investment Fund Balance - Ending					
Restricted for:					
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	<u>6,500</u>	<u>-</u>	<u>611</u>	<u>8,469</u>	<u>-</u>
Total cash and investment fund balance - ending	<u>\$ 6,500</u>	<u>\$ -</u>	<u>\$ 611</u>	<u>\$ 8,469</u>	<u>\$ -</u>

NORTH KNOX 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 I 2008-2009	Title V Part A 2008	PL 94-142 2007-2008	PL 94-142 2008-2009	Drug-Free Schools 2007-2008
Receipts:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	-	-
State sources	-	-	-	-	-
Federal sources	441,583	-	-	270,642	-
Total receipts	<u>441,583</u>	<u>-</u>	<u>-</u>	<u>270,642</u>	<u>-</u>
Disbursements:					
Current:					
Instruction	277,509	-	48,561	221,709	437
Support services	59,219	-	660	1,599	3,223
Noninstructional services	41,545	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-
Debt services	-	-	-	-	-
Nonprogrammed charges	-	8,707	-	-	-
Total disbursements	<u>378,273</u>	<u>8,707</u>	<u>49,221</u>	<u>223,308</u>	<u>3,660</u>
Excess (deficiency) of receipts over disbursements	<u>63,310</u>	<u>(8,707)</u>	<u>(49,221)</u>	<u>47,334</u>	<u>(3,660)</u>
Other financing sources (uses):					
Transfers in	10,001	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>10,001</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	73,311	(8,707)	(49,221)	47,334	(3,660)
Cash and investments - beginning	<u>-</u>	<u>8,707</u>	<u>49,221</u>	<u>-</u>	<u>3,660</u>
Cash and investments - ending	<u>\$ 73,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,334</u>	<u>\$ -</u>
Cash and Investment Assets - Ending					
Cash and investments	\$ 73,311	\$ -	\$ -	\$ 47,334	\$ -
Restricted assets:					
Cash and investments	-	-	-	-	-
Total cash and investment assets - ending	<u>\$ 73,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,334</u>	<u>\$ -</u>
Cash and Investment Fund Balance - Ending					
Restricted for:					
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	<u>73,311</u>	<u>-</u>	<u>-</u>	<u>47,334</u>	<u>-</u>
Total cash and investment fund balance - ending	<u>\$ 73,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,334</u>	<u>\$ -</u>

NORTH KNOX 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)

	Drug-Free Schools 2008-2009	Title II Class Reduction 2006-07	Title II 2008-2009	Title II A 2007-2008	Title V Part A
Receipts:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	-	-
State sources	-	-	-	-	-
Federal sources	6,130	-	80,381	-	-
Total receipts	6,130	-	80,381	-	-
Disbursements:					
Current:					
Instruction	-	-	-	23,031	2,135
Support services	-	523	-	738	-
Noninstructional services	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-
Debt services	-	-	-	-	-
Nonprogrammed charges	-	-	24,345	-	-
Total disbursements	-	523	24,345	23,769	2,135
Excess (deficiency) of receipts over disbursements	6,130	(523)	56,036	(23,769)	(2,135)
Other financing sources (uses):					
Transfers in	-	-	-	-	40,000
Transfers out	-	-	(40,000)	-	-
Total other financing sources (uses)	-	-	(40,000)	-	40,000
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	6,130	(523)	16,036	(23,769)	37,865
Cash and investments - beginning	-	523	-	27,146	-
Cash and investments - ending	\$ 6,130	\$ -	\$ 16,036	\$ 3,377	\$ 37,865
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ 6,130	\$ -	\$ 16,036	\$ 3,377	\$ 37,865
Restricted assets:					
Cash and investments	-	-	-	-	-
Total cash and investment assets - ending	\$ 6,130	\$ -	\$ 16,036	\$ 3,377	\$ 37,865
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	6,130	-	16,036	3,377	37,865
Total cash and investment fund balance - ending	\$ 6,130	\$ -	\$ 16,036	\$ 3,377	\$ 37,865

NORTH KNOX 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)

	Debt Service	Retirement/ Severance Debt Fund	Capital Projects	School Bus Replacement	Totals
Receipts:					
Local sources	\$ 777,882	\$ 292,111	\$ 1,029,998	\$ 114,988	\$ 2,591,643
Intermediate sources	-	-	-	-	525
State sources	-	-	-	-	129,500
Federal sources	-	-	-	-	1,152,688
Total receipts	777,882	292,111	1,029,998	114,988	3,874,356
Disbursements:					
Current:					
Instruction	-	-	-	-	634,593
Support services	-	-	492,251	90,680	804,293
Noninstructional services	-	-	-	-	751,428
Facilities acquisition and construction	-	-	628,301	-	628,301
Debt services	515,683	301,183	-	-	816,866
Nonprogrammed charges	-	-	-	-	51,367
Total disbursements	515,683	301,183	1,120,552	90,680	3,686,848
Excess (deficiency) of receipts over disbursements	262,199	(9,072)	(90,554)	24,308	187,508
Other financing sources (uses):					
Transfers in	-	150,000	305,000	-	505,001
Transfers out	-	-	-	-	(56,405)
Total other financing sources (uses)	-	150,000	305,000	-	448,596
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	262,199	140,928	214,446	24,308	636,104
Cash and investments - beginning	(1,538)	(138,375)	(214,385)	333,465	349,421
Cash and investments - ending	<u>\$ 260,661</u>	<u>\$ 2,553</u>	<u>\$ 61</u>	<u>\$ 357,773</u>	<u>\$ 985,525</u>
Cash and Investment Assets - Ending					
Cash and investments	\$ -	\$ -	\$ 61	\$ 357,773	\$ 722,311
Restricted assets:					
Cash and investments	260,661	2,553	-	-	263,214
Total cash and investment assets - ending	<u>\$ 260,661</u>	<u>\$ 2,553</u>	<u>\$ 61</u>	<u>\$ 357,773</u>	<u>\$ 985,525</u>
Cash and Investment Fund Balance - Ending					
Restricted for:					
Debt service	\$ 260,661	\$ 2,553	\$ -	\$ -	\$ 263,214
Unrestricted	-	-	61	357,773	722,311
Total cash and investment fund balance - ending	<u>\$ 260,661</u>	<u>\$ 2,553</u>	<u>\$ 61</u>	<u>\$ 357,773</u>	<u>\$ 985,525</u>

NORTH KNOX 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

	Special Ed Pre-School	School Lunch	Textbook Rental	Education License Plate	Alternative Education Grant	Early Intervention Grant
Receipts:						
Local sources	\$ -	\$ 284,176	\$ 110,117	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	313	-	-
State sources	24,750	5,608	-	-	-	1,000
Federal sources	-	513,048	-	-	-	-
Total receipts	24,750	802,832	110,117	313	-	1,000
Disbursements:						
Current:						
Instruction	-	-	-	-	268	-
Support services	-	-	98,957	-	554	-
Noninstructional services	-	751,285	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-
Debt services	-	-	-	-	-	-
Nonprogrammed charges	3,641	-	-	-	-	1,000
Total disbursements	3,641	751,285	98,957	-	822	1,000
Excess (deficiency) of receipts over disbursements	21,109	51,547	11,160	313	(822)	-
Other financing sources (uses):						
Transfers in	-	-	1,552	-	-	-
Transfers out	(39,390)	-	-	-	-	(3,000)
Total other financing sources (uses)	(39,390)	-	1,552	-	-	(3,000)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(18,281)	51,547	12,712	313	(822)	(3,000)
Cash and investments - beginning	18,281	40,275	94,758	9,601	1,929	6,500
Cash and investments - ending	\$ -	\$ 91,822	\$ 107,470	\$ 9,914	\$ 1,107	\$ 3,500
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ -	\$ 91,822	\$ 107,470	\$ 9,914	\$ 1,107	\$ 3,500
Restricted assets:						
Cash and investments	-	-	-	-	-	-
Total cash and investment assets - ending	\$ -	\$ 91,822	\$ 107,470	\$ 9,914	\$ 1,107	\$ 3,500
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	-	91,822	107,470	9,914	1,107	3,500
Total cash and investment fund balance - ending	\$ -	\$ 91,822	\$ 107,470	\$ 9,914	\$ 1,107	\$ 3,500

NORTH KNOX 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)

	Gifted and Talented High Ability 2008-2009	Gifted and Talented High Ability 2009-2010	Gifted and Talented 2005-2006	Title I 2008-2009	Title I 2009-2010
Receipts:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	-	-
State sources	-	30,790	-	-	-
Federal sources	-	-	-	33,299	433,954
Total receipts	-	30,790	-	33,299	433,954
Disbursements:					
Current:					
Instruction	611	30,790	-	49,157	237,890
Support services	-	-	-	7,137	42,332
Noninstructional services	-	-	-	11,962	83,337
Facilities acquisition and construction	-	-	-	-	-
Debt services	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-
Total disbursements	611	30,790	-	68,256	363,559
Excess (deficiency) of receipts over disbursements	(611)	-	-	(34,957)	70,395
Other financing sources (uses):					
Transfers in	-	-	-	-	32,929
Transfers out	-	-	(8,469)	(38,354)	-
Total other financing sources (uses)	-	-	(8,469)	(38,354)	32,929
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(611)	-	(8,469)	(73,311)	103,324
Cash and investments - beginning	611	-	8,469	73,311	-
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,324</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ 103,324
Restricted assets:					
Cash and investments	-	-	-	-	-
Total cash and investment assets - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,324</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	-	-	-	-	103,324
Total cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,324</u>

NORTH KNOX 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)

	PL 94-142 2008-2009	Special Ed Grant PL 94-142	Drug-Free Schools 2008-2009	Drug-Free Schools 2009-2010	Title II 2008-2009
Receipts:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	-	-
State sources	-	-	-	-	-
Federal sources	-	233,959	-	7,648	-
Total receipts	-	233,959	-	7,648	-
Disbursements:					
Current:					
Instruction	46,955	227,827	500	-	-
Support services	379	823	5,630	7,048	-
Noninstructional services	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-
Debt services	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	15,655
Total disbursements	47,334	228,650	6,130	7,048	15,655
Excess (deficiency) of receipts over disbursements	(47,334)	5,309	(6,130)	600	(15,655)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	(381)
Total other financing sources (uses)	-	-	-	-	(381)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(47,334)	5,309	(6,130)	600	(16,036)
Cash and investments - beginning	47,334	-	6,130	-	16,036
Cash and investments - ending	<u>\$ -</u>	<u>\$ 5,309</u>	<u>\$ -</u>	<u>\$ 600</u>	<u>\$ -</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ -	\$ 5,309	\$ -	\$ 600	\$ -
Restricted assets:					
Cash and investments	-	-	-	-	-
Total cash and investment assets - ending	<u>\$ -</u>	<u>\$ 5,309</u>	<u>\$ -</u>	<u>\$ 600</u>	<u>\$ -</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	-	5,309	-	600	-
Total cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ 5,309</u>	<u>\$ -</u>	<u>\$ 600</u>	<u>\$ -</u>

NORTH KNOX 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)

	Title II A 2007-2008	Title V Part A	Title I Stimulus Grant	Special Ed Part B Stimulus Grant	School Lunch Equipment Stimulus Grant
Receipts:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	-	-
State sources	-	-	-	-	-
Federal sources	-	933	192,436	260,040	25,200
Total receipts	-	933	192,436	260,040	25,200
Disbursements:					
Current:					
Instruction	114	36,475	152,751	115,560	-
Support services	3,263	2,500	20,416	10,378	25,200
Noninstructional services	-	-	-	-	-
Facilities acquisition and construction	-	-	-	111,506	-
Debt services	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-
Total disbursements	3,377	38,975	173,167	237,444	25,200
Excess (deficiency) of receipts over disbursements	(3,377)	(38,042)	19,269	22,596	-
Other financing sources (uses):					
Transfers in	-	381	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	381	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(3,377)	(37,661)	19,269	22,596	-
Cash and investments - beginning	3,377	37,865	-	-	-
Cash and investments - ending	\$ -	\$ 204	\$ 19,269	\$ 22,596	\$ -
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ -	\$ 204	\$ 19,269	\$ 22,596	\$ -
Restricted assets:					
Cash and investments	-	-	-	-	-
Total cash and investment assets - ending	\$ -	\$ 204	\$ 19,269	\$ 22,596	\$ -
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	-	204	19,269	22,596	-
Total cash and investment fund balance - ending	\$ -	\$ 204	\$ 19,269	\$ 22,596	\$ -

NORTH KNOX 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)

	Debt Service	Retirement/ Severance Debt Fund	Capital Projects	School Bus Replacement	Totals
Receipts:					
Local sources	\$ 790,969	\$ 482,498	\$ 1,519,659	\$ 331,357	\$ 3,518,776
Intermediate sources	-	-	-	-	313
State sources	-	-	65,964	-	128,112
Federal sources	-	-	-	-	1,700,517
Total receipts	790,969	482,498	1,585,623	331,357	5,347,718
Disbursements:					
Current:					
Instruction	-	-	-	-	898,898
Support services	-	-	508,271	91,336	824,224
Noninstructional services	-	-	-	-	846,584
Facilities acquisition and construction	-	-	450,173	-	561,679
Debt services	516,112	303,265	-	-	819,377
Nonprogrammed charges	-	-	-	-	20,296
Total disbursements	516,112	303,265	958,444	91,336	3,971,058
Excess (deficiency) of receipts over disbursements	274,857	179,233	627,179	240,021	1,376,660
Other financing sources (uses):					
Transfers in	-	-	-	-	34,862
Transfers out	(1,552)	(150,000)	(305,000)	-	(546,146)
Total other financing sources (uses)	(1,552)	(150,000)	(305,000)	-	(511,284)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	273,305	29,233	322,179	240,021	865,376
Cash and investments - beginning	260,661	2,553	61	357,773	985,525
Cash and investments - ending	<u>\$ 533,966</u>	<u>\$ 31,786</u>	<u>\$ 322,240</u>	<u>\$ 597,794</u>	<u>\$ 1,850,901</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ -	\$ -	\$ 322,240	\$ 597,794	\$ 1,285,149
Restricted assets:					
Cash and investments	533,966	31,786	-	-	565,752
Total cash and investment assets - ending	<u>\$ 533,966</u>	<u>\$ 31,786</u>	<u>\$ 322,240</u>	<u>\$ 597,794</u>	<u>\$ 1,850,901</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
Debt service	\$ 533,966	\$ 31,786	\$ -	\$ -	\$ 565,752
Unrestricted	-	-	322,240	597,794	1,285,149
Total cash and investment fund balance - ending	<u>\$ 533,966</u>	<u>\$ 31,786</u>	<u>\$ 322,240</u>	<u>\$ 597,794</u>	<u>\$ 1,850,901</u>

NORTH KNOX 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

	<u>Donations</u>	<u>ASAI</u>	<u>Totals</u>
Additions:			
Contributions:			
Other	\$ 47,169	\$ 10,000	\$ 57,169
Deductions:			
Administrative and general	<u>46,700</u>	<u>12,744</u>	<u>59,444</u>
Excess (deficiency) of total additions over total deductions	469	(2,744)	(2,275)
Cash and investment fund balance - beginning	<u>10,179</u>	<u>5,194</u>	<u>15,373</u>
Cash and investments - June 30	<u>\$ 10,648</u>	<u>\$ 2,450</u>	<u>\$ 13,098</u>
Net assets:			
Cash and investments	<u>\$ 10,648</u>	<u>\$ 2,450</u>	<u>\$ 13,098</u>
Total net assets - cash and investment basis held in trust	<u>\$ 10,648</u>	<u>\$ 2,450</u>	<u>\$ 13,098</u>

NORTH KNOX 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

	<u>Donations</u>	<u>ASAI</u>	<u>Totals</u>
Additions:			
Contributions:			
Other	\$ 5,500	\$ 6,467	\$ 11,967
Deductions:			
Administrative and general	<u>8,775</u>	<u>8,382</u>	<u>17,157</u>
Deficiency of total additions under total deductions	(3,275)	(1,915)	(5,190)
Cash and investment fund balance - beginning	<u>10,648</u>	<u>2,450</u>	<u>13,098</u>
Cash and investments - June 30	<u>\$ 7,373</u>	<u>\$ 535</u>	<u>\$ 7,908</u>
Net assets:			
Cash and investments	<u>\$ 7,373</u>	<u>\$ 535</u>	<u>\$ 7,908</u>
Total net assets - cash and investment basis held in trust	<u>\$ 7,373</u>	<u>\$ 535</u>	<u>\$ 7,908</u>

NORTH KNOX SCHOOL CORPORATION
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For the Year Ended June 30, 2009

	<u>Federal Tax</u>	<u>Social Security</u>	<u>State Tax</u>	<u>County Tax</u>	<u>TERF</u>
Additions:					
Agency fund additions	\$ 885,147	\$ 539,844	\$ 233,680	\$ 71,424	\$ 11,195
Deductions:					
Agency fund deductions	<u>885,147</u>	<u>539,832</u>	<u>233,680</u>	<u>71,424</u>	<u>11,195</u>
Excess (deficiency) of total additions over total deductions	-	12	-	-	-
Cash and investment fund balance - beginning	<u>-</u>	<u>(12)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NORTH KNOX SCHOOL CORPORATION
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For the Year Ended June 30, 2009
 (Continued)

	<u>PERF</u>	<u>Group Insurance</u>	<u>Annuity</u>	<u>American Fidelity</u>	<u>ISTA</u>
Additions:					
Agency fund additions	\$ 20,128	\$ 57,208	\$ 279,985	\$ 24,796	\$ 20,393
Deductions:					
Agency fund deductions	<u>20,128</u>	<u>65,771</u>	<u>280,360</u>	<u>24,796</u>	<u>20,393</u>
Excess (deficiency) of total additions over total deductions	-	(8,563)	(375)	-	-
Cash and investment fund balance - beginning	<u>-</u>	<u>(65)</u>	<u>375</u>	<u>-</u>	<u>-</u>
Cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ (8,628)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NORTH KNOX SCHOOL CORPORATION
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For the Year Ended June 30, 2009
 (Continued)

	<u>Garnishments</u>	<u>Professional Dues</u>	<u>Athletic Payroll</u>	<u>Fringe Benefit</u>	<u>Totals</u>
Additions:					
Agency fund additions	\$ 489,974	\$ 46,907	\$ 22,008	\$ 6,216	\$ 2,708,905
Deductions:					
Agency fund deductions	<u>489,974</u>	<u>34,518</u>	<u>21,835</u>	<u>6,216</u>	<u>2,705,269</u>
Excess (deficiency) of total additions over total deductions	-	12,389	173	-	3,636
Cash and investment fund balance - beginning	<u>-</u>	<u>-</u>	<u>(163)</u>	<u>-</u>	<u>135</u>
Cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ 12,389</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 3,771</u>

NORTH KNOX SCHOOL CORPORATION
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For the Year Ended June 30, 2010

	<u>Federal Tax</u>	<u>Social Security</u>	<u>State Tax</u>	<u>County Tax</u>	<u>TERF</u>
Additions:					
Agency fund additions	\$ 865,527	\$ 556,089	\$ 240,173	\$ 73,391	\$ 11,658
Deductions:					
Agency fund deductions	<u>865,527</u>	<u>556,131</u>	<u>240,173</u>	<u>73,391</u>	<u>8,711</u>
Excess (deficiency) of total additions over total deductions	-	(42)	-	-	2,947
Cash and investment fund balance - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ (42)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,947</u>

NORTH KNOX SCHOOL CORPORATION
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For the Year Ended June 30, 2010
 (Continued)

	PERF	Group Insurance	Annuity	American Fidelity	ISTA
Additions:					
Agency fund additions	\$ 20,403	\$ 74,436	\$ 321,479	\$ 28,952	\$ 18,328
Deductions:					
Agency fund deductions	14,954	66,553	321,479	28,952	18,328
Excess (deficiency) of total additions over total deductions	5,449	7,883	-	-	-
Cash and investment fund balance - beginning	-	(8,628)	-	-	-
Cash and investment fund balance - ending	<u>\$ 5,449</u>	<u>\$ (745)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NORTH KNOX SCHOOL CORPORATION
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For the Year Ended June 30, 2010
 (Continued)

	<u>Garnishments</u>	<u>Professional Dues</u>	<u>Athletic Payroll</u>	<u>Fringe Benefit</u>	<u>Totals</u>
Additions:					
Agency fund additions	\$ -	\$ 3,473	\$ 19,969	\$ 5,929	\$ 2,239,807
Deductions:					
Agency fund deductions	-	15,862	20,498	5,929	2,236,488
Excess (deficiency) of total additions over total deductions	-	(12,389)	(529)	-	3,319
Cash and investment fund balance - beginning	-	12,389	10	-	3,771
Cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (519)</u>	<u>\$ -</u>	<u>\$ 7,090</u>

NORTH KNOX 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	\$ 337,729
Buildings	10,056,714
Improvements other than buildings	324,561
Machinery and equipment	<u>1,241,713</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 11,960,717</u>

NORTH KNOX 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:		
2002 QZAB	\$ 778,550	\$ 143,700
2003 QZAB	1,199,179	114,403
2005 QZAB	1,309,880	119,080
2007 QZAB	1,585,000	133,363
SB516 School Building	631,863	167,556
Notes and loans payable	15,625	9,375
Bonds payable:		
Retirement/Severance Bonds	<u>2,145,000</u>	<u>148,388</u>
Total governmental activities debt	<u>\$ 7,665,097</u>	<u>\$ 835,865</u>

NORTH KNOX SCHOOL CORPORATION
OTHER REPORT

The report presented herein was prepared in addition to the other official report listed below:

Former School Corporation Treasurer
Former School Corporation Superintendent

NORTH KNOX SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

The records presented for audit indicated the following expenditure in excess of budgeted appropriation:

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
Capital Projects Fund	2009	<u>\$ 33,946</u>

IC 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."

OVERDRAWN CASH BALANCES

The cash balance of the Group Insurance Fund was overdrawn at June 30, 2009. The cash balances of the Group Insurance Fund, Social Security Fund, and Athletic-Miscellaneous Payroll Fund were overdrawn at June 30, 2010.

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)

CONTRACTS

Records presented for audit indicated payments were made to a caterer for \$840 without a contract for catering services. We noted in some instances, the School Corporation purchased food for the catering service to prepare. The former School Corporation Treasurer created the invoices for payment on her office computer and the caterer did not bill or provide invoices for payment.

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)

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

NORTH KNOX SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

BUDGETED LINE ITEMS

The following disbursements were paid from improper or unauthorized line items:

- (1) Reservations for Knox County Chamber of Commerce banquet were paid from other executive services - travel instead of the promotion.
- (2) Purchases of telephones and BlackBerry were paid from maintenance of buildings – telephone instead of technology services - telephone.
- (3) Purchased a dehumidifier for East Elementary paid from elementary instruction account.
- (4) The School Corporation paid gasoline purchases out of the Transportation Fund for administrative travel instead of from other executive administrative services - travel.
- (5) The School Corporation paid for a retirement dinner out of other executive services - travel instead of the promotion account.
- (6) The School Corporation paid for a 5 year copier machine maintenance agreement for \$12,000 out of fiscal stabilization federal grant funds.

Disbursements should be paid from properly authorized line items. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

23160 - Promotion Expense. Account here for expenditures created by authority provided in the General School Powers Act to appropriate from the General Fund an amount not to exceed the greater of \$3,000 or \$1.00 per pupil not to exceed \$12,500 per budget year, for the purpose of promoting the best interest of the school corporation by purchasing meals, decorations, memorabilia or awards; expenses incurred in interviewing job applicants; or, developing relations with other governmental units. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 5)

27300 - Vehicle Servicing and Maintenance. Activities concerned with maintaining pupil transportation vehicles in good condition, including repairing vehicles; replacing vehicle parts; cleaning, painting, greasing, fueling and inspecting vehicles for safety. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 5)

The American Recovery and Reinvestment Act of 2009, Sec. 14003 states in part: "USES OF FUNDS BY LOCAL EDUCATION AGENCIES . . . (b) PROHIBITION. – A local educational agency may not use funds received under this title for – (1) payment of maintenance costs; . . ."

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)

NORTH KNOX SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

ERRORS ON CLAIMS

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

- (1) Claims or invoices did not have evidence to document receipt of goods or services for a large percentage of the claims reviewed. The fiscal officer certified the invoice or bill was correct. However, there were no signatures documenting that the items were received by the School Corporation.
- (2) Claims or invoices did not have proper documentation especially with travel claims. Reimbursement and payment of travel expenses would have a vague description of the meeting attended, but no registration, meeting agenda or approval for travel was attached or presented for audit.

IC 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."

PROMOTION FUND EXPENDITURES

The School Corporation paid for retirement dinners and gifts, catering for internal meetings, flowers, memberships to social organizations and employee gifts for Christmas. Most of the expenditures were paid from promotion or other executive administration expense line items.

23160 - Promotion Expense. Account here for expenditures created by authority provided in the General Fund an amount not to exceed the greater of \$3,000 or \$1.00 per pupil not to exceed \$12,500 per budget year, for the purpose of promoting the best interests of the school corporation by purchasing meals, decorations, memorabilia or awards; expenses incurred in interviewing job applicants; or, developing relations with other governmental units. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 5)

NORTH KNOX SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

23290 - Other Executive Administration Services. Activities concerned with this category not specifically classified otherwise. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 5)

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

EXCESSIVE OR UNREASONABLE COSTS

The School Corporation had the following instances of excessive or unreasonable costs during the audit period:

- (1) The school corporation spent a total of \$218,519 for custodial supplies and copy paper. The value of the custodial supplies and copy paper inventory at June 30, 2010, was approximately \$67,205. Approximately \$55,000 of supplies and copy paper were purchased in June 2010 and described as summer custodial supplies. There were no purchase orders from custodians or school staff to request the purchases. Supplies on hand as of February 3, 2011, in the central storeroom supplies inventory was valued at \$43,358 without any material amount of supplies purchased from June 2010 until the current date.
- (2) The School Corporation spent \$3,010 on July 31, 2008, for six Versamatic plus vacuums. As of June 30, 2010, four of the vacuums were still unopened in the storeroom.
- (3) The School Corporation has copier maintenance agreements on all machines purchased from Hudson Office Supply. The agreements are set up on a per copy rate charge and do not cover paper, staples or some service calls. A total of \$56,547 was spent on copier maintenance agreements during the audit period.
- (4) The School Corporation purchased 24 American flags for a total cost of \$2,159 on October 27, 2009. As of June 30, 2010, 22 flags were still on hand in the storeroom.
- (5) The School Corporation purchased a copy machine for Central Elementary for \$10,106 on December 8, 2009. The School Corporation also entered into a 5-year prepaid per copy maintenance agreement for \$12,000 which is an average of \$200/month for the per copy maintenance agreement. Copy usage, per copy rate and the average monthly usage calculates to about an \$87.00/month per copy charge for the agreement.

Every effort should be made by the governmental unit to avoid unreasonable or excessive costs. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

NORTH KNOX SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

MILEAGE REIMBURSEMENT

Mileage Claim Form 101 was improperly used during the audit period. Odometer readings on claims for the former School Corporation Treasurer overlapped from month to month and were not actual readings.

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

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

PERSONAL PROPERTY USE

All School Corporation employees had the ability to use a School Corporation van during normal work hours. Anyone wanting to use the van for School Corporation business could book the van through the Transportation Secretary. However, the former School Corporation Treasurer had the keys to the van at all times and had access to the van outside of normal working hours. We were advised a log documenting School Corporation van usage was kept by the Transportation Secretary on a calendar but the calendar was not retained nor presented for audit.

Assets of the governmental unit may not be used in a manner unrelated to the functions and purposes of the governmental unit.

Whenever an item or other asset owned by the political subdivision is entrusted to an officer or employee, to be used at times outside the normal work time for business purposes, such as a cellular phone, or vehicle, a log should be maintained which clearly shows the business use. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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

TRAVEL POLICY

The School Corporation did not have an official travel policy during the audit period.

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

Reimbursement for lodging and meals should be based upon actual receipts for amounts paid unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

NORTH KNOX SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

CAPITAL ASSET RECORDS

Information presented for audit indicated that the Capital Assets Ledger had not been updated since June 30, 2008. However, we noted that technology assets were being accounted for by the IT Director during the audit period, but the information on his ledger was not transferred to the School Corporation Capital Assets Ledger.

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 Assets 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)

ALCOHOL PURCHASES

Purchase of alcoholic beverages was paid from public funds. Most of the purchases noted were made at retirement dinners for School Board members and some employees.

Purchases of alcoholic beverages may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
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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 NORTH KNOX SCHOOL CORPORATION, KNOX COUNTY, INDIANA

Compliance

We have audited the compliance of the North Knox 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.

The School Corporation's response to the findings identified in our audit is described in the accompanying Official Response. 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

March 15, 2011

NORTH KNOX 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		\$ 95,789	\$ 105,631
National School Lunch Program	10.555		<u>250,252</u>	<u>269,045</u>
Total for cluster			<u>346,041</u>	<u>374,676</u>
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579		-	25,200
Total for federal grantor agency			<u>346,041</u>	<u>399,876</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				
FY 2007-2008	84.010		65,772	-
FY 2008-2009			378,272	106,610
FY 2009-2010			<u>-</u>	<u>363,559</u>
Total for program			<u>444,044</u>	<u>470,169</u>
ARRA - Title I Grants to Local Educational Agencies, Recovery Act FY 2009-2010	84.389		-	173,168
Total for cluster			<u>444,044</u>	<u>643,337</u>
Pass-Through Vincennes Community School Corporation				
Special Education Cluster				
Special Education - Grants to States				
FY 2007-2008	84.027		49,220	-
FY 2008-2009			223,308	47,334
94-142			<u>-</u>	<u>228,650</u>
Total for cluster			<u>272,528</u>	<u>275,984</u>
Pass-Through Indiana Department of Education				
Special Education Cluster (IDEA)				
ARRA - Special Education - Grants to States, Recovery Act	84.391	33310-034-SN01	-	237,444
State Fiscal Stabilization Fund Cluster				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394		<u>68,689</u>	<u>1,002,318</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186			
2007-2008			3,660	-
2009			-	6,130
2009-2010			<u>-</u>	<u>7,048</u>
Total for program			<u>3,660</u>	<u>13,178</u>
State Grants for Innovative Programs	84.298			
Title V Part A 2008			<u>8,707</u>	<u>-</u>
Improving Teacher Quality State Grants	84.367			
2006-2007			523	-
2007-2008			23,769	3,376
2008-2009			2,135	38,975
2009			<u>64,345</u>	<u>16,036</u>
Total for program			<u>90,772</u>	<u>58,387</u>
Total for federal grantor agency			<u>888,400</u>	<u>2,230,648</u>
Total federal awards expended			<u>\$ 1,234,441</u>	<u>\$ 2,630,524</u>

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

NORTH KNOX 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 North Knox 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.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>2009</u>	<u>2010</u>
School Breakfast Program	10.553	\$ 9,589	\$ -
National School Lunch Program	10.555	24,528	34,818

NORTH KNOX 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
Title I, Part A Cluster
Special Education 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

During the prior audit period, risk assessment procedures noted the following risks over financial transactions and reporting:

1. School Corporation Officials were not following proper control procedures and not instructing employees to follow proper control procedures.
2. All accounting functions were the responsibility of two employees (Treasurer and Payroll Clerk)

NORTH KNOX SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

3. During the entrance conference, the School Board member present expressed complete confidence in the School Corporation Treasurer.

A thorough review of internal controls was performed during the current audit period to follow up on the risk assessment concerns and the following deficiencies were noted in the internal control system of North Knox School Corporation. We believe these deficiencies could lead to material misstatements or fraud related to the financial statements not being prevented or detected. 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 the risks to achievement of financial reporting objectives and fraud. The School Corporation has not separated incompatible activities related to receipts, disbursements, payroll, and cash balances. Examples of these are: purchase orders signed off on by the School Corporation Treasurer for approval of order and for items received and claims were prepared and expenditures posted by the School Corporation Treasurer only. The failure to establish these controls could enable material misstatements or fraud to go undetected.
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 which includes the oversight responsibility the board has on expenditures of the School Corporation. Putting complete responsibility of internal control on the School Corporation Treasurer only increases the risk of controls not being designed or operated effectively to provide reasonable assurance that controls will prevent or detect material misstatements or fraud on a timely basis. Additionally, the School Corporation has no process to identify or communicate corrective actions to improve controls. The School Board's lack of oversight on internal controls could put the School Corporation financial statements at risk to misstatement and fraudulent activity related thereto.

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 objectives, 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)

Some duties of the governing body not specifically mentioned in the School Powers Act are the following: . . .

- "2. Duty to examine all claims, accounts payable vouchers, and payrolls; to disallow any claim or part thereof if incorrect, illegal or unjust; or to sign and approve said claims for payment. (IC 5-11-10-1 and IC 20-26-4-1) . . ."

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

NORTH KNOX SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2010-2, EXCESSIVE EXPENDITURES OF GOVERNMENTAL FUNDS

Several instances were noted during the audit of excessive expenditures by the prior administration. These expenditures were qualitative in nature and not quantitative, which means that the expenditures did not cause a material misstatement of the financial statements, but were excessive enough to be noted in the Audit Report. The main causes of these excessive expenditures were a lack of oversight by School Corporation management and lack of internal controls which allowed the prior School Corporation Treasurer to complete the expenditure process without any review. Accordingly, excessive expenditures of governmental funds could lead to a material misstatement of the financial statements and even fraud. The inability of the School Corporation to track the voluminous amount of items purchased could lead to items purchased by the school corporation but being used for personal purposes. The following items were examples of expenditures during the audit period:

1. A copy machine was purchased for \$10,201 and the former School Corporation Treasurer entered into a \$12,000/5 year maintenance which did not include the cost of copy paper or staples.
2. \$218,519 was spent during the audit period on cleaning supplies and copy paper. As of June 30, 2010, the inventory was worth \$67,205. Even though no cleaning supplies or copy paper purchases were made after June 30, the inventory on hand on February 11, 2011, was still valued at \$43,358. All the orders for supplies and copy paper were placed by the former School Corporation Treasurer.
3. \$56,547 was spent on copy machine maintenance agreements during the audit period. All agreements were with one company.

Every effort should be made by the governmental unit to avoid unreasonable or excessive costs. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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 objectives, 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.

NORTH KNOX SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

NORTH KNOX SCHOOL CORPORATION

Board of School Trustees

James E. Franklin
President

Jarrod M. Chattin
Vice-President

James H. Dotson, Jr.
Secretary

V. Max Nickless
Member

Elaine Pepmeier
Member

11110 N. STATE ROAD 159
BICKNELL, IN 47512

(812) 735-4434 • (812) 882-7538
FAX: (812) 328-6262

Dr. Darrel L. Bobe
Superintendent

Peggy E. Smith
Director of Business/Human Resources

Terri L. Roesler
Transportation Director

Ethan Singleton
Technology Coordinator

Kevin Curtis
Director of Buildings & Grounds

Debbie Utt
Payroll/Personnel

CORRECTIVE ACTION PLANS

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

Auditee Contact Person: Peggy E. Smith
Title of Contact Person: Director of Business & Human Resources
Phone Number: (812) 735-4434

Expected Completion Date: March 31, 2011

Corrective Action:

The administration at the North Knox School Corporation has taken swift action to implement and enforce strict internal controls since July 1, 2010, when a new superintendent and business manager were hired. We have segregated duties in regards to receipts and deposits, disbursements and the distribution of checks, and recording transactions, along with reconciling with the banks. Control activities will be closely monitored to ensure efficiency and effectiveness of everyday activity within the school corporation.

Signature *Peggy E. Smith*
Director of Business & Human Resources
North Knox School Corporation

Date 3/22/2011

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CORRECTIVE ACTION PLANS

FINDING 2010-2, EXCESSIVE EXPENDITURES OF GOVERNMENTAL FUNDS

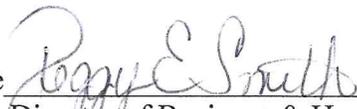
Auditee Contact Person: Peggy E. Smith
Title of Contact Person: Director of Business & Human Resources
Phone Number: (812) 735-4434

Expected Completion Date: March 31, 2011

Corrective Action:

The administration at the North Knox School Corporation has taken swift action to curb all excessive spending since July 1, 2010, when a new superintendent and business manager were hired. We have taken the initiative to obtain quotes from several vendors on many purchases and are now working with our local cooperative purchasing agent to obtain the best possible price. As service agreements come due, we are actively searching for the best price for the same services offered by the expiring service agreement.

Signature



Director of Business & Human Resources
North Knox School Corporation

Date

3/29/2011

NORTH KNOX SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 15, 2011, with Darrel L. Bobe, Superintendent of Schools; James E. Franklin, President of the Board; James H. Dotson, Jr., Board member; and Peggy E. Smith, Treasurer/Director of Business. The official response has been made a part of this report and may be found on page 65.

NORTH KNOX SCHOOL CORPORATION

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March 15, 2011

Mr. John Bennington, Field Examiner
State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, IN 46204-2769

Dear Mr. Bennington,

Please find this letter in response to the A-133 audit exit conference held on March 15, 2011 pertaining to the period of July 1, 2008 to June 30, 2010.

All items noted in the exit conference have been addressed since the new administration took office on July 1, 2010.

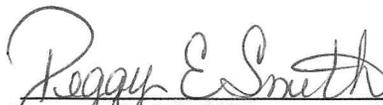
On July 1, 2010, North Knox School Corporation hired a new superintendent and business manager to replace the prior administration. During the summer of 2010, many changes were made in regards to spending and internal controls. We are constantly tweaking our processes to make North Knox School Corporation's controls better.

We wish to thank you for the kindness and professionalism shown to our staff during this audit.

Sincerely,



Darrel L. Bobe
Superintendent



Peggy E. Smith
Director of Business & Human Resources