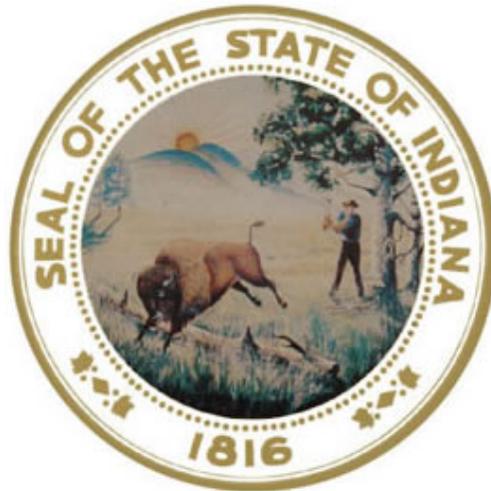


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

NORTH SPENCER COUNTY SCHOOL CORPORATION
SPENCER COUNTY, INDIANA

July 1, 2010 to June 30, 2012



FILED
03/18/2013

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|-------------------------------------|--|
| Treasurer | Virlee E. Huffman | 07-01-10 to 06-30-13 |
| Superintendent of Schools | Daniel R. Scherry | 07-01-10 to 06-30-13 |
| President of the School Board | Pamela K. Thompson Anna L. Oxley | 01-01-10 to 12-31-11 01-01-12 to 12-31-13 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statement of the North Spencer County School Corporation (School Corporation), for the period of July 1, 2010 to June 30, 2012. This financial statement is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 opinion.

As discussed in Note 1, the School Corporation prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. The basis noted above is a different basis than that used in the prior period.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position and results of operations of the School Corporation for the period of July 1, 2010 to June 30, 2012.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the School Corporation for the period of July 1, 2010 to June 30, 2012, on the basis of accounting described in Note 1.

INDEPENDENT AUDITOR'S REPORT
(Continued)

In accordance with Government Auditing Standards, we have also issued a report dated February 21, 2013, 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.

Our audit was conducted for the purpose of forming an opinion on the School Corporation's financial statement. 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 financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other reports used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the School Corporation's financial statement. The Combining Schedules of Receipts, Disbursements, Other Financing Sources and (Uses), and Cash and Investment Balances – Regulatory Basis and Schedule of Leases and Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.



Bruce Hartman
State Examiner

February 21, 2013



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

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

We have audited the financial statement of the North Spencer County School Corporation (School Corporation), for the period of July 1, 2010 to June 30, 2012, and have issued our report thereon dated February 21, 2013. 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

Management of the School Corporation is responsible for establishing and maintaining effective 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 opinion on the financial statement, 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Corporation's financial statement is 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 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, others within the entity, 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.



Bruce Hartman
State Examiner

February 21, 2013

FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the School Corporation. The financial statement and notes are presented as intended by the School Corporation.

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NORTH SPENCER COUNTY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Years Ended June 30, 2011 and 2012

| | Cash and Investments 07-01-10 | Receipts | Disbursements | Other Financing Sources (Uses) | Cash and Investments 06-30-11 | Receipts | Disbursements | Other Financing Sources (Uses) | Cash and Investments 06-30-12 |
|---|-------------------------------------|----------------------|----------------------|--------------------------------------|-------------------------------------|----------------------|----------------------|--------------------------------------|-------------------------------------|
| General | \$ 1,211,660 | \$ 11,933,831 | \$ 11,658,041 | \$ 7,115 | \$ 1,494,565 | \$ 11,836,216 | \$ 11,763,461 | \$ 11,629 | \$ 1,578,949 |
| Debt Service | 1,006,582 | 1,981,656 | 1,863,645 | - | 1,124,593 | 1,971,868 | 1,861,288 | - | 1,235,173 |
| Retirement/Severance Bond Debt Service | 151,883 | 290,991 | 288,650 | - | 154,224 | 289,401 | 287,340 | - | 156,285 |
| Capital Projects | 1,403,685 | 2,004,571 | 1,185,509 | (698,235) | 1,524,512 | 2,355,845 | 1,372,920 | (1,600,000) | 907,437 |
| School Transportation | 82,870 | 1,265,450 | 1,212,521 | 11,956 | 147,755 | 1,290,821 | 993,889 | - | 444,687 |
| School Bus Replacement | 129,222 | 123,626 | 43,976 | - | 208,872 | 203,141 | 150,000 | - | 262,013 |
| Rainy Day | 1,347,246 | - | 334,629 | 700,000 | 1,712,617 | - | - | 1,600,000 | 3,312,617 |
| School Lunch | 417,110 | 1,127,072 | 979,324 | - | 564,858 | 991,963 | 967,079 | - | 589,742 |
| Textbook Rental | 229,084 | 212,270 | 240,832 | - | 200,522 | 228,978 | 246,881 | - | 182,619 |
| Self-Insurance | 1,097,793 | 3,194,373 | 3,280,786 | - | 1,011,380 | 2,549,312 | 3,386,843 | - | 173,849 |
| Levy Excess | - | 11,956 | - | (11,956) | - | - | - | - | - |
| Educational License Plates | 2,805 | 635 | 1,350 | - | 2,090 | 319 | - | - | 2,409 |
| Safe Haven 2011/2012 | - | - | - | - | - | 17,358 | 29,347 | - | (11,989) |
| HH/MS After School Program | - | 1,000 | - | - | 1,000 | 5,000 | 325 | - | 5,675 |
| Will & Lori Koch Family Fund | - | - | - | - | - | 105,622 | 105,622 | - | - |
| Early Childhood Literacy Grant | - | 7,465 | 5,407 | - | 2,058 | 2,514 | 4,572 | - | - |
| High Performance Culture Grant | - | - | - | - | - | 24,000 | 19,488 | - | 4,512 |
| Community Foundation Grant | - | - | - | - | - | 10,200 | 8,558 | - | 1,642 |
| Trust/ISTA Section 125 | 3,173 | 133 | - | - | 3,306 | 960 | - | - | 4,266 |
| S.I.N.E. for ACE Academy | - | - | - | - | - | 2,513 | 700 | - | 1,813 |
| Vision Athena Grant Award | 9,159 | - | - | - | 9,159 | - | - | - | 9,159 |
| High Ability Grant 2010/2011 | - | 33,612 | 24,251 | - | 9,361 | - | 9,361 | - | - |
| High Ability Grant 2011/2012 | - | - | - | - | - | 32,192 | 28,575 | - | 3,617 |
| High Ability Grant 2009/2010 | 1,061 | - | 1,061 | - | - | - | - | - | - |
| Non-English Speaking Programs P.L. 273-1999 | - | 6,939 | 6,939 | - | - | 6,060 | 5,928 | - | 132 |
| Connectivity | - | 6,412 | - | - | 6,412 | 6,740 | - | - | 13,152 |
| Technology Grants IC 20-40-15 | 26,622 | - | 18,284 | - | 8,338 | - | 8,338 | - | - |
| Fluor Foundation Grant | - | 2,000 | - | - | 2,000 | - | 2,000 | - | - |
| Tobacco Grant | 2,443 | 27,000 | 27,555 | - | 1,888 | 29,425 | 25,865 | - | 5,448 |
| Intelenet Commission | 1,995 | - | - | - | 1,995 | - | - | - | 1,995 |
| Title I 2011/2012 | - | - | - | - | - | 154,035 | 165,142 | - | (11,107) |
| Title I 10-7385 | 24,576 | 20,838 | 13,499 | (31,915) | - | - | - | - | - |
| Title I 2010/2011 | - | 170,533 | 207,810 | 31,915 | (5,362) | 38,812 | 33,450 | - | - |
| Title IV Pt A Drug Free 2008/2009 | 3,135 | - | 3,135 | - | - | - | - | - | - |
| Title IV Pt A Drug Free 2010/2011 | - | 1,000 | 1,288 | - | (288) | 5,385 | 5,097 | - | - |
| High Schools That Work | 179 | - | 179 | - | - | - | - | - | - |
| Medicaid Reimbursement - Federal | 67,485 | 25,288 | 1,283 | (7,115) | 84,375 | 27,089 | 2,572 | (11,629) | 97,263 |
| Improving Teaching Quality, No Child Left, Title II, Part A | 12,820 | 45,525 | 68,892 | - | (10,547) | 79,694 | 75,464 | - | (6,317) |
| ARRA Title I Stimulus 2009 | 22,083 | - | 12,924 | - | 9,159 | - | 9,159 | - | - |
| ARRA Special Education - Part B | 9,355 | 107,251 | 154,775 | - | (38,169) | 112,048 | 73,879 | - | - |
| ARRA Special Education Preschool | 1,855 | - | 1,855 | - | - | - | - | - | - |
| Education Jobs | - | - | - | - | - | 395,201 | 395,201 | - | - |
| Totals | \$ 7,265,881 | \$ 22,601,427 | \$ 21,638,400 | \$ 1,765 | \$ 8,230,673 | \$ 22,772,712 | \$ 22,038,344 | \$ - | \$ 8,965,041 |

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

NORTH SPENCER COUNTY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENT

Note 1. 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 accompanying financial statement presents the financial information for the School Corporation.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), 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 regulatory 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.

C. Cash and Investments

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

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Local sources which include taxes, revenue from local governmental units other than school corporations, transfer tuition, transportation fees, investment income, food services, school corporation activities, revenue from community services activities, and other revenue from local sources.

Intermediate sources which include distributions from the County for fees collected for or on behalf of the School Corporation including educational license plate fees, congressional interest, riverboat distributions, and other similar fees.

State sources include distributions from the State of Indiana and are to be used by the School Corporation for various purposes. Included in state sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

NORTH SPENCER COUNTY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENT
(Continued)

Federal sources include distributions from the federal government and are to be used by the School Corporation for various purposes. Included in federal sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

Other receipts which include amounts received from various sources which include return of petty cash, return of cash change, insurance claims for losses, sale of securities, and other receipts not listed in another category above.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Instruction which includes outflows for regular programs, special programs, adult and continuing education programs, summer school programs, enrichment programs, remediation, and payments to other governmental units.

Support services which include outflows for support services related to students, instruction, general administration, and school administration. It also includes outflows for central services, operation and maintenance of plant services, and student transportation.

Noninstructional services which include outflows for food service operations and community service operations.

Facilities acquisition and construction which includes outflows for the acquisition, development, construction, and improvement of new and existing facilities.

Debt services which include fixed obligations resulting from financial transactions previously entered into by the School Corporation. It includes all expenditures for the reduction of the principal and interest of the School Corporation's general obligation indebtedness.

Nonprogrammed charges which include outflows for donations to foundations, securities purchased, indirect costs, scholarships, and self-insurance payments.

F. Other Financing Sources and Uses

Other financing sources and uses are presented in the aggregate on the face of the financial statement. The aggregate other financing sources and uses include the following:

Sale of capital assets which includes money received when land, buildings, or equipment owned by the School Corporation is sold.

Transfers in which includes money received by one fund as a result of transferring money from another fund. The transfers are used for cash flow purposes as provided by various statutory provisions.

Transfers out which includes money paid by one fund to another fund. The transfers are used for cash flow purposes as provided by various statutory provisions.

NORTH SPENCER COUNTY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENT
(Continued)

G. Fund Accounting

Separate funds are established, maintained, and reported by the School Corporation. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the School Corporation. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the School Corporation in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the School Corporation submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the School Corporation in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent 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 normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the School Corporation to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The School Corporation may be 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.

NORTH SPENCER COUNTY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENT
(Continued)

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the School Corporation to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 6. Pension Plans

A. Teacher's Retirement Fund

Plan Description

The Indiana Teacher's Retirement Fund (TRF) is 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 Indiana Public Retirement System (INPRS) 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 members' contributions, set by state statute at 3 percent 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.

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

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 286-3544

Funding Policy and Annual Pension Cost

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.

- B. The School Corporation also contributes to additional pension plans for the noncertified employees unique to the School Corporation. Information regarding these plans may be obtained from the School Corporation.

NORTH SPENCER COUNTY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 7. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of the Indiana Department of Education requiring that these grant funds be spent prior to being reimbursed. These grant funds were expected to have negative balances because of the manner in which the grants are administered. The reimbursements for the expenditures made by the School Corporation were not received by June 30.

Note 8. Holding Corporations

The School Corporation has entered into a capital lease with North Spencer County Elementary 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 fiscal years ended June 30, 2011 and 2012, totaled \$857,857 and \$856,162, respectively.

The School Corporation has entered into a capital lease with North Spencer County Middle 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 fiscal years ended June 30, 2011 and 2012, totaled \$911,600 and \$955,600, respectively.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the School Corporation's Financial Reports can be found on the Indiana Department of Education website: <http://mustang.doe.state.in.us/TRENDS/fin.cfm>. This website is maintained by the Indiana Department of Education. More current financial information is available from the School Corporation Treasurer's office.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Financial Reports of the School Corporation which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the School Corporation. It is presented as intended by the School Corporation.

NORTH SPENCER COUNTY SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011

| | General | Debt Service | Retirement/ Serverance Bond Debt Service | Capital Projects | School Transportation | School Bus Replacement | Rainy Day |
|---|---------------------|---------------------|--|---------------------|--------------------------|------------------------------|---------------------|
| Cash and investments - beginning | \$ 1,211,660 | \$ 1,006,582 | \$ 151,883 | \$ 1,403,685 | \$ 82,870 | \$ 129,222 | \$ 1,347,246 |
| Receipts: | | | | | | | |
| Local sources | 49,015 | 1,981,656 | 290,991 | 2,004,571 | 1,264,562 | 123,626 | - |
| Intermediate sources | 279 | - | - | - | - | - | - |
| State sources | 11,884,537 | - | - | - | - | - | - |
| Federal sources | - | - | - | - | - | - | - |
| Other | - | - | - | - | 888 | - | - |
| Total receipts | <u>11,933,831</u> | <u>1,981,656</u> | <u>290,991</u> | <u>2,004,571</u> | <u>1,265,450</u> | <u>123,626</u> | <u>-</u> |
| Disbursements: | | | | | | | |
| Current: | | | | | | | |
| Instruction | 8,423,024 | - | - | - | - | - | - |
| Support services | 2,946,538 | - | - | 641,042 | 1,212,521 | 43,976 | 334,629 |
| Noninstructional services | 288,479 | - | - | - | - | - | - |
| Facilities acquisition and construction | - | - | - | 544,467 | - | - | - |
| Debt services | - | 1,863,645 | 288,650 | - | - | - | - |
| Nonprogrammed charges | - | - | - | - | - | - | - |
| Total disbursements | <u>11,658,041</u> | <u>1,863,645</u> | <u>288,650</u> | <u>1,185,509</u> | <u>1,212,521</u> | <u>43,976</u> | <u>334,629</u> |
| Excess (deficiency) of receipts over disbursements | <u>275,790</u> | <u>118,011</u> | <u>2,341</u> | <u>819,062</u> | <u>52,929</u> | <u>79,650</u> | <u>(334,629)</u> |
| Other financing sources (uses): | | | | | | | |
| Sale of capital assets | - | - | - | 1,765 | - | - | - |
| Transfers in | 7,115 | - | - | - | 11,956 | - | 700,000 |
| Transfers out | - | - | - | (700,000) | - | - | - |
| Total other financing sources (uses) | <u>7,115</u> | <u>-</u> | <u>-</u> | <u>(698,235)</u> | <u>11,956</u> | <u>-</u> | <u>700,000</u> |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | <u>282,905</u> | <u>118,011</u> | <u>2,341</u> | <u>120,827</u> | <u>64,885</u> | <u>79,650</u> | <u>365,371</u> |
| Cash and investments - ending | <u>\$ 1,494,565</u> | <u>\$ 1,124,593</u> | <u>\$ 154,224</u> | <u>\$ 1,524,512</u> | <u>\$ 147,755</u> | <u>\$ 208,872</u> | <u>\$ 1,712,617</u> |

NORTH SPENCER COUNTY SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011
 (Continued)

| | School Lunch | Textbook Rental | Self- Insurance | Levy Excess | Educational License Plates | HH/MS After School Program | Early Childhood Literacy Grant |
|---|-------------------|--------------------|---------------------|-----------------|----------------------------------|----------------------------------|--------------------------------------|
| Cash and investments - beginning | \$ 417,110 | \$ 229,084 | \$ 1,097,793 | \$ - | \$ 2,805 | \$ - | \$ - |
| Receipts: | | | | | | | |
| Local sources | 702,223 | 183,386 | 3,194,373 | 11,956 | - | 1,000 | 7,465 |
| Intermediate sources | - | - | - | - | 635 | - | - |
| State sources | 15,193 | 28,884 | - | - | - | - | - |
| Federal sources | 409,656 | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - |
| Total receipts | <u>1,127,072</u> | <u>212,270</u> | <u>3,194,373</u> | <u>11,956</u> | <u>635</u> | <u>1,000</u> | <u>7,465</u> |
| Disbursements: | | | | | | | |
| Current: | | | | | | | |
| Instruction | - | - | - | - | - | - | 5,407 |
| Support services | - | 240,832 | - | - | 1,350 | - | - |
| Noninstructional services | 979,324 | - | - | - | - | - | - |
| Facilities acquisition and construction | - | - | - | - | - | - | - |
| Debt services | - | - | - | - | - | - | - |
| Nonprogrammed charges | - | - | 3,280,786 | - | - | - | - |
| Total disbursements | <u>979,324</u> | <u>240,832</u> | <u>3,280,786</u> | <u>-</u> | <u>1,350</u> | <u>-</u> | <u>5,407</u> |
| Excess (deficiency) of receipts over disbursements | <u>147,748</u> | <u>(28,562)</u> | <u>(86,413)</u> | <u>11,956</u> | <u>(715)</u> | <u>1,000</u> | <u>2,058</u> |
| Other financing sources (uses): | | | | | | | |
| Sale of capital assets | - | - | - | - | - | - | - |
| Transfers in | - | - | - | - | - | - | - |
| Transfers out | - | - | - | (11,956) | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>(11,956)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | <u>147,748</u> | <u>(28,562)</u> | <u>(86,413)</u> | <u>-</u> | <u>(715)</u> | <u>1,000</u> | <u>2,058</u> |
| Cash and investments - ending | <u>\$ 564,858</u> | <u>\$ 200,522</u> | <u>\$ 1,011,380</u> | <u>\$ -</u> | <u>\$ 2,090</u> | <u>\$ 1,000</u> | <u>\$ 2,058</u> |

NORTH SPENCER COUNTY SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011
 (Continued)

| | Trust/ISTA Section 125 | Vision Athena Grant Award | High Ability Grant 2010/2011 | High Ability Grant 2009/2010 | Non-English Speaking Programs P.L. 273-1999 | Connectivity | Technology Grants IC 20-40-15 |
|---|---------------------------|------------------------------|------------------------------------|------------------------------------|--|-----------------|-------------------------------------|
| Cash and investments - beginning | \$ 3,173 | \$ 9,159 | \$ - | \$ 1,061 | \$ - | \$ - | \$ 26,622 |
| Receipts: | | | | | | | |
| Local sources | 133 | - | - | - | - | - | - |
| Intermediate sources | - | - | - | - | - | - | - |
| State sources | - | - | 33,612 | - | 6,939 | 6,412 | - |
| Federal sources | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - |
| Total receipts | <u>133</u> | <u>-</u> | <u>33,612</u> | <u>-</u> | <u>6,939</u> | <u>6,412</u> | <u>-</u> |
| Disbursements: | | | | | | | |
| Current: | | | | | | | |
| Instruction | - | - | 24,251 | 1,061 | 6,939 | - | 18,284 |
| Support services | - | - | - | - | - | - | - |
| Noninstructional services | - | - | - | - | - | - | - |
| Facilities acquisition and construction | - | - | - | - | - | - | - |
| Debt services | - | - | - | - | - | - | - |
| Nonprogrammed charges | - | - | - | - | - | - | - |
| Total disbursements | <u>-</u> | <u>-</u> | <u>24,251</u> | <u>1,061</u> | <u>6,939</u> | <u>-</u> | <u>18,284</u> |
| Excess (deficiency) of receipts over disbursements | <u>133</u> | <u>-</u> | <u>9,361</u> | <u>(1,061)</u> | <u>-</u> | <u>6,412</u> | <u>(18,284)</u> |
| Other financing sources (uses): | | | | | | | |
| Sale of capital assets | - | - | - | - | - | - | - |
| Transfers in | - | - | - | - | - | - | - |
| Transfers out | - | - | - | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | <u>133</u> | <u>-</u> | <u>9,361</u> | <u>(1,061)</u> | <u>-</u> | <u>6,412</u> | <u>(18,284)</u> |
| Cash and investments - ending | <u>\$ 3,306</u> | <u>\$ 9,159</u> | <u>\$ 9,361</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 6,412</u> | <u>\$ 8,338</u> |

NORTH SPENCER COUNTY SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011
 (Continued)

| | Fluor Foundation Grant | Tobacco Grant | Intelenet Commission | Title I 10-7385 | Title I 2010/2011 | Title IV Pt A Drug Free 2008/2009 | Title IV Pt A Drug Free 2010/2011 |
|---|------------------------------|------------------|-------------------------|--------------------|----------------------|---|---|
| Cash and investments - beginning | \$ - | \$ 2,443 | \$ 1,995 | \$ 24,576 | \$ - | \$ 3,135 | \$ - |
| Receipts: | | | | | | | |
| Local sources | 2,000 | - | - | - | - | - | - |
| Intermediate sources | - | - | - | - | - | - | - |
| State sources | - | 27,000 | - | - | - | - | - |
| Federal sources | - | - | - | 20,838 | 170,533 | - | 1,000 |
| Other | - | - | - | - | - | - | - |
| Total receipts | <u>2,000</u> | <u>27,000</u> | <u>-</u> | <u>20,838</u> | <u>170,533</u> | <u>-</u> | <u>1,000</u> |
| Disbursements: | | | | | | | |
| Current: | | | | | | | |
| Instruction | - | - | - | 11,742 | 191,720 | 3,135 | 1,288 |
| Support services | - | - | - | 1,269 | 15,106 | - | - |
| Noninstructional services | - | 27,555 | - | 488 | 984 | - | - |
| Facilities acquisition and construction | - | - | - | - | - | - | - |
| Debt services | - | - | - | - | - | - | - |
| Nonprogrammed charges | - | - | - | - | - | - | - |
| Total disbursements | <u>-</u> | <u>27,555</u> | <u>-</u> | <u>13,499</u> | <u>207,810</u> | <u>3,135</u> | <u>1,288</u> |
| Excess (deficiency) of receipts over disbursements | <u>2,000</u> | <u>(555)</u> | <u>-</u> | <u>7,339</u> | <u>(37,277)</u> | <u>(3,135)</u> | <u>(288)</u> |
| Other financing sources (uses): | | | | | | | |
| Sale of capital assets | - | - | - | - | - | - | - |
| Transfers in | - | - | - | - | 31,915 | - | - |
| Transfers out | - | - | - | (31,915) | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>(31,915)</u> | <u>31,915</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | <u>2,000</u> | <u>(555)</u> | <u>-</u> | <u>(24,576)</u> | <u>(5,362)</u> | <u>(3,135)</u> | <u>(288)</u> |
| Cash and investments - ending | <u>\$ 2,000</u> | <u>\$ 1,888</u> | <u>\$ 1,995</u> | <u>\$ -</u> | <u>\$ (5,362)</u> | <u>\$ -</u> | <u>\$ (288)</u> |

NORTH SPENCER COUNTY SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011
 (Continued)

| | High Schools That Work | Medicaid Reimbursement Federal | Improving Teaching Quality No Child Left Title II, Part A | ARRA Title I Stimulus 2009 | ARRA Special Education Part B | ARRA Special Education Part B Preschool | Totals |
|---|---------------------------|--------------------------------------|---|-------------------------------|-------------------------------------|--|---------------------|
| Cash and investments - beginning | \$ 179 | \$ 67,485 | \$ 12,820 | \$ 22,083 | \$ 9,355 | \$ 1,855 | \$ 7,265,881 |
| Receipts: | | | | | | | |
| Local sources | - | - | - | - | - | - | 9,816,957 |
| Intermediate sources | - | - | - | - | - | - | 914 |
| State sources | - | - | - | - | - | - | 12,002,577 |
| Federal sources | - | 25,288 | 45,525 | - | 107,251 | - | 780,091 |
| Other | - | - | - | - | - | - | 888 |
| Total receipts | <u>-</u> | <u>25,288</u> | <u>45,525</u> | <u>-</u> | <u>107,251</u> | <u>-</u> | <u>22,601,427</u> |
| Disbursements: | | | | | | | |
| Current: | | | | | | | |
| Instruction | 179 | - | 45,833 | 12,924 | 87,595 | 1,855 | 8,835,237 |
| Support services | - | 1,283 | 23,059 | - | 67,180 | - | 5,528,785 |
| Noninstructional services | - | - | - | - | - | - | 1,296,830 |
| Facilities acquisition and construction | - | - | - | - | - | - | 544,467 |
| Debt services | - | - | - | - | - | - | 2,152,295 |
| Nonprogrammed charges | - | - | - | - | - | - | 3,280,786 |
| Total disbursements | <u>179</u> | <u>1,283</u> | <u>68,892</u> | <u>12,924</u> | <u>154,775</u> | <u>1,855</u> | <u>21,638,400</u> |
| Excess (deficiency) of receipts over disbursements | <u>(179)</u> | <u>24,005</u> | <u>(23,367)</u> | <u>(12,924)</u> | <u>(47,524)</u> | <u>(1,855)</u> | <u>963,027</u> |
| Other financing sources (uses): | | | | | | | |
| Sale of capital assets | - | - | - | - | - | - | 1,765 |
| Transfers in | - | - | - | - | - | - | 750,986 |
| Transfers out | - | (7,115) | - | - | - | - | (750,986) |
| Total other financing sources (uses) | <u>-</u> | <u>(7,115)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,765</u> |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | <u>(179)</u> | <u>16,890</u> | <u>(23,367)</u> | <u>(12,924)</u> | <u>(47,524)</u> | <u>(1,855)</u> | <u>964,792</u> |
| Cash and investments - ending | <u>\$ -</u> | <u>\$ 84,375</u> | <u>\$ (10,547)</u> | <u>\$ 9,159</u> | <u>\$ (38,169)</u> | <u>\$ -</u> | <u>\$ 8,230,673</u> |

NORTH SPENCER COUNTY SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2012

| | General | Debt Service | Retirement/ Severance Bond Debt Service | Capital Projects | School Transportation | School Bus Replacement | Rainy Day | School Lunch |
|---|---------------------|---------------------|---|---------------------|--------------------------|------------------------------|---------------------|-------------------|
| Cash and investments - beginning | \$ 1,494,565 | \$ 1,124,593 | \$ 154,224 | \$ 1,524,512 | \$ 147,755 | \$ 208,872 | \$ 1,712,617 | \$ 564,858 |
| Receipts: | | | | | | | | |
| Local sources | 172,629 | 1,971,868 | 289,401 | 2,355,845 | 1,290,821 | 203,141 | - | 648,382 |
| Intermediate sources | 279 | - | - | - | - | - | - | - |
| State sources | 11,663,308 | - | - | - | - | - | - | 14,984 |
| Federal sources | - | - | - | - | - | - | - | 328,597 |
| Total receipts | <u>11,836,216</u> | <u>1,971,868</u> | <u>289,401</u> | <u>2,355,845</u> | <u>1,290,821</u> | <u>203,141</u> | <u>-</u> | <u>991,963</u> |
| Disbursements: | | | | | | | | |
| Current: | | | | | | | | |
| Instruction | 8,164,030 | - | - | - | - | - | - | - |
| Support services | 3,267,634 | - | - | 691,886 | 993,889 | 150,000 | - | - |
| Noninstructional services | 331,797 | - | - | - | - | - | - | 967,079 |
| Facilities acquisition and construction | - | - | - | 681,034 | - | - | - | - |
| Debt services | - | 1,861,288 | 287,340 | - | - | - | - | - |
| Nonprogrammed charges | - | - | - | - | - | - | - | - |
| Total disbursements | <u>11,763,461</u> | <u>1,861,288</u> | <u>287,340</u> | <u>1,372,920</u> | <u>993,889</u> | <u>150,000</u> | <u>-</u> | <u>967,079</u> |
| Excess (deficiency) of receipts over disbursements | <u>72,755</u> | <u>110,580</u> | <u>2,061</u> | <u>982,925</u> | <u>296,932</u> | <u>53,141</u> | <u>-</u> | <u>24,884</u> |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | 11,629 | - | - | - | - | - | 1,600,000 | - |
| Transfers out | - | - | - | (1,600,000) | - | - | - | - |
| Total other financing sources (uses) | <u>11,629</u> | <u>-</u> | <u>-</u> | <u>(1,600,000)</u> | <u>-</u> | <u>-</u> | <u>1,600,000</u> | <u>-</u> |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | <u>84,384</u> | <u>110,580</u> | <u>2,061</u> | <u>(617,075)</u> | <u>296,932</u> | <u>53,141</u> | <u>1,600,000</u> | <u>24,884</u> |
| Cash and investments - ending | <u>\$ 1,578,949</u> | <u>\$ 1,235,173</u> | <u>\$ 156,285</u> | <u>\$ 907,437</u> | <u>\$ 444,687</u> | <u>\$ 262,013</u> | <u>\$ 3,312,617</u> | <u>\$ 589,742</u> |

NORTH SPENCER COUNTY SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2012
 (Continued)

| | Textbook Rental | Self- Insurance | Educational License Plates | Safe Haven 2011/2012 | HH/MS After School Program | Will & Lori Koch Family Fund | Early Childhood Literacy Grant | High Performance Culture Grant |
|---|--------------------|--------------------|----------------------------------|-------------------------|----------------------------------|---------------------------------|--------------------------------------|--------------------------------------|
| Cash and investments - beginning | \$ 200,522 | \$ 1,011,380 | \$ 2,090 | \$ - | \$ 1,000 | \$ - | \$ 2,058 | \$ - |
| Receipts: | | | | | | | | |
| Local sources | 188,695 | 2,549,312 | - | - | 5,000 | 105,622 | 2,514 | 24,000 |
| Intermediate sources | - | - | 319 | - | - | - | - | - |
| State sources | 40,283 | - | - | 17,358 | - | - | - | - |
| Federal sources | - | - | - | - | - | - | - | - |
| Total receipts | <u>228,978</u> | <u>2,549,312</u> | <u>319</u> | <u>17,358</u> | <u>5,000</u> | <u>105,622</u> | <u>2,514</u> | <u>24,000</u> |
| Disbursements: | | | | | | | | |
| Current: | | | | | | | | |
| Instruction | - | - | - | - | 325 | 105,622 | 4,572 | - |
| Support services | 246,881 | - | - | - | - | - | - | 19,488 |
| Noninstructional services | - | - | - | 29,347 | - | - | - | - |
| Facilities acquisition and construction | - | - | - | - | - | - | - | - |
| Debt services | - | - | - | - | - | - | - | - |
| Nonprogrammed charges | - | 3,386,843 | - | - | - | - | - | - |
| Total disbursements | <u>246,881</u> | <u>3,386,843</u> | <u>-</u> | <u>29,347</u> | <u>325</u> | <u>105,622</u> | <u>4,572</u> | <u>19,488</u> |
| Excess (deficiency) of receipts over disbursements | <u>(17,903)</u> | <u>(837,531)</u> | <u>319</u> | <u>(11,989)</u> | <u>4,675</u> | <u>-</u> | <u>(2,058)</u> | <u>4,512</u> |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | - | - | - | - | - | - | - |
| Transfers out | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | <u>(17,903)</u> | <u>(837,531)</u> | <u>319</u> | <u>(11,989)</u> | <u>4,675</u> | <u>-</u> | <u>(2,058)</u> | <u>4,512</u> |
| Cash and investments - ending | <u>\$ 182,619</u> | <u>\$ 173,849</u> | <u>\$ 2,409</u> | <u>\$ (11,989)</u> | <u>\$ 5,675</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,512</u> |

NORTH SPENCER COUNTY SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2012
 (Continued)

| | Community Foundation Grant | Trust/ISTA Section 125 | S.I.N.E. for ACE Academy | Vision Athena Grant Award | High Ability Grant 2010/2011 | High Ability Grant 2011/2012 | Non-English Speaking Programs P.L. 273-1999 |
|---|----------------------------------|---------------------------|--------------------------------|------------------------------|------------------------------------|------------------------------------|--|
| Cash and investments - beginning | \$ - | \$ 3,306 | \$ - | \$ 9,159 | \$ 9,361 | \$ - | \$ - |
| Receipts: | | | | | | | |
| Local sources | 10,200 | 960 | 2,513 | - | - | - | - |
| Intermediate sources | - | - | - | - | - | - | - |
| State sources | - | - | - | - | - | 32,192 | 6,060 |
| Federal sources | - | - | - | - | - | - | - |
| Total receipts | <u>10,200</u> | <u>960</u> | <u>2,513</u> | <u>-</u> | <u>-</u> | <u>32,192</u> | <u>6,060</u> |
| Disbursements: | | | | | | | |
| Current: | | | | | | | |
| Instruction | 8,558 | - | 700 | - | 9,361 | 28,575 | 5,928 |
| Support services | - | - | - | - | - | - | - |
| Noninstructional services | - | - | - | - | - | - | - |
| Facilities acquisition and construction | - | - | - | - | - | - | - |
| Debt services | - | - | - | - | - | - | - |
| Nonprogrammed charges | - | - | - | - | - | - | - |
| Total disbursements | <u>8,558</u> | <u>-</u> | <u>700</u> | <u>-</u> | <u>9,361</u> | <u>28,575</u> | <u>5,928</u> |
| Excess (deficiency) of receipts over disbursements | <u>1,642</u> | <u>960</u> | <u>1,813</u> | <u>-</u> | <u>(9,361)</u> | <u>3,617</u> | <u>132</u> |
| Other financing sources (uses): | | | | | | | |
| Transfers in | - | - | - | - | - | - | - |
| Transfers out | - | - | - | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | <u>1,642</u> | <u>960</u> | <u>1,813</u> | <u>-</u> | <u>(9,361)</u> | <u>3,617</u> | <u>132</u> |
| Cash and investments - ending | <u>\$ 1,642</u> | <u>\$ 4,266</u> | <u>\$ 1,813</u> | <u>\$ 9,159</u> | <u>\$ -</u> | <u>\$ 3,617</u> | <u>\$ 132</u> |

NORTH SPENCER COUNTY SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2012
 (Continued)

| | Connectivity | Technology Grants IC 20-40-15 | Fluor Foundation Grant | Tobacco Grant | Intelenet Commission | Title I 2011/2012 | Title I 2010/2011 |
|---|------------------|-------------------------------------|------------------------------|------------------|-------------------------|----------------------|----------------------|
| Cash and investments - beginning | \$ 6,412 | \$ 8,338 | \$ 2,000 | \$ 1,888 | \$ 1,995 | \$ - | \$ (5,362) |
| Receipts: | | | | | | | |
| Local sources | - | - | - | - | - | - | - |
| Intermediate sources | - | - | - | - | - | - | - |
| State sources | 6,740 | - | - | 29,425 | - | - | - |
| Federal sources | - | - | - | - | - | 154,035 | 38,812 |
| Total receipts | <u>6,740</u> | <u>-</u> | <u>-</u> | <u>29,425</u> | <u>-</u> | <u>154,035</u> | <u>38,812</u> |
| Disbursements: | | | | | | | |
| Current: | | | | | | | |
| Instruction | - | 8,338 | 2,000 | - | - | 158,540 | 27,252 |
| Support services | - | - | - | - | - | 6,602 | 4,892 |
| Noninstructional services | - | - | - | 25,865 | - | - | 1,306 |
| Facilities acquisition and construction | - | - | - | - | - | - | - |
| Debt services | - | - | - | - | - | - | - |
| Nonprogrammed charges | - | - | - | - | - | - | - |
| Total disbursements | <u>-</u> | <u>8,338</u> | <u>2,000</u> | <u>25,865</u> | <u>-</u> | <u>165,142</u> | <u>33,450</u> |
| Excess (deficiency) of receipts over disbursements | <u>6,740</u> | <u>(8,338)</u> | <u>(2,000)</u> | <u>3,560</u> | <u>-</u> | <u>(11,107)</u> | <u>5,362</u> |
| Other financing sources (uses): | | | | | | | |
| Transfers in | - | - | - | - | - | - | - |
| Transfers out | - | - | - | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | <u>6,740</u> | <u>(8,338)</u> | <u>(2,000)</u> | <u>3,560</u> | <u>-</u> | <u>(11,107)</u> | <u>5,362</u> |
| Cash and investments - ending | <u>\$ 13,152</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,448</u> | <u>\$ 1,995</u> | <u>\$ (11,107)</u> | <u>\$ -</u> |

NORTH SPENCER COUNTY SCHOOL CORPORATION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2012
 (Continued)

| | Title IV Pt A Drug Free 2010/2011 | Medicaid Reimbursement Federal | Improving Teaching Quality No Child Left Title II, Part A | ARRA Title I Stimulus 2009 | ARRA Special Education Part B | Education Jobs | Totals |
|---|---|--------------------------------------|---|-------------------------------|-------------------------------------|-------------------|--------------|
| Cash and investments - beginning | \$ (288) | \$ 84,375 | \$ (10,547) | \$ 9,159 | \$ (38,169) | \$ - | \$ 8,230,673 |
| Receipts: | | | | | | | |
| Local sources | - | - | - | - | - | - | 9,820,903 |
| Intermediate sources | - | - | - | - | - | - | 598 |
| State sources | - | - | - | - | - | - | 11,810,350 |
| Federal sources | 5,385 | 27,089 | 79,694 | - | 112,048 | 395,201 | 1,140,861 |
| Total receipts | 5,385 | 27,089 | 79,694 | - | 112,048 | 395,201 | 22,772,712 |
| Disbursements: | | | | | | | |
| Current: | | | | | | | |
| Instruction | 5,097 | - | 43,310 | 8,767 | 32,569 | 382,742 | 8,996,286 |
| Support services | - | 2,572 | 32,154 | 392 | 41,310 | 12,459 | 5,470,159 |
| Noninstructional services | - | - | - | - | - | - | 1,355,394 |
| Facilities acquisition and construction | - | - | - | - | - | - | 681,034 |
| Debt services | - | - | - | - | - | - | 2,148,628 |
| Nonprogrammed charges | - | - | - | - | - | - | 3,386,843 |
| Total disbursements | 5,097 | 2,572 | 75,464 | 9,159 | 73,879 | 395,201 | 22,038,344 |
| Excess (deficiency) of receipts over disbursements | 288 | 24,517 | 4,230 | (9,159) | 38,169 | - | 734,368 |
| Other financing sources (uses): | | | | | | | |
| Transfers in | - | - | - | - | - | - | 1,611,629 |
| Transfers out | - | (11,629) | - | - | - | - | (1,611,629) |
| Total other financing sources (uses) | - | (11,629) | - | - | - | - | - |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | 288 | 12,888 | 4,230 | (9,159) | 38,169 | - | 734,368 |
| Cash and investments - ending | \$ - | \$ 97,263 | \$ (6,317) | \$ - | \$ - | \$ - | \$ 8,965,041 |

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NORTH SPENCER COUNTY SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LEASES AND DEBT
 June 30, 2012

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: | | |
| Middle School Building | \$ 8,500,000 | \$ 982,000 |
| Elementary School Buildings | 1,220,269 | 857,413 |
| Energy Savings Contract | 447,732 | 138,333 |
| Common School loans payable | 223,972 | 84,921 |
| Bonds payable: | | |
| General obligation bonds: | | |
| 457(b) Bridge to Retirement | <u>2,480,000</u> | <u>285,364</u> |
| Total governmental activities debt | <u>\$ 12,871,973</u> | <u>\$ 2,348,031</u> |

NORTH SPENCER COUNTY SCHOOL CORPORATION
OTHER REPORT

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

Heritage Hills High School/Heritage Hills Middle School Extra Curricular Account

NORTH SPENCER COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

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

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

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)

ERRORS ON CLAIMS

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

1. A duplicate payment was noted.
2. All claims were not adequately itemized.
3. All claims did not have board approval prior to payment.
4. Claims or invoices did not have evidence to support receipt of goods or services.

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

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

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

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;

NORTH SPENCER COUNTY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

PRESCRIBED FORMS (Applies to David Turnham Educational Center, Chrisney Elementary School and Lincoln Trail Elementary School)

The following prescribed or approved form was not in use by the schools listed:

Form TBR-2, Official Receipt - Individual Textbook Rental List

Form TBR-2, Official Receipt - Individual Textbook Rental List, is to be prenumbered and printed in triplicate. The form, one set for each student, is to be prepared when textbooks and related materials are issued to the student. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 4)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

OPTICAL IMAGES OF CHECKS

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

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

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

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

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

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

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

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

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

Telephone: (317) 232-2513
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the North Spencer County School Corporation's (School Corporation) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the period of July 1, 2010 to June 30, 2012. 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 could have a direct and material effect on each of its major federal programs for the period of July 1, 2010 to June 30, 2012.

Internal Control Over Compliance

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 to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies, or material weaknesses and therefore, there is no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-2 to be material weaknesses.

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

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



Bruce Hartman
State Examiner

February 21, 2013

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the School Corporation. The schedule and notes are presented as intended by the School Corporation.

NORTH SPENCER COUNTY SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2011 and 2012

| 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 06-30-11 | Total Federal Awards Expended 06-30-12 |
|--|---------------------------|--|---|---|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | | |
| Pass-Through Indiana Department of Education | | | | |
| Child Nutrition Cluster | | | | |
| School Breakfast Program | | | | |
| | 10.553 | | | |
| | | FY 10/11 | \$ 58,243 | \$ - |
| | | FY 11/12 | - | 53,687 |
| | | | <u>58,243</u> | <u>53,687</u> |
| Total for program | | | | |
| | | | <u>58,243</u> | <u>53,687</u> |
| National School Lunch Program | | | | |
| | 10.555 | | | |
| | | FY 10/11 | 346,226 | - |
| | | FY 11/12 | - | 351,451 |
| | | | <u>346,226</u> | <u>351,451</u> |
| Total for program | | | | |
| | | | <u>346,226</u> | <u>351,451</u> |
| Total for cluster | | | | |
| | | | <u>404,469</u> | <u>405,138</u> |
| Total for federal grantor agency | | | | |
| | | | <u>404,469</u> | <u>405,138</u> |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | |
| Pass-Through Indiana Department of Education | | | | |
| Title I, Part A Cluster | | | | |
| Title I Grants to Local Educational Agencies | | | | |
| | 84.010 | | | |
| | | 10-7385 | 13,499 | - |
| | | 11-7385 | 207,810 | 38,813 |
| | | 12-7385 | - | 154,035 |
| | | | <u>221,309</u> | <u>192,848</u> |
| Total for program | | | | |
| | | | <u>221,309</u> | <u>192,848</u> |
| ARRA Title I Grants to Local Educational Agencies, Recovery Act | | | | |
| | 84.389 | | | |
| | | 7385 | 12,924 | 9,158 |
| | | | <u>12,924</u> | <u>9,158</u> |
| Total for cluster | | | | |
| | | | <u>234,233</u> | <u>202,006</u> |
| Pass-Through Dubois-Spencer-Perry Exceptional Children's Co-op Special Education Cluster (IDEA) | | | | |
| ARRA Special Education - Grants to States, Recovery Act | | | | |
| | 84.391 | | | |
| | | 7385 | 116,606 | 112,048 |
| | | | <u>116,606</u> | <u>112,048</u> |
| ARRA Special Education - Preschool Grants, Recovery Act | | | | |
| | 84.392 | | | |
| | | 7385 | 1,855 | - |
| | | | <u>1,855</u> | <u>-</u> |
| Total for cluster | | | | |
| | | | <u>118,461</u> | <u>112,048</u> |
| Pass-Through Indiana Department of Education | | | | |
| Career and Technical Education - Basic Grants to States | | | | |
| | 84.048 | | | |
| | | 07-7385 | 179 | - |
| | | | <u>179</u> | <u>-</u> |
| Safe and Drug Free Schools and Communities - State Grants | | | | |
| | 84.186 | | | |
| | | 08-7385 | 3,135 | - |
| | | 09-7385 | 1,000 | 5,385 |
| | | | <u>4,135</u> | <u>5,385</u> |
| Total for program | | | | |
| | | | <u>4,135</u> | <u>5,385</u> |
| Improving Teacher Quality State Grants | | | | |
| | 84.367 | | | |
| | | 08-7385 | 12,820 | - |
| | | 09-7385 | 45,525 | 30,241 |
| | | 10-7385 | - | 49,452 |
| | | | <u>58,345</u> | <u>79,693</u> |
| Total for program | | | | |
| | | | <u>58,345</u> | <u>79,693</u> |
| Education Jobs Fund | | | | |
| | 84.410 | | | |
| | | 7385 | - | 395,201 |
| | | | <u>-</u> | <u>395,201</u> |
| Total for federal grantor agency | | | | |
| | | | <u>415,353</u> | <u>794,333</u> |
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | | |
| Pass-Through Indiana Department of Education | | | | |
| Medicaid Cluster | | | | |
| Medical Assistance Program | | | | |
| | 93.778 | | | |
| | | FY 10/11 | 25,288 | - |
| | | FY 11/12 | - | 27,089 |
| | | | <u>25,288</u> | <u>27,089</u> |
| Total for federal grantor agency | | | | |
| | | | <u>25,288</u> | <u>27,089</u> |
| Total federal awards expended | | | <u>\$ 845,110</u> | <u>\$ 1,226,560</u> |

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

NORTH SPENCER COUNTY SCHOOL CORPORATION
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the North Spencer County School Corporation (School Corporation) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. 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 Indiana Code (IC 5-11-1 et seq.), audits of Schools shall be conducted biennially. Such audits shall include both years within the biennial period.

Note 2. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2011 and 2012. This noncash assistance is also included in the federal expenditures presented in the schedule.

| Program Title | 2011 | 2012 |
|-------------------------|-----------|-----------|
| Child Nutrition Cluster | \$ 86,788 | \$ 91,730 |

NORTH SPENCER COUNTY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

| | |
|--|---|
| Type of auditor's report issued: | Adverse as to GAAP; Unqualified as to Regulatory Basis |
| Internal control over financial reporting: | |
| Material weaknesses identified? | yes |
| Significant deficiencies identified? | none reported |
| Noncompliance material to financial statement noted? | no |

Federal Awards:

| | |
|--|---------------|
| Internal control over major programs: | |
| Material weaknesses identified? | yes |
| Significant deficiencies identified? | none reported |
| Type of auditor's report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | yes |

Identification of Major Programs:

| CFDA Number | Name of Federal Program or Cluster |
|----------------|--|
| 84.410 | Child Nutrition Cluster Education Jobs Fund |

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 2012-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

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

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

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

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

FINDING 2012-2 INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO CHILD NUTRITION CLUSTER

Federal Agency: United States Department of Agriculture
Federal Program (CFDA Title): National School Lunch Program, School Breakfast Program
CFDA Numbers: 10.555, 10.553
Federal Award Number and Year (or Other Identifying Number): FY 10/11, FY 11/12
Pass-Through Entity: Indiana Department of Education

Management of the North Spencer County School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements; Activities Allowed and Unallowed, Eligibility, Reporting and Special Tests and Provisions. The failure to establish an effective internal control system places the school at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 (b) states: "The auditee shall: (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the school.

We recommended that the school's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

North Spencer County School Corporation

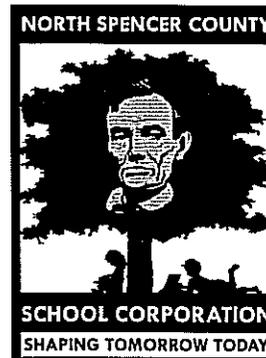
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Corrective Action Plan

Contact Person: Daniel R. Scherry, Superintendent

Section II – Financial Statement Findings

FINDING 2012-1 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Lack of Segregation of Duties – The School Corporation's office will review office procedures and attempt to institute duties which would involve review of work performed by the Treasurer by the School Board. However, the school is a small governmental unit, and management has determined that the cost associated with employing additional staff in order to segregate duties effectively is cost prohibitive. Management acknowledges and assumes the risk inherent with the current set up of their business office.

- The Treasurer will present the following to the School Board at their monthly meeting.
 - Monthly reconciliation report
 - Monthly receipts
 - Accounts payable voucher register and vouchers
 - Payroll claim listing

Monitoring of Controls – The School Board will monitor and assess the quality of the School's system of internal control. The School Board will perform either an ongoing or separate evaluation of their system of internal controls. The School Board will exercise their oversight responsibly to minimize the risk of controls not operating effectively and provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the School Board will implement a process to identify and communicate corrective actions to improve controls.

The North Spencer County School Corporation is committed to equal opportunity. It is an Equal Opportunity Employer and does not discriminate on the basis of age, race, color, religion, sex, handicapping conditions, or national origin, including limited English proficiency, in any employment opportunity. No person is excluded from participation in, denied the benefits of, or otherwise subjected to unlawful discrimination on such basis under any educational program or student activity. Contact Ben Lawalin at (812)544-2929 for additional information.

ADMINISTRATION

Daniel R. Scherry – Superintendent
Angela Burch – Director of Learning & Assessment
Jennifer Jazyk – Title I Literacy Coordinator
Marc Schum – Director of Facilities & Transportation

BOARD OF SCHOOL TRUSTEES

Annie Oxley – President
Elaine Daubenspeck – Vice President
David Waninger – Secretary
Arthur Nordhoff – School Attorney

Clint Coleman – Member
Don Detzer – Member
Lori Gogel – Member
Pam Thompson – Member

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-2, INTERNAL CONTROL

Federal Agency: U.S. Department of Agriculture

Federal Program: National School Lunch, School Breakfast, and Supplemental Nutrition Assistance Programs

CFDA Numbers: 10.555, 10.553, and 10.580

Federal Award Number and Year: FY 10-11, FY 11/12

Pass-Through Entity: Indiana Department of Education

Lack of Segregation of Duties - The School Corporation's office will review office procedures and attempt to institute duties which would involve review of work performed by the Treasurer by the School Board. However, the school is a small governmental unit, and management has determined that the cost associated with employing additional staff in order to segregate duties effectively is cost prohibitive. Management acknowledges and assumes the risk inherent with the current set up of their business office.

Daniel R. Scherry 2/26/13

Daniel R. Scherry, Superintendent

Annie Oxley 2/26/13

Annie Oxley, School Board President

Virlee R. Huffman

Virlee R. Huffman, Treasurer

NORTH SPENCER COUNTY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on February 21, 2013, with Daniel R. Scherry, Superintendent of Schools; Virlee E. Huffman, Treasurer; Anna L. Oxley, President of the School Board; and board members: Elaine Daubenspeck and Lori Gogel. The officials concurred with our audit findings.

A separate telephone exit conference was held with School Board members: David Waninger, Don Detzer, Pamela K. Thompson, and Clint Coleman.