

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

EXAMINATION REPORT
OF
SOUTHERN WELLS COMMUNITY SCHOOLS
WELLS COUNTY, INDIANA
July 1, 2004 to June 30, 2006



FILED
01/31/2007

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OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|------------------|----------------------|
| Treasurer | Vicki S. Andrews | 07-01-04 to 06-30-07 |
| Superintendent of Schools | Neil Potter | 07-01-04 to 06-30-07 |
| President of the School Board | Joe M. Hartley | 07-01-04 to 06-30-07 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE SOUTHERN WELLS COMMUNITY SCHOOLS, WELLS COUNTY, INDIANA

We have examined the financial information presented herein of the Southern Wells Community Schools (School Corporation), for the period of July 1, 2004 to June 30, 2006. The School Corporation's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the School Corporation for the years ended June 30, 2005 and 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

January 4, 2007

SOUTHERN WELLS COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

| <u>Assets</u> | <u>Governmental Activities</u> |
|-----------------------|------------------------------------|
| Current assets: | |
| Cash and investments | \$ 252,339 |
| Restricted assets: | |
| Cash and investments | <u>51,520</u> |
| Total assets | <u>\$ 303,859</u> |
| <u>Net Assets</u> | |
| Restricted for: | |
| Debt service | \$ 51,520 |
| Unrestricted | <u>252,339</u> |
| Total net assets | <u>\$ 303,859</u> |

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

SOUTHERN WELLS COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

| <u>Assets</u> | <u>Governmental Activities</u> |
|-----------------------|------------------------------------|
| Current assets: | |
| Cash and investments | \$ 1,150,150 |
| Restricted assets: | |
| Cash and investments | <u>56,926</u> |
| Total assets | <u>\$ 1,207,076</u> |
| <u>Net Assets</u> | |
| Restricted for: | |
| Debt service | \$ 56,926 |
| Unrestricted | <u>1,150,150</u> |
| Total net assets | <u>\$ 1,207,076</u> |

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

SOUTHERN WELLS COMMUNITY SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

| Functions/Programs | Disbursements | Program Receipts | | Net (Disbursements) Receipts |
|--|----------------------------|--------------------------|--|------------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Total |
| Governmental activities: | | | | |
| Instruction | \$ 2,604,139 | \$ - | \$ 41,609 | \$ (2,562,530) |
| Support services | 3,612,552 | 288,556 | 50,899 | (3,273,097) |
| Community services | 88,814 | - | - | (88,814) |
| Nonprogrammed charges | 345,982 | - | - | (345,982) |
| Debt service | 354,442 | - | - | (354,442) |
| Total governmental activities | <u>\$ 7,005,929</u> | <u>\$ 288,556</u> | <u>\$ 92,508</u> | <u>(6,624,865)</u> |
| General receipts: | | | | |
| Property taxes | | | | 2,380,341 |
| Other local sources | | | | 763,147 |
| State aid | | | | 3,331,459 |
| Grants and contributions not restricted | | | | 86,015 |
| Sale of property, adjustments, and refunds | | | | 29,997 |
| Investment earnings | | | | 17,569 |
| Total general receipts | | | | <u>6,608,528</u> |
| Change in cash and investments | | | | (16,337) |
| Net assets - beginning | | | | <u>320,196</u> |
| Net assets - ending | | | | <u>\$ 303,859</u> |

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

SOUTHERN WELLS COMMUNITY SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

| Functions/Programs | Disbursements | Program Receipts | | Net (Disbursements) Receipts |
|--|---------------------|-------------------------|--|------------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Total |
| Governmental activities: | | | | |
| Instruction | \$ 2,614,601 | \$ - | \$ 32,540 | \$ (2,582,061) |
| Support services | 3,678,944 | 263,540 | 75,378 | (3,340,026) |
| Community services | 93,065 | - | - | (93,065) |
| Nonprogrammed charges | 245,306 | - | - | (245,306) |
| Debt service | <u>346,228</u> | <u>-</u> | <u>-</u> | <u>(346,228)</u> |
| Total governmental activities | <u>\$ 6,978,144</u> | <u>\$ 263,540</u> | <u>\$ 107,918</u> | <u>(6,606,686)</u> |
| General receipts: | | | | |
| Property taxes | | | | 3,436,223 |
| Other local sources | | | | 556,340 |
| State aid | | | | 3,363,745 |
| Grants and contributions not restricted | | | | 90,208 |
| Sale of property, adjustments, and refunds | | | | 23,541 |
| Investment earnings | | | | <u>39,846</u> |
| Total general receipts | | | | <u>7,509,903</u> |
| Change in cash and investments | | | | 903,217 |
| Net assets - beginning | | | | <u>303,859</u> |
| Net assets - ending | | | | <u>\$ 1,207,076</u> |

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

SOUTHERN WELLS COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

| | General | Transportation Operating | Textbook Rental | Debt Service | Capital Projects | School Bus Replacement | Other | Totals |
|---|------------------|-----------------------------|--------------------|------------------|---------------------|---------------------------|------------------|-------------------|
| Receipts: | | | | | | | | |
| Local sources | \$ 1,699,170 | \$ 441,158 | \$ 87,000 | \$ 390,424 | \$ 508,967 | \$ 98,511 | \$ 223,771 | \$ 3,449,001 |
| Intermediate sources | 405 | - | - | - | - | - | 206 | 611 |
| State sources | 3,361,338 | - | 6,637 | - | - | - | 34,361 | 3,402,336 |
| Federal sources | - | - | - | - | - | - | 107,647 | 107,647 |
| Sale of property, adjustments and refunds | 28,696 | 220 | 674 | - | - | - | 407 | 29,997 |
| Intergovernmental transfers | 435,938 | - | - | - | 557,173 | - | - | 993,111 |
| Total receipts | 5,525,547 | 441,378 | 94,311 | 390,424 | 1,066,140 | 98,511 | 366,392 | 7,982,703 |
| Disbursements: | | | | | | | | |
| Current: | | | | | | | | |
| Instruction | 2,506,310 | - | - | - | - | - | 97,829 | 2,604,139 |
| Support services | 2,036,296 | 503,952 | 61,659 | - | 576,183 | 164,431 | 270,031 | 3,612,552 |
| Community services | 88,814 | - | - | - | - | - | - | 88,814 |
| Nonprogrammed charges | 894,226 | - | - | - | 435,938 | - | 8,929 | 1,339,093 |
| Debt services | - | - | - | 354,442 | - | - | - | 354,442 |
| Total disbursements | 5,525,646 | 503,952 | 61,659 | 354,442 | 1,012,121 | 164,431 | 376,789 | 7,999,040 |
| Excess (deficiency) of total receipts over (under) total disbursements | (99) | (62,574) | 32,652 | 35,982 | 54,019 | (65,920) | (10,397) | (16,337) |
| Cash and investments - beginning | 101 | 77,160 | 24,344 | 15,538 | 49,907 | 102,604 | 50,542 | 320,196 |
| Cash and investments - ending | <u>\$ 2</u> | <u>\$ 14,586</u> | <u>\$ 56,996</u> | <u>\$ 51,520</u> | <u>\$ 103,926</u> | <u>\$ 36,684</u> | <u>\$ 40,145</u> | <u>\$ 303,859</u> |

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

SOUTHERN WELLS COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

| | General | Transportation Operating | Textbook Rental | Debt Service | Capital Projects | School Bus Replacement | Other | Totals |
|---|--------------------------|-----------------------------|-------------------------|-------------------------|--------------------------|---------------------------|-------------------------|----------------------------|
| Receipts: | | | | | | | | |
| Local sources | \$ 2,169,827 | \$ 566,469 | \$ 57,985 | \$ 353,820 | \$ 771,610 | \$ 144,475 | \$ 231,076 | \$ 4,295,262 |
| Intermediate sources | 405 | - | - | - | - | - | 281 | 686 |
| State sources | 3,384,630 | - | 8,491 | - | - | - | 28,167 | 3,421,288 |
| Federal sources | - | - | - | - | - | - | 140,584 | 140,584 |
| Sale of property, adjustments and refunds | 6,231 | 643 | 346 | - | 16,321 | - | - | 23,541 |
| Intergovernmental transfers | - | - | - | - | 435,938 | - | 20,015 | 455,953 |
| Total receipts | <u>5,561,093</u> | <u>567,112</u> | <u>66,822</u> | <u>353,820</u> | <u>1,223,869</u> | <u>144,475</u> | <u>420,123</u> | <u>8,337,314</u> |
| Disbursements: | | | | | | | | |
| Current: | | | | | | | | |
| Instruction | 2,511,683 | - | - | - | - | - | 102,918 | 2,614,601 |
| Support services | 2,067,094 | 508,408 | 92,904 | - | 565,962 | 170,676 | 273,900 | 3,678,944 |
| Community services | 93,065 | - | - | - | - | - | - | 93,065 |
| Nonprogrammed charges | 683,916 | 2,861 | - | 2,186 | 3,516 | 554 | 8,226 | 701,259 |
| Debt services | - | - | - | 346,228 | - | - | - | 346,228 |
| Total disbursements | <u>5,355,758</u> | <u>511,269</u> | <u>92,904</u> | <u>348,414</u> | <u>569,478</u> | <u>171,230</u> | <u>385,044</u> | <u>7,434,097</u> |
| Excess (deficiency) of total receipts over (under) total disbursements | 205,335 | 55,843 | (26,082) | 5,406 | 654,391 | (26,755) | 35,079 | 903,217 |
| Cash and investments - beginning | <u>2</u> | <u>14,586</u> | <u>56,996</u> | <u>51,520</u> | <u>103,926</u> | <u>36,684</u> | <u>40,145</u> | <u>303,859</u> |
| Cash and investments - ending | <u>\$ 205,337</u> | <u>\$ 70,429</u> | <u>\$ 30,914</u> | <u>\$ 56,926</u> | <u>\$ 758,317</u> | <u>\$ 9,929</u> | <u>\$ 75,224</u> | <u>\$ 1,207,076</u> |

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

SOUTHERN WELLS COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2005

| | Private-Purpose Trust Funds |
|---|--------------------------------|
| Additions: | |
| Local sources | \$ 29,250 |
| Federal sources | 1,109 |
| Total additions | 30,359 |
| Deductions: | |
| Instruction | 31,444 |
| Support services | 2,483 |
| Total deductions | 33,927 |
| Deficiency of total additions under total deductions | (3,568) |
| Cash and investments - beginning | 36,302 |
| Cash and investments - ending | \$ 32,734 |

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

SOUTHERN WELLS COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2006

| | Private-Purpose Trust Funds |
|--|--------------------------------|
| Additions: | |
| Local sources | \$ <u>32,239</u> |
| Total additions | <u>32,239</u> |
| Deductions: | |
| Instruction | 27,619 |
| Support services | <u>3,475</u> |
| Total deductions | <u>31,094</u> |
| Excess of total additions over total deductions | 1,145 |
| Cash and investments - beginning | <u>32,734</u> |
| Cash and investments - ending | <u><u>\$ 33,879</u></u> |

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

SOUTHERN WELLS COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

| <u>Assets</u> | <u>Private-Purpose Trust Funds</u> |
|--|--|
| Cash and investments | \$ <u>32,734</u> |
| | |
| <u>Net Assets</u> | |
| Held in trust for employee benefits and other purposes | \$ <u>32,734</u> |

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

SOUTHERN WELLS COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2006

| <u>Assets</u> | <u>Private-Purpose Trust Funds</u> |
|--|--|
| Cash and investments | \$ <u>33,879</u> |
| <u>Net Assets</u> | |
| Held in trust for employee benefits and other purposes | \$ <u>33,879</u> |

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

SOUTHERN WELLS COMMUNITY SCHOOLS
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

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.

Note 2. Fund Accounting

The School Corporation uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were 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 statute (IC 5-13-9) authorizes 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.

SOUTHERN WELLS COMMUNITY SCHOOLS
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plans

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 this 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 members' 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. That report may be obtained by contacting:

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

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

Teacher's Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teacher's 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 members' 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.

SOUTHERN WELLS COMMUNITY SCHOOLS
NOTES TO FINANCIAL INFORMATION
(Continued)

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

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

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.

SOUTHERN WELLS COMMUNITY SCHOOLS
EXAMINATION RESULTS AND COMMENTS

HONORS DIPLOMA - INCORRECT REPORTING TO THE STATE

The information presented for examination indicates Honors Diploma figures reported to Indiana Department of Education were incorrect for the school year ending June 30, 2005.

The difference between the Honors Diploma figures reported and the verified figures are shown below:

| <u>School Year</u> | <u>Reported</u> | <u>Actual Figures</u> | <u>Difference</u> |
|--------------------|-----------------|-----------------------|-------------------|
| 2004-2005 | 18 | 17 | 1 |

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

PUBLIC WORKS PROJECT

The School Corporation entered into a contract in April of 2004, for the construction of a press box. The total amount paid on the contract was \$61,234. The School Corporation did not advertise for bids, however, they did solicit and receive quotes.

Indiana Code 36-1-12-4(a) states in part: "This section applies whenever the cost of a public work project will be: (1) at least seventy-five thousand dollars (\$75,000) in: (A) a consolidated city or second class city; or (B) a county containing a consolidated city or second class city; (2) at least fifty thousand dollars (\$50,000) in: (A) a third class city or town with a population of more than five thousand (5,000), or (B) a county containing a third class city or town with a population of more than five thousand (5,000); or (3) at least twenty-five thousand dollars (\$25,000) in a political subdivision or an agency not described in subdivision (1) or (2)."

Indiana Code 36-1-12-4(b) states in part: "The board must comply with the following procedure: (1) The board shall prepare general plans and specifications describing the kind of public work required, but shall avoid specifications which might unduly limit competition. . . . (2) The board shall file the plans and specifications in a place reasonably accessible to the public, which shall be specified in the notice required by subdivision (3). (3) Upon the filing of the plans and specifications, the board shall publish notice in accordance with IC 5-3-1 calling for sealed proposals for the public work needed . . ."

TRANSFER TUITION

Transfer tuition fees charged and collected for the school years 2004-2005 and 2005-2006 were based on estimated expenditures. Actual transfer tuition costs were not calculated at the end of each school year.

Indiana Code 20-26-11-6 states in part: "The tuition determined under subsection (b) must be paid by the parents or the student before the end of the school year in installments as determined by the transferee corporation."

DEPOSITS (Applies to Southern Wells Elementary School and Southern Wells Junior/Senior High School)

Receipts were not deposited in a timely manner. The Elementary School made deposits, in most cases, once a month and the Junior/Senior High School made deposits once a week.

The treasurer shall deposit without unreasonable delay, all receipts in one bank account . . . (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

SOUTHERN WELLS COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on January 4, 2007, with Neil Potter, Superintendent of Schools; and Vicki S. Andrews, Treasurer.