

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

AUDIT REPORT
OF
PERU COMMUNITY SCHOOLS
MIAMI COUNTY, INDIANA
July 1, 2004 to June 30, 2006



FILED
02/06/2007

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials.....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	3-4
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.....	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Cash and Investments	6-7
Statement of Cash Activities	8-9
Fund Financial Statements:	
Governmental Funds:	
Statement of Receipts, Disbursements, and Cash and Investment Balances – Governmental Funds.....	10-11
Fiduciary Funds:	
Statement of Receipts, Disbursements, and Changes in Cash and Investments – Fiduciary Funds.....	12-13
Statement of Cash and Investments – Fiduciary Funds	14-15
Notes to Financial Statements	16-25
Required Supplementary Information:	
Schedule of Funding Progress	26
Supplementary Information:	
Schedule of Capital Assets.....	27
Schedule of Long-Term Debt.....	28
Audit Results and Comments:	
Ongoing Investigation	29
Bank Account Reconciliations	29
Overdrawn Cash Balances	29
Extra-Curricular Deposits.....	29
Nonuse of Ticket Sales Form SA-4	30
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	32-33
Schedule of Expenditures of Federal Awards.....	34-35
Notes to Schedule of Expenditures of Federal Awards	36
Schedule of Findings and Questioned Costs.....	37
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings.....	38
Exit Conference.....	39

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Lois Mongosa	07-01-04 to 06-30-07
Superintendent of Schools	Dr. Thomas E. McKaig	07-01-04 to 06-30-07
President of the School Board	Paul Stanton Terry B. Smith	07-01-04 to 06-30-06 07-01-06 to 06-30-07



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

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

TO: THE OFFICIALS OF THE PERU COMMUNITY SCHOOLS, MIAMI COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Peru Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated January 4, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

The Schedule of Funding Progress is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

January 4, 2007



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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE PERU COMMUNITY SCHOOLS, MIAMI COUNTY, INDIANA

We have audited the financial statements of the Peru Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 4, 2007. 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.

Compliance

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 4, 2007

PERU COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 4,379,509
Restricted assets:	
Cash and investments	<u>(83,607)</u>
Total assets	<u>\$ 4,295,902</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ (83,607)
Unrestricted	<u>4,379,509</u>
Total net assets	<u>\$ 4,295,902</u>

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

PERU COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 5,158,100
Restricted assets:	
Cash and investments	<u>249,231</u>
Total assets	<u>\$ 5,407,331</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 249,231
Unrestricted	<u>5,158,100</u>
Total net assets	<u>\$ 5,407,331</u>

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

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

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 7,879,443	\$ -	\$ 144,028	\$ (7,735,415)
Support services	10,579,033	601,598	400,213	(9,577,222)
Community services	126,570	-	-	(126,570)
Nonprogrammed charges	1,149,558	-	-	(1,149,558)
Debt service	6,685,738	-	-	(6,685,738)
Total governmental activities	\$ 26,420,342	\$ 601,598	\$ 544,241	(25,274,503)
General receipts:				
Property taxes				6,601,876
Other local sources				1,033,529
State aid				11,509,780
Grants and contributions not restricted				1,072,150
Bonds and loans				6,324,631
Sale of property, adjustments, and refunds				33,584
Investment earnings				74,431
Total general receipts				26,649,981
Change in cash and investments				1,375,478
Net assets - beginning				2,920,424
Net assets - ending				\$ 4,295,902

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

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

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 7,862,864	\$ -	\$ 85,878	\$ (7,776,986)
Support services	16,102,635	588,037	526,533	(14,988,065)
Community services	85,647	-	-	(85,647)
Nonprogrammed charges	1,185,458	-	-	(1,185,458)
Debt service	5,227,008	-	-	(5,227,008)
Total governmental activities	\$ 30,463,612	\$ 588,037	\$ 612,411	(29,263,164)
General receipts:				
Property taxes				7,324,651
Other local sources				1,083,403
State aid				11,835,243
Grants and contributions not restricted				1,206,017
Bonds and loans				8,666,346
Sale of property, adjustments, and refunds				51,533
Investment earnings				207,397
Total general receipts				30,374,590
Change in cash and investments				1,111,426
Net assets - beginning				4,295,902
Net assets - ending				\$ 5,407,328

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

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

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Construction	South Peru Construction	Other	Totals
Receipts:									
Local sources	\$ 3,454,010	\$ 543,784	\$ 2,051,922	\$ 1,259,232	\$ 144,388	\$ -	\$ 9,881	\$ 847,446	\$ 8,310,663
Intermediate sources	188	-	-	-	-	-	-	581	769
State sources	11,638,951	-	-	-	-	-	-	188,153	11,827,104
Federal sources	-	-	-	-	-	-	-	1,299,069	1,299,069
Bonds and loans	1,903,301	238,481	802,378	-	99,582	1,537,027	1,743,862	-	6,324,631
Sale of property, adjustments and refunds	31,066	1,818	-	-	-	-	-	700	33,584
Intergovernmental transfers	-	-	-	3,000	-	-	-	127,101	130,101
Total receipts	17,027,516	784,083	2,854,300	1,262,232	243,970	1,537,027	1,753,743	2,463,050	27,925,921
Disbursements:									
Current:									
Instruction	7,377,113	-	-	-	-	-	-	502,330	7,879,443
Support services	5,595,356	564,291	-	1,030,817	132,338	1,531,870	450	1,723,911	10,579,033
Community services	106,045	-	-	-	-	-	-	20,525	126,570
Nonprogrammed charges	1,028,147	-	-	-	-	-	-	251,512	1,279,659
Debt services	3,404,265	274,342	2,922,266	-	84,865	-	-	-	6,685,738
Total disbursements	17,510,926	838,633	2,922,266	1,030,817	217,203	1,531,870	450	2,498,278	26,550,443
Excess (deficiency) of total receipts over (under) total disbursements	(483,410)	(54,550)	(67,966)	231,415	26,767	5,157	1,753,293	(35,228)	1,375,478
Cash and investments - beginning	918,552	133,495	(20,744)	674,128	61,868	-	-	1,153,125	2,920,424
Cash and investments - ending	\$ 435,142	\$ 78,945	\$ (88,710)	\$ 905,543	\$ 88,635	\$ 5,157	\$ 1,753,293	\$ 1,117,897	\$ 4,295,902

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

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

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Construction	South Peru Construction	Other	Totals
Receipts:									
Local sources	\$ 3,670,439	\$ 623,223	\$ 2,488,046	\$ 1,122,749	\$ 145,144	\$ -	\$ 57,344	\$ 1,095,529	\$ 9,202,474
Intermediate sources	188	-	-	-	-	-	-	825	1,013
State sources	11,904,357	-	-	-	-	-	-	398,556	12,302,913
Federal sources	-	-	-	-	-	-	-	1,350,762	1,350,762
Bonds and loans	1,343,902	190,863	600,608	-	-	6,530,973	-	-	8,666,346
Sale of property, adjustments and refunds	47,719	96	-	-	-	-	-	3,718	51,533
Intergovernmental transfers	-	-	-	-	-	-	-	116,786	116,786
Total receipts	16,966,605	814,182	3,088,654	1,122,749	145,144	6,530,973	57,344	2,966,176	31,691,827
Disbursements:									
Current:									
Instruction	7,312,303	-	-	-	-	-	-	550,561	7,862,864
Support services	5,740,692	531,374	-	967,505	204,161	6,536,130	310,091	1,812,682	16,102,635
Community services	78,033	-	-	-	-	-	-	7,614	85,647
Nonprogrammed charges	1,065,137	-	21,687	-	-	-	-	215,420	1,302,244
Debt services	1,905,715	193,787	2,770,315	-	87,131	-	-	270,060	5,227,008
Total disbursements	16,101,880	725,161	2,792,002	967,505	291,292	6,536,130	310,091	2,856,337	30,580,398
Excess (deficiency) of total receipts over (under) total disbursements	864,725	89,021	296,652	155,244	(146,148)	(5,157)	(252,747)	109,839	1,111,429
Cash and investments - beginning	435,142	78,945	(88,710)	905,543	88,635	5,157	1,753,293	1,117,897	4,295,902
Cash and investments - ending	\$ 1,299,867	\$ 167,966	\$ 207,942	\$ 1,060,787	\$ (57,513)	\$ -	\$ 1,500,546	\$ 1,227,736	\$ 5,407,331

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

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

	<u>Pension Trust Funds</u>
Additions:	
Bonds and loans	<u>\$ 2,270,330</u>
Deductions:	
Support services	1,162,600
Nonprogrammed charges	<u>3,000</u>
Total deductions	<u>1,165,600</u>
Excess of total additions over total deductions	1,104,730
Cash and investments - beginning	<u>-</u>
Cash and investments - ending	<u><u>\$ 1,104,730</u></u>

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

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

	<u>Pension Trust Funds</u>
Additions:	
Local sources	\$ 34,515
Intermediate sources	259,197
Transfers	<u>124,496</u>
Total additions	<u>418,208</u>
Deductions:	
Support services	248,907
Nonprogrammed charges	<u>124,496</u>
Total deductions	<u>373,403</u>
Excess of total additions over total deductions	44,805
Cash and investments - beginning	<u>1,104,730</u>
Cash and investments - ending	<u><u>\$ 1,149,535</u></u>

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

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

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 1,104,730	\$ 284,866
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 1,104,730	

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

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

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 1,149,535	\$ 168,814
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 1,149,535	

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

PERU COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Primary Government: Peru Community Schools

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

Joint Venture

The School Corporation is a participant with four other school corporations in a joint venture to operate Heartland Career Center which was created to provide vocational training and education. The School Corporation is obligated by contract to remit its proportionate share of the Heartland Career Center's budget based on enrollment, assessed valuation, and the number of students served. The Heartland Career Center's surplus is applied to the following year's budget before determining the amounts required from the participants. The School Corporation is obligated for its proportionate share of the debts of the Heartland Career Center. Complete financial statements for the Heartland Career Center can be obtained from Heartland Career Center, P.O. Box 606, Wabash, Indiana, 46992.

The School Corporation is a participant with three other school corporations in a joint venture to operate Wabash Miami Area Program for Exceptional Children (Area Program) which was created to provide educational instruction to handicapped children. The School Corporation is obligated by contract to remit its proportionate share of the Area Program's budget based on enrollment, assessed valuation, and the number of students served. The Area Program's surplus is applied to the following year's budget before determining the amounts required from the participants.

The School Corporation is a participant with several other public school corporations and one non-public school in a joint venture operating under the name, Wabash Valley Education Center, to provide cost-effective, efficient resources for professional development, media services, technology, and cooperative purchasing. The School Corporation is required to remit an annual fee based on enrollment. Complete financial statements for Wabash Valley Education Association can be obtained from 3061 Benton Street, West Lafayette, Indiana, 47906-1129.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities.

PERU COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Fund Financial Statements

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

The School Corporation reports the following major governmental funds:

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

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

The debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction, and interest on emergency and temporary loans.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

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

The construction fund is used to account for the proceeds of debt financing and the costs of construction projects at Peru High School and Elmwood Elementary School.

The South Peru construction fund is used to account for the proceeds of debt financing and the costs of construction at South Peru Elementary School.

Additionally, the School Corporation reports the following fund types:

The pension trust funds account for the activities of the retirement/severance bond fund and the postretirement/severance future benefits fund which accumulate resources for retirement benefit payments.

Agency funds account for assets held by the School Corporation as an agent for employees.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

PERU COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

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

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Property Taxes

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

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 7 to 10 days per year. Unused sick leave may be accumulated to a maximum of 60 to 175 days. Accumulated sick leave is paid to certified employees through cash payments at 35% of salary upon separation with 14 years of service.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 10 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 2 to 3 days per year. Personal leave does not accumulate from year to year.

PERU COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Capital Assets

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

5. Long-Term Debt

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

6. Equity Classification

Government-Wide Statements

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

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

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

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, and (2) operating grants and contributions. General receipts include all taxes.

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.

PERU COMMUNITY SCHOOLS
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Cash Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Cash Activities.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Cash and Investment Balance Deficits

At June 30, 2005 and 2006, the following fund reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines as referenced in state statute:

Fund	2005	2006
Debt Service	\$ 88,710	\$ -
School Bus Replacement	-	57,513
Tech Plan Grant 2006-2008	-	19,633
Group Insurance	115,695	183,459

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

PERU COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2005 and 2006, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2005</u>	<u>2006</u>
Other governmental	Capital Projects Fund	\$ 3,000	\$ -
Other governmental	Other governmental	<u>127,101</u>	<u>116,786</u>
Totals		<u>\$ 130,101</u>	<u>\$ 116,786</u>

The School Corporation typically uses transfers for cash flow purposes according to various statutes.

C. Interfund Payables/Receivables

The School Corporation pays a portion of the cost of various employee health insurances and the balance is paid by payroll deductions. Over the last three years, the School Corporation has charged more to the withholding accounts than was actually withheld, causing a deficit cash balance in the group insurance fund of \$183,459 at June 30, 2006. This deficit will be covered by various governmental funds, primarily the general fund, and represents a payable of those funds.

IV. Other Information

A. Risk Management

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

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

PERU COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Medical Benefits to Employees

During 2002, the School Corporation joined with other governmental entities in the North Central Indiana School Insurance Consortium, a public entity risk pool currently operating as a common risk management and insurance program for seven member governmental entities. This risk pool was formed in 2001. The purpose of the risk pool is to provide a larger group to minimize the cost of obtaining insurance coverage for medical benefits to employees. The School Corporation pays an annual premium to the risk pool for its medical benefits to employees coverage. The risk pool obtains independent coverage for members at group rates.

B. Holding Corporation

The School Corporation has entered into a capital lease with Peru Community 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 year totaled \$1,640,500.

The School Corporation has entered into a capital lease with Peru 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 year totaled \$126,484.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 55 with at least 14 years of service. Currently, 24 retirees meet these eligibility requirements. The School Corporation pays the amount of a single plan at the date of retirement and retirees pay the balance of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$58,025 were recognized for postemployment benefits.

D. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERU COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 56,844
Interest on net pension obligation	(7,058)
Adjustment to annual required contribution	8,043
Annual pension cost	57,829
Contributions made	64,882
Decrease in net pension obligation	(7,053)
Net pension obligation, beginning of year	(97,345)
Net pension obligation, end of year	\$ (104,398)
Contribution rates:	
School Corporation	4.75%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

PERU COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Assumptions	PERF
Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 68,328	110%	\$ (77,748)
	06-30-04	49,613	139%	(97,345)
	06-30-05	57,829	131%	(104,398)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

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

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

PERU COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$239,411, \$234,880, and \$214,825, respectively. The School Corporation actually contributed 100% of the required contributions for each of the fiscal years.

PERU COMMUNITY SCHOOLS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess Assets as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 1,782,259	\$ 1,526,878	\$ 255,381	117%	\$ 1,391,368	18%
07-01-04	1,791,117	1,606,569	184,548	111%	1,418,021	13%
07-01-05	1,842,002	1,831,073	10,929	101%	1,403,377	1%

PERU COMMUNITY SCHOOLS
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 June 30, 2006

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

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land and Buildings	\$ 27,944,807
Improvements other than buildings	345,279
Machinery and equipment	<u>7,234,375</u>
 Total governmental activities, capital assets not being depreciated	 \$ <u><u>35,524,461</u></u>

PERU COMMUNITY SCHOOLS
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2006

The School Corporation has entered into the following long-term debt:

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Peru High School and Blair Point Elementary	\$ 4,816,237	\$ 740,000
Elmwood Elementary School	6,700,000	-
Notes and loans payable	8,643,079	140,837
Bonds payable:		
General obligations bonds:		
School building	450,000	80,000
Post retirement benefits	2,130,000	200,000
Total governmental activities long-term debt	<u>\$ 22,739,316</u>	<u>\$ 1,160,837</u>

PERU COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

ONGOING INVESTIGATION

The School Corporation on October 23, 2006, became aware of an attempted theft of School Corporation funds through use of a stolen check. The School Corporation has notified law enforcement authorities and an investigation is in progress.

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were not presented for audit or were incorrect.

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OVERDRAWN CASH BALANCES

The cash balance of the School Bus Replacement Fund, Tech Plan Grant Fund, and the Group Insurance Fund was overdrawn in 2006.

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

EXTRA-CURRICULAR DEPOSITS (Applies to Peru High School and Peru Junior High School)

Receipts were not always deposited within a reasonable time. Receipts, in some instances, were held for periods in excess of one month before depositing. Receipts, in some cases, accumulated to over \$8,000 and \$2,700 before a deposit was made for the high school and junior high school, respectively.

Indiana Code 20-41-1-9 states in part: ". . . receipts shall be deposited without unreasonable delay."

PERU COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

NONUSE OF TICKET SALES FORM SA-4 (Applies to Peru High School)

We noted several instances where the Form SA-4 was not used. As a result, full accountability for all money received from admissions could not be determined. A similar comment appeared in the prior report.

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)

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 Extra-Curricular Accounts, Chapter 7)

Ticket sales conducted by any activity should be accounted for as follows:

The treasurer should be responsible for the proper accounting for all tickets and should keep a record of the number purchased, the number issued for sale, and the number returned. The treasurer should see that proper accounting is made for the cash received from those sold. All tickets shall be prenumbered, with a different ticket color and numerical series for each price group. When cash for ticket sales is deposited with the treasurer, the treasurer's receipt issued therefore should show the number of tickets issued to the seller, the number returned unsold and the balance remitted in cash. All tickets (including free or reduced) must be listed and accounted for on the SA-4 Ticket Sales Form. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

Serially prenumbered tickets by the printing supplier should be used for all athletic and other extra-curricular activities and events for which admission is charged. Part of the prenumbered ticket should be given to the person paying for the ticket upon admission to the event. The other part of the ticket (which should also be prenumbered, referred to as the stub) should be retained. All tickets (unused tickets and stubs) should be retained for audit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

Tickets for each price group should be different colors and/or different in their series number. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE PERU COMMUNITY SCHOOLS, MIAMI COUNTY, INDIANA

Compliance

We have audited the compliance of the Peru Community Schools (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. 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; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006.

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 4, 2007

PERU COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006

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 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 94,963	\$ 97,731
National School Lunch Program	10.555		358,731	363,219
			<u>453,694</u>	<u>460,950</u>
Total for child nutrition cluster				
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010			
		04-5635	2,842	-
		05-5635	524,342	2,850
		06-5635	7,671	478,040
		07-5635	-	2,998
			<u>534,855</u>	<u>483,888</u>
Total for program				
Safe and Drug Free Schools and Communities - State Grants	84.186			
		02-276	2,655	-
		03-206	33,618	10,013
		04-165	-	40,867
			<u>36,273</u>	<u>50,880</u>
Total for program				
State Grants for Innovative Programs	84.298			
		02-008	15,065	-
		02-205	526	-
		03-195	21,040	153
		04-284	7,285	25,717
		05-285	-	1,531
			<u>43,916</u>	<u>27,401</u>
Total for program				
Education Technology State Grants	84.318			
Competitive SY2002-2003			55,725	500
Formula Grant SY2002-2004			6,444	-
Competitive SY2004-2005			108,611	33,389
Formula Grant SY2002-2003			8,921	5,378
Formula Grant SY2004-2006			-	5,770
Competitive SY2005-2006			-	96,350
			<u>179,701</u>	<u>141,387</u>
Total for program				

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

PERU COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006
(Continued)

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 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF EDUCATION (continued)</u>				
Pass-Through Indiana Department of Education (continued)				
English Language Acquisition Grants	84.365		564	37
Improving Teacher Quality State Grants	84.367			
		02-235	58,173	-
		03-199	96,545	18,673
		04-190	-	87,780
Total for program			154,718	106,453
Total for federal grantor agency			950,027	810,046
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Pass-Through Indiana Department of Child Services				
Promoting Safe and Stable Families	93.556			
		52-05-64-2846-03	9,473	-
		52-05-64-2846-04	-	11,062
Total for program			9,473	11,062
Child Welfare Services - State Grants	93.645			
		52-03-72-2846-02	2,183	-
		52-05-72-2846-03	2,050	-
		52-05-72-2846-04	-	1,256
Total for program			4,233	1,256
Total for federal grantor agency			13,706	12,318
Total federal awards expended			\$ 1,417,427	\$ 1,283,314

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

PERU COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Peru Community Schools (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2005 and 2006. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2004-2005	2005-2006
School Breakfast Program	10.553	\$ 8,785	\$ 5,131
National School Lunch Program	10.555	30,236	18,297

PERU COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

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

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.318	Child Nutrition Cluster Education Technology State Grants

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

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

PERU COMMUNITY SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

PERU COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on January 4, 2007, with Lois Mongosa, Treasurer; Lisa Juliot, Deputy Treasurer; Dr. Thomas E. McKaig, Superintendent of Schools; and Terry B. Smith, President of the School Board. The officials concurred with our audit findings.