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

AUDIT REPORT

OF

SPENCER-OWEN COMMUNITY SCHOOLS

OWEN COUNTY, INDIANA

July 1, 2004 to June 30, 2006

FILED
02/26/2007

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SCHEDULE OF OFFICIALS

Office	Official	Term
Treasurer	Evelyn Hamilton	07-01-04 to 06-30-07
Superintendent of Schools	Terry P. McDaniel	07-01-04 to 06-30-05
	Marsha Turner-Shear	07-01-05 to 06-30-07
President of the School Board	Mike Hammond	07-01-04 to 06-30-05
	Doris Scully	07-01-05 to 06-30-06
	Terry Tackett	07-01-06 to 06-30-07

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE SPENCER-OWEN COMMUNITY SCHOOLS, OWEN COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Spencer-Owen 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 17, 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, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The School Corporation has not presented Management's Discussion and Analysis 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 17, 2007

STATE OF INDIANA

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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 SPENCER-OWEN COMMUNITY SCHOOLS, OWEN COUNTY, INDIANA

We have audited the financial statements of the Spencer-Owen Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 17, 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 17, 2007

SPENCER-OWEN COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

Assets	Governmental Activities
Current assets:	
Cash and investments	$ 6,259,261
Restricted assets:	
Cash and investments	905,677
Total assets	$ 7,164,938
Net Assets	
Restricted for:	
Debt service	$ 905,677
Unrestricted	6,259,261
Total net assets	$ 7,164,938

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

SPENCER-OWEN COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

Assets	Governmental Activities
Current assets:	
Cash and investments	$ 6,716,756
Restricted assets:	
Cash and investments	765,241
Total assets	$ 7,481,997
Net Assets	
Restricted for:	
Debt service	$ 765,241
Unrestricted	6,716,756
Total net assets	$ 7,481,997

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

SPENCER-OWEN COMMUNITY SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts: Charges for Services	Program Receipts: Operating Grants and Contributions	Net (Disbursement) Receipts: Total
Governmental activities:				
Instruction	$ 11,169,021	$ -	$ 153,976	$ (11,015,045)
Support services	25,831,964	599,788	477,503	(24,754,673)
Community services	74,470	-	-	(74,470)
Nonprogrammed charges	3,829,745	-	-	(3,829,745)
Debt service	5,725,189	-	-	(5,725,189)
Total governmental activities	$ 46,630,389	$ 599,788	$ 631,479	(45,399,122)
General receipts:				
Property taxes				8,745,414
Other local sources				2,649,523
State aid				14,479,833
Grants and contributions not restricted				1,803,948
Bonds and loans				12,217,767
Sale of property, adjustments, and refunds				159,929
Investment earnings				130,767
Intergovernmental transfers				2,742,729
Total general receipts and intergovernmental transfers				42,929,910
Change in cash and investments				(2,469,212)
Net assets - beginning				9,634,150
Net assets - ending				$ 7,164,938

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

SPENCER-OWEN COMMUNITY SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts: Charges for Services	Program Receipts: Operating Grants and Contributions	Net (Disbursement) Receipts: Total
Governmental activities:				
Instruction	$ 11,170,732	$ -	$ 107,009	$ (11,063,723)
Support services	16,529,270	641,897	555,166	(15,332,207)
Community services	71,444	-	-	(71,444)
Nonprogrammed charges	3,986,570	-	-	(3,986,570)
Debt service	5,528,396	-	-	(5,528,396)
Total governmental activities	$ 37,286,412	$ 641,897	$ 662,175	(35,982,340)
General receipts:				
Property taxes				9,347,799
Other local sources				2,374,198
State aid				15,117,497
Grants and contributions not restricted				1,918,851
Bonds and loans				4,129,000
Sale of property, adjustments, and refunds				105,134
Investment earnings				220,993
Intergovernmental transfers				3,085,927
Total general receipts and intergovernmental transfers				36,299,399
Change in cash and investments				317,059
Net assets - beginning				7,164,938
Net assets - ending				$ 7,481,997

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

SPENCER-OWEN 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	Other	Totals
Receipts:								
Local sources	$ 4,699,391	$ 1,676,633	$ 2,569,345	$ 1,804,322	$ 37,523	$ 14,575	$ 1,141,043	$ 11,942,832
Intermediate sources	38,902	-	-	-	-	-	111,942	150,844
State sources	14,582,553	-	-	-	-	-	585,034	15,167,587
Federal sources	-	-	-	-	-	-	1,779,489	1,779,489
Bonds and loans	2,700,000	-	3,996	-	-	9,513,771	-	12,217,767
Sale of property, adjustments and refunds	155,949	631	-	-	-	-	3,349	159,929
Intergovernmental transfers	1,204,368	729,816	-	800,000	-	-	8,545	2,742,729
Total receipts	23,381,163	2,407,080	2,573,341	2,604,322	37,523	9,528,346	3,629,402	44,161,177
Disbursements:								
Current:								
Instruction	9,787,806	-	-	-	-	-	1,381,215	11,169,021
Support services	8,144,725	1,926,567	-	1,647,294	62,273	11,506,414	2,544,691	25,831,964
Community services	19,461	-	-	-	-	-	55,009	74,470
Nonprogrammed charges	2,182,746	618,642	309,697	619,353	-	-	99,307	3,829,745
Debt services	3,000,000	-	2,522,210	-	-	-	202,979	5,725,189
Total disbursements	23,134,738	2,545,209	2,831,907	2,266,647	62,273	11,506,414	4,283,201	46,630,389
Excess (deficiency) of total receipts over (under) total disbursements	246,425	(138,129)	(258,566)	337,675	(24,750)	(1,978,068)	(653,799)	(2,469,212)
Cash and investments - beginning	2,144,561	834,854	1,157,074	677,183	216,338	2,715,676	1,888,464	9,634,150
Cash and investments - ending	$ 2,390,986	$ 696,725	$ 898,508	$ 1,014,858	$ 191,588	$ 737,608	$ 1,234,665	$ 7,164,938

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

SPENCER-OWEN 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	Other	Totals
Receipts:								
Local sources	$ 4,968,433	$ 1,769,742	$ 2,638,277	$ 1,876,177	$ 58,574	$ 4,065	$ 1,093,642	$ 12,408,910
Intermediate sources	56,720	-	-	-	-	-	119,255	175,975
State sources	15,174,962	-	-	-	-	-	822,516	15,997,478
Federal sources	-	-	-	-	-	-	1,701,047	1,701,047
Bonds and loans	2,865,248	-	-	-	-	1,263,752	-	4,129,000
Sale of property, adjustments and refunds	102,851	-	-	-	-	-	2,283	105,134
Intergovernmental transfers	1,368,971	789,908	-	900,000	-	-	27,048	3,085,927
Total receipts	24,537,185	2,559,650	2,638,277	2,776,177	58,574	1,267,817	3,765,791	37,603,471
Disbursements:								
Current:								
Instruction	9,969,301	-	-	-	-	-	1,201,431	11,170,732
Support services	8,592,973	1,954,917	-	1,718,346	74,025	1,933,019	2,255,990	16,529,270
Community services	22,609	-	-	-	-	-	48,835	71,444
Nonprogrammed charges	2,307,577	491,164	201,750	847,065	1,876	-	137,138	3,986,570
Debt services	2,700,000	-	2,572,395	-	-	-	256,001	5,528,396
Total disbursements	23,592,460	2,446,081	2,774,145	2,565,411	75,901	1,933,019	3,899,395	37,286,412
Excess (deficiency) of total receipts over (under) total disbursements	944,725	113,569	(135,868)	210,766	(17,327)	(665,202)	(133,604)	317,059
Cash and investments - beginning	2,390,986	696,725	898,508	1,014,858	191,588	737,608	1,234,665	7,164,938
Cash and investments - ending	$ 3,335,711	$ 810,294	$ 762,640	$ 1,225,624	$ 174,261	$ 72,406	$ 1,101,061	$ 7,481,997

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

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

	Pension Trust Funds
Additions:	
Local sources	$ 3,810
Deductions:	
Support services	68,817
Deficiency of total additions under total deductions	(65,007)
Cash and investments - beginning	294,885
Cash and investments - ending	$ 229,878

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

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

	Pension Trust Funds
Additions:	
Local sources	$ -
Deductions:	
Support services	53,378
Deficiency of total additions under total deductions	(53,378)
Cash and investments - beginning	229,878
Cash and investments - ending	$ 176,500

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

SPENCER-OWEN COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

Assets	Pension Trust Funds	Agency Funds
Cash and investments	$ 229,878	$ 224,193
Net Assets		
Held in trust for employee benefits and other purposes	$ 229,878	

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

SPENCER-OWEN COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2006

Assets	Pension Trust Funds	Agency Funds
Cash and investments	$ 176,500	$ 377,658
Net Assets		
Held in trust for employee benefits and other purposes	$ 176,500	

The accompanying notes are an integral part of the 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: Spencer-Owen 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 Richland-Bean Blossom Community School Corporation in a joint venture to operate the Forest Hills Special Education Cooperative, which was created to provide educational services to exceptional children. The School Corporation is obligated by contract to remit funds annually to cover costs based on a ratio of the total average daily membership (ADM) of the cooperative to supplement the Forest Hills Special Education Program. The School Corporation is partially obligated for the debts of the Forest Hills Special Education Program. Complete financial statements for the joint venture can be obtained from the joint venture's administrative office in Bloomington, Indiana.

The School Corporation is a participant with North Putnam Community School Corporation, Greencastle Community School Corporation, South Putnam Community School Corporation and Cloverdale Community School Corporation in a joint venture to operate the Area 30 Career Center, which was created to provide vocational education to students. The School Corporation is obligated by contract to remit funds annually to cover costs based on a per student cost basis for each participating school. The School Corporation is partially obligated for the debts of the Area 30 Career Center. Complete financial statements for the joint venture can be obtained from the joint venture's administrative office in Greencastle, Indiana.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investment and 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. 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. However, the School Corporation currently has no business-type activities.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, 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. However, at this time, the School Corporation has not established any proprietary funds. 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 was established to account for financial resources for the remodeling of school buildings.

Additionally, the School Corporation reports the following fund types:

Pension trust funds account for bonds and payments anticipated to be made to employees on or after the termination of employment or to pay post-retirement or severance benefits held by the School Corporation in a trustee capacity.

Agency funds account for assets held by the School Corporation as an agent for payroll withholdings and serve as control accounts for certain cash transactions during the time they are a liability to the School Corporation.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, 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.

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 then 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. 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. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

3. Compensated Absences

Spencer-Owen Community Schools has negotiated a leave policy as follows:

<u>Administrators</u>

Vacation Leave: Administrators on a 12 month contract shall receive 3 weeks of vacation each year and 4 weeks of vacation after 5 years of service. These days are noncumulative.

Sick Leave: Administrators receive 10 days the first year and 9 days each year thereafter. This number shall be prorated to accommodate the administrator's contract when contracts are longer than 184 days. These days are cumulative to the length of the administrator's contract.

Personal Business Leave: The personal business leave shall be earned at rates from 3 days to 4 days depending on the length of the contract. Unused days shall be accumulated as sick leave.

Certified Personnel

Vacation Leave: Certified personnel do not earn vacation leave because they are contracted for less than a full year.

Sick Leave/Personal Business Leave: Certified personnel receive 13 days in the first year and 11 days each year thereafter. These days are cumulative to a total of 184 days. Accumulated days shall be designated as sick leave days.

Noncertified Personnel

Vacation Leave: Full-time 12 month employees shall receive 10 days of vacation after 1 year of service, 15 days of vacation after 8 years of service, and 20 days of vacation after 13 years of service. Vacation leave is noncumulative unless written approval by the Superintendent is obtained.

Sick Leave: Noncertified personnel shall be granted 1 day of sick leave for each month of service. Unused sick leave may be accumulated to the total number of days an employee works in a year. Accumulated sick leave is paid to noncertified personnel with 10 years service through cash payments upon retirement.

Personal Leave: Nine month employees receive 3 days of personal leave each year and 4 days of personal leave are received each year by 12 month employees.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental 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

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

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

1. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.

2. 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:

1. Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Cash and Investments and the Statement of Cash Activities.

II. Stewardship, Compliance and Accountability

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.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. 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. At June 30, 2006, all balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of June 30, 2006, the School Corporation had no investments.

B. Interfund Transfers

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

Transfer From	Transfer To	2005	2006
General Fund	Nonmajor governmental	$ 44,647	$ 109,533
Debt Service Fund	Nonmajor governmental	29,881	61,842
Capital Projects Fund	Nonmajor governmental	19,353	47,065
Transportation Fund	Nonmajor governmental	18,642	41,164
School Bus Replacement	Nonmajor governmental	-	1,876
Debt Service Fund	Transportation Fund	279,816	139,908
Nonmajor governmental	Nonmajor governmental	2,122	6,952
Nonmajor governmental	General Fund	-	118,925
Totals		$ 394,461	$ 527,265

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

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.

B. Holding Corporations

The School Corporation has entered into capital leases with Spencer-Owen Building Development Finance Corporation, Spencer-Owen Facility Improvement Corporation, and Owen Valley High School Building Corporation (the lessors). The lessors were organized as for profit corporations pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation.

The school facilities under the leases are included in the Supplementary Information – Schedule of Capital Assets and the corresponding lease obligation has been included in the Supplementary Information – Schedule of Long–Term Debt. The lessor has been determined to be a related party of the School Corporation. Lease payments for the fiscal years ended June 30, 2005 and 2006, totaled $1,141,045 and $1,087,370, respectively.

C. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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

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	$ 128,824
Interest on net pension obligation	(32,543)
Adjustment to annual required contribution	37,086
Annual pension cost	133,367
Contributions made	153,382
Decrease in net pension obligation	(20,015)
Net pension obligation, beginning of year	(448,872)
Net pension obligation, end of year	$ (468,887)

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

Actuarial Assumptions

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	$ 130,824	142%	$ (363,413)
	06-30-04	93,549	191%	(448,872)
	06-30-05	133,367	164%	(468,887)

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

Teachers' Retirement Fund

Plan Description

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

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

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

Funding Policy 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 $353,631, $313,841, and $313,154, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

SPENCER-OWEN 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 (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	$ 2,478,032	$ 2,135,698	$ 342,334	116%	$ 2,462,221	14%
07-01-04	2,556,795	2,568,172	(11,377)	100%	2,653,289	(0%)
07-01-05	2,678,524	2,757,343	(78,819)	97%	2,515,863	(3%)

SPENCER-OWEN 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 cost. Contributed or donated assets are reported at estimated fair value at the time received.

Primary Government	Ending Balance
Governmental activities:	
Capital assets, not being depreciated:	
Land	$ 291,000
Land Improvements	820,380
Buildings	57,638,327
Machinery and equipment	1,683,079
Transportation equipment	921,555
Total governmental activities, capital assets not being depreciated	$ 61,354,341

SPENCER-OWEN COMMUNITY SCHOOLS
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Various	$ 16,504,753	$ 845,941
Notes and loans payable	23,056,939	936,636
Bonds payable:		
General obligation bonds:		
Taxable pension bonds	2,685,000	55,000
Total governmental activities long-term debt	$ 42,246,692	$ 1,837,577

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SUPPLEMENTAL AUDIT OF

FEDERAL AWARDS

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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

Telephone: (317) 232-2513
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 SPENCER-OWEN COMMUNITY SCHOOLS, OWEN COUNTY, INDIANA

Compliance

We have audited the compliance of the Spencer-Owen 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 17, 2007

SPENCER-OWEN 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.S. DEPARTMENT OF AGRICULTURE				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		$ 82,253	$ 121,910
National School Lunch Program	10.555		370,590	415,832
Total for federal grantor agency			452,843	537,742
U.S. DEPARTMENT OF EDUCATION				
Pass-Through Indiana Department of Education				
Adult Education-State Grant Program	84.002	2004-8130	1,704	-
		2004-8131	6,498	-
		2005-8130	32,060	4,140
		2005-8131	19,594	8,315
		2006-8134	-	25,397
Total for program			59,856	37,852
Title I Grants to Local Educational Agencies	84.010	FY03	581	-
		FY04	101,085	-
		FY05	471,439	150,037
		FY06	-	441,366
Total for program			573,105	591,403
Vocational Education-Basic Grants to States	84.048	03-1399-6195	16,242	-
		04-1399-6195	27,020	-
		05-1303-6195	-	5,700
		FY05	4,827	173
		FY06	-	344
Total for program			48,089	6,217
Safe and Drug Free Schools and Communities - State Grants	84.186	01-187	5,001	23
		02-036	231	-
		03-007	3,622	2,131
		04-121	2,307	4,759
		05-098	-	6,177
Total for program			11,161	13,090
Fund for the Improvement of Education	84.215	FY03	46,116	-
Pass-Through Indiana Department of Workforce Development				
Tech-Prep Education	84.243	TP-4-75	62,553	35,624
		TP-5-75	-	36,755
Total for program			62,553	72,379
Pass-Through Indiana Department of Education				
Eisenhower Professional Development State Grants	84.281	01-016	501	-
Innovative Education Program Strategies	84.298	04-018	14,454	1,738
		05-008	-	10,401
Total for program			14,454	12,139

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

SPENCER-OWEN 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.S. DEPARTMENT OF EDUCATION (continued)				
Pass-Through Indiana Department of Education (continued)				
Education Technology State Grants	84.318	FY04	56,897	-
		FY05	50,083	24,661
		FY06	-	61,253
Total for program			106,980	85,914
Reading Excellence	84.338	FY05	67,786	-
Reading First State Grants	84.357	FY04	60,644	-
		FY05	211,036	118,427
		FY06	-	212,341
Total for program			271,680	330,768
Improving Teacher Quality State Grants	84.367	02-005	7,229	-
		03-005	38,438	1,412
		04-016	106,717	53,177
		05-009	-	113,239
Total for program			152,384	167,828
Total for federal grantor agency			1,414,665	1,317,590
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE				
Pass-Through Indiana Department of Education				
Learn and Serve America - School and Community Based Program	94.004	FY03	15	455
		FY04	273	70
		FY05	39,560	20,440
		FY06	-	43,712
Total for federal grantor agency			39,848	64,677
Total federal awards expended			$ 1,907,356	$ 1,920,009

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

SPENCER-OWEN 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 Spencer-Owen 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	2005	2006
Child Nutrition Cluster	10.555	$ 33,136	$ 36,166

SPENCER-OWEN 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
10.555	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies
84.357	Reading First State Grants
84.367	Improving Teacher Quality State Grants

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

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

Spencer-Owen Community Schools

205 East Hillside Avenue, Spencer, Indiana 47460 Phone 812-829-2233 Fax 812-829-6614

Board Members:
Terry Tackett, *President*
Jason Hale, *Vice President*
Kelly Hughes, *Secretary*
Rick Smeltzer, *Secretary Pro Tem*
Tom Abrell
Sonia Brinson
Larry Hight

Marsha Turner-Shear, *Superintendent*
Randy Roberts, *Business Manager*
Tamra Ranard, *Director of Technology*

Summary Schedule of Prior Audit Findings

FINDING 2004-1, PERIOD OF AVAILABILITY

Federal Agency: U.S. Department of Education
Federal Program: Local Reading Improvement
CFDA Number: 84.338
Pass-Through: Indiana Department of Education

Spencer-Owen Community Schools received notification that funds from the Reading Excellence Act Program for Gosport Elementary School would be available in July of 2002. However, the Principal of Gosport Elementary, unaware of Federal Compliance requirements, began preparing the reading laboratory in January of 2002. Once the funds were received, he instructed the Treasurer to transfer $16,048 to the Capital Fund for reimbursement of prior expenditures.

Circular A-102 (The Common Rule) Section (c)(23)(a) states in part, "Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period..."

Failure to receive timely grant approval may cause the pass-through agency to request reimbursement of out of period expenses.

We recommended that Spencer-Owen Community Schools develop policies and procedures that would ensure that future administrators of federal grants be made aware of compliance requirements.

On April 28, 2005, the Spencer-Owen Community Schools Board of Trustees adopted a Grant Management Policy detailing polices and procedures designed to ensure grant administrators are made award of and comply with grant compliance requirements.

1/17/07
Marsha Turner-Shear, Superintendent — Date

1/17/07
Randy Roberts, Business Manager — Date

1/17/07
Evelyn Hamilton, Treasurer — Date

SPENCER-OWEN COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on January 17, 2007, with Marsha Turner-Shear, Superintendent of Schools; Evelyn Hamilton, Treasurer; Terry Tackett, President of the School Board; Greg Linton, Assistant Superintendent of Schools; Darla Thomas, Deputy Treasurer; and Randy Roberts, Business Manager. Our audit disclosed no material items that warrant comment at this time.