

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

AUDIT REPORT

OF

NORTH MIAMI COMMUNITY SCHOOLS

MIAMI COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED

01/12/2007

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
Notes to Financial Statements	13-21
Required Supplementary Information:	
Schedule of Funding Progress	22
Supplementary Information:	
Schedule of Capital Assets.....	23
Schedule of Long-Term Debt.....	24
Audit Results and Comments:	
Appropriations.....	25
Approval of Forms	25
Overdrawn Fund Balances	25
Internal Controls	26
Transfer Tuition – Children of Teachers	26
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	28-29
Schedule of Expenditures of Federal Awards.....	30
Notes to Schedule of Expenditures of Federal Awards	31
Schedule of Findings and Questioned Costs.....	32
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings.....	33
Exit Conference.....	34

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Krista Warder	07-01-04 to 06-30-07
Superintendent of Schools	Thomas Edington Ralph Bailey Brent Kaufman	07-01-04 to 05-31-05 06-01-05 to 06-30-05 07-01-05 to 06-30-07
President of the School Board	Jon Reese Stan Hudson	07-01-04 to 06-30-05 07-01-05 to 06-30-07



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

TO: THE OFFICIALS OF THE NORTH MIAMI 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 North Miami 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 December 12, 2006, 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 a required part 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

December 12, 2006



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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 NORTH MIAMI COMMUNITY SCHOOLS, MIAMI COUNTY, INDIANA

We have audited the financial statements of the North Miami Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated December 12, 2006. 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.

We noted other matters involving the internal control over financial reporting that we have discussed with the management of the School Corporation on December 12, 2006. These immaterial instances of non-compliance were subsequently communicated to management in a separate letter.

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

December 12, 2006

NORTH MIAMI COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 1,648,260
Restricted assets:	
Cash and investments	<u>197,824</u>
Total assets	<u>\$ 1,846,084</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 197,824
Unrestricted	<u>1,648,260</u>
Total net assets	<u>\$ 1,846,084</u>

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

NORTH MIAMI COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 887,297
Restricted assets:	
Cash and investments	<u>71,997</u>
Total assets	<u>\$ 959,294</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 71,997
Unrestricted	<u>887,297</u>
Total net assets	<u>\$ 959,294</u>

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

NORTH MIAMI 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	\$ 3,404,724	\$ -	\$ 67,093	\$ (3,337,631)
Support services	4,628,416	338,822	119,372	(4,170,222)
Community services	103,102	-	-	(103,102)
Nonprogrammed charges	1,243,228	-	-	(1,243,228)
Debt service	3,967,097	-	-	(3,967,097)
Total governmental activities	<u>\$ 13,346,567</u>	<u>\$ 338,822</u>	<u>\$ 186,465</u>	<u>(12,821,280)</u>
General receipts:				
Property taxes				3,194,034
Other local sources				558,270
State aid				4,696,710
Grants and contributions not restricted				413,461
Bonds and loans				4,489,940
Sale of property, adjustments, and refunds				224,815
Investment earnings				<u>1,952</u>
Total general receipts				<u>13,579,182</u>
Change in cash and investments				757,902
Net assets - beginning				<u>1,088,182</u>
Net assets - ending				<u><u>\$ 1,846,084</u></u>

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

NORTH MIAMI 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	\$ 3,470,352	\$ -	\$ 43,016	\$ (3,427,336)
Support services	4,771,483	373,214	147,078	(4,251,191)
Community services	103,609	-	-	(103,609)
Nonprogrammed charges	895,502	-	-	(895,502)
Debt service	3,744,596	-	-	(3,744,596)
Total governmental activities	\$ 12,985,542	\$ 373,214	\$ 190,094	(12,422,234)
General receipts:				
Property taxes				3,500,661
Other local sources				556,942
State aid				5,002,263
Grants and contributions not restricted				401,555
Bonds and loans				1,957,529
Sale of property, adjustments, and refunds				108,170
Investment earnings				8,324
Total general receipts				11,535,444
Change in cash and investments				(886,790)
Net assets - beginning				1,846,084
Net assets - ending				\$ 959,294

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

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

	General	Transportation Operating	Levy Excess	Debt Service	Capital Projects	School Bus Replacement	Common School Construction	Other	Totals
Receipts:									
Local sources	\$ 1,931,124	\$ 270,311	\$ -	\$ 603,144	\$ 626,251	\$ 176,789	\$ -	\$ 481,476	\$ 4,089,095
Intermediate sources	428	3,330	-	-	-	-	-	225	3,983
State sources	4,763,803	-	-	-	-	-	-	38,392	4,802,195
Federal sources	-	-	-	-	-	-	-	494,441	494,441
Bonds and loans	1,230,745	269,008	-	152,469	413,064	76,589	2,295,672	52,393	4,489,940
Sale of property, adjustments and refunds	56,884	133,400	-	13,563	1,500	-	-	19,468	224,815
Intergovernmental transfers	-	-	196,044	-	-	-	-	10,793	206,837
Total receipts	7,982,984	676,049	196,044	769,176	1,040,815	253,378	2,295,672	1,097,188	14,311,306
Disbursements:									
Current:									
Instruction	3,245,120	-	-	-	-	-	-	159,604	3,404,724
Support services	2,899,697	433,299	-	26	548,691	45,890	-	700,813	4,628,416
Community services	100,858	-	-	-	-	-	-	2,244	103,102
Nonprogrammed charges	1,158,496	57,138	-	44,282	29,056	8,024	-	153,069	1,450,065
Debt services	544,587	160,640	-	707,413	196,237	-	2,305,302	52,918	3,967,097
Total disbursements	7,948,758	651,077	-	751,721	773,984	53,914	2,305,302	1,068,648	13,553,404
Excess (deficiency) of total receipts over (under) total disbursements	34,226	24,972	196,044	17,455	266,831	199,464	(9,630)	28,540	757,902
Cash and investments - beginning	444,838	47,023	-	128,412	167,919	75,273	10,055	214,662	1,088,182
Cash and investments - ending	\$ 479,064	\$ 71,995	\$ 196,044	\$ 145,867	\$ 434,750	\$ 274,737	\$ 425	\$ 243,202	\$ 1,846,084

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

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

	General	Transportation Operating	Rainy Day	Levy Excess	Debt Service	Capital Projects	School Bus Replacement	Common School Construction	Other	Totals
Receipts:										
Local sources	\$ 2,061,679	\$ 460,210	\$ -	\$ -	\$ 552,814	\$ 768,648	\$ 101,754	\$ -	\$ 493,178	\$ 4,438,283
Intermediate sources	427	-	-	-	-	-	-	-	431	858
State sources	5,045,280	-	-	-	-	-	-	-	40,173	5,085,453
Federal sources	-	-	-	-	-	-	-	-	508,460	508,460
Bonds and loans	804,875	183,000	-	-	47,078	205,356	-	66,361	650,858	1,957,528
Sale of property, adjustments and refunds	96,916	6,351	-	-	2,609	2,272	-	-	22	108,170
Intergovernmental transfers	196,044	142,087	94,421	185,179	-	-	-	-	15,193	632,924
Total receipts	8,205,221	791,648	94,421	185,179	602,501	976,276	101,754	66,361	1,708,315	12,731,676
Disbursements:										
Current:										
Instruction	3,348,224	-	-	-	-	-	-	-	122,128	3,470,352
Support services	2,551,196	448,178	-	-	26	888,463	119,538	-	764,082	4,771,483
Community services	102,174	-	-	-	-	-	-	-	1,435	103,609
Nonprogrammed charges	911,144	108,580	-	196,044	25,602	35,525	218,445	-	33,086	1,528,426
Debt services	1,495,680	304,097	-	-	692,852	413,316	-	66,786	771,865	3,744,596
Total disbursements	8,408,418	860,855	-	196,044	718,480	1,337,304	337,983	66,786	1,692,596	13,618,466
Excess (deficiency) of total receipts over (under) total disbursements	(203,197)	(69,207)	94,421	(10,865)	(115,979)	(361,028)	(236,229)	(425)	15,719	(886,790)
Cash and investments - beginning	479,064	71,995	-	196,044	145,867	434,750	274,737	425	243,202	1,846,084
Cash and investments - ending	\$ 275,867	\$ 2,788	\$ 94,421	\$ 185,179	\$ 29,888	\$ 73,722	\$ 38,508	\$ -	\$ 258,921	\$ 959,294

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

NORTH MIAMI 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	\$ <u>1,395,000</u>
Deductions:	
Support services	<u>1,036,643</u>
Excess of total additions over total deductions	358,357
Cash and investments - beginning	<u>-</u>
Cash and investments - ending	<u><u>\$ 358,357</u></u>

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

NORTH MIAMI 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

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 Manchester Community Schools, Metropolitan School District of Wabash County, Peru Community Schools, and Wabash City Schools in a joint venture to operate Heartland Career Center which was created to provide vocational training. The School Corporation is obligated by contract to remit its proportionate share of the Heartland Career Center budget based on ADM and assessed valuation. Complete financial statements for the Heartland Career Center can be obtained from Heartland Career Center, P.O. Box 606, Wabash, IN 46992.

The School Corporation is a participant with nine other school corporations in a joint venture to operate the Logansport Area Joint Special Services Cooperative (LAJSSC), which was created to provide education to handicapped students. The School Corporation is obligated by contract to remit its proportionate share annually to supplement the LAJSSC's budget. The LAJSSC pays its surplus to the participants. The LAJSSC's continued existence depends on continued funding by the School Corporation. Complete financial statements for the LAJSSC can be obtained from 1501 Meadowlawn Avenue, Logansport, IN 46947.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes governmental activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

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.

NORTH MIAMI COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

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

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

The rainy day fund accounts for the receipt of transfers of unused unencumbered funds raised by the general or special tax levy. This fund can be used for any purpose permitted by state statutes for other revenues.

The levy excess fund accounts for the property taxes received which exceeds 10% of the School Corporation's as valorem property tax levy as certified each year by the Indiana Department of Local Government Finance.

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 common school construction fund accounts for the receipt and disbursements concerning the elementary gym, locker rooms, four classrooms, concession stand, stage, and two public rest-rooms.

Additionally, the School Corporation reports the following fund type:

The pension trust funds account for the activities of the postretirement or severance benefits, which accumulate resources for pension benefit payments.

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 than when a liability is incurred. Investment transactions are not presented on the financial statements.

NORTH MIAMI COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the general fund and various joint venture funds. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

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

a. Sick Leave

Employees earn sick leave at the rate of 5 to 14 days per year. Unused sick leave may be accumulated to a maximum of 5 to 180 days. Accumulated sick leave of 75 to 149 days is paid the sum of \$1,000 and 150 or more days are paid the sum of \$2,000 for certified personnel, only upon retirement after 10 years of service.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 15 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 3 days per year. Personal leave does not accumulate from year to year.

NORTH MIAMI 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 are 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. 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 Activities, some amounts reported as interfund activity and balances 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.

NORTH MIAMI COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

1. 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.
2. Primary government and component unit activity and balances – Resource flows between the primary government and the discretely-presented component units are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

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. Disbursements in Excess of Appropriations

For the years ended June 30, 2005 and 2006, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

NORTH MIAMI COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund	2004
General	\$ 54,370
Transportation	87,965
Total	\$ 142,335

C. 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 and state statute:

Fund	2004-2005	2005-2006
Special Education Preschool	\$ (6,347)	\$ -
Textbook Rental Fund	-	(6,095)

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

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:

Transfer From	Transfer To	2004-2005	2005-2006
General Fund	Levy Excess	\$ 112,123	\$ 115,796
Levy Excess	General Fund	-	196,044
Other governmental	Levy Excess	83,921	69,383
Other governmental	Other governmental	10,793	251,701
Totals		\$ 206,837	\$ 632,924

NORTH MIAMI COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. 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 10 years of service. Currently, 8 retirees meet these eligibility requirements. The School Corporation and retirees provide 72% and 28%, respectively, 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 \$54,129 were recognized for postemployment benefits.

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:

NORTH MIAMI COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Funding Policy 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	\$ 1,120
Interest on net pension obligation	(3,785)
Adjustment to annual required contribution	4,313
Annual pension cost	1,648
Contributions made	3,600
Decrease in net pension obligation	(1,952)
Net pension obligation, beginning of year	(52,205)
Net pension obligation, end of year	\$ (54,157)
Contribution rates:	
School Corporation	5.50%
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%

NORTH MIAMI COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 1,720	232%	\$ (50,008)
	06-30-04	1,352	263%	(52,205)
	06-30-05	1,648	266%	(54,157)

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 \$103,987, \$98,856, and \$89,220, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

NORTH MIAMI 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 AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 80,036	\$ 49,649	\$ 30,387	161%	\$ 61,627	49%
07-01-04	80,771	55,895	24,876	145%	59,534	42%
07-01-05	83,600	74,875	8,725	112%	64,206	14%

NORTH MIAMI 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.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 244,128
Buildings	14,575,770
Improvements other than buildings	440,847
Machinery and equipment	<u>3,807,272</u>
 Total governmental activities, capital assets not being depreciated	 \$ <u>19,068,017</u>

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

Description of Debt	Ending Balance	Due Within One Year
Governmental activities:		
Common school loans:		
High school renovation #A-0402	\$ 145,833	\$ 145,833
Energy upgrade #A-0458	1,092,000	56,000
Technology #A-0827	23,986	23,986
Construction #A-0472	187,493	31,249
Technology #A0991	56,141	22,457
Construction #A-0514	2,500,000	-
Construction #A-0522	225,000	50,000
Construction #A-0530	250,000	-
Technology #A-1108	109,624	-
Bonds payable:		
General obligation bonds:		
2002 Pension bonds	845,000	30,000
2006 Pension bonds	1,395,000	-
Tax anticipation warrants:		
Operations	<u>1,014,442</u>	<u>1,014,442</u>
Total governmental activities long-term debt	<u>\$ 7,844,519</u>	<u>\$ 1,373,967</u>

NORTH MIAMI COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Years</u>	<u>Excess Amount Expended</u>
General	2004	\$ 54,370
Transportation	2005	87,965

A similar comment was noted in prior Report B24727.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

APPROVAL OF FORMS (Applies to North Miami Middle/High School)

The North Miami Middle/High School was using a Student Fee Invoice for Textbook Rental prescribed Form TBR-2, which had not been approved for use in lieu of prescribed form. A similar comment was noted in the prior Report B24727.

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)

OVERDRAWN FUND BALANCES

The Special Education Pre-School Fund was overdrawn in 2004-2005 school year at \$6,347 and the Textbook Rental Fund was overdrawn in the 2005-2006 school year at \$6,094.

The Boys Track and Field Fund, Girls Basketball Fund, Textbook Rental Fund, Cheerleaders Fund, Faculty Concession Fund, Investment Income Fund and Student Enrichment Fund were overdrawn in 2004-2005. The High School Student Council Fund, Boys Golf Fund, Class of 2006 Fund, Textbook Rental Fund and Faculty Concession Fund were overdrawn in 2005-2006. A similar comment was noted in prior Report B24727.

The 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)

NORTH MIAMI COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROLS (Applies to North Miami Middle/High School)

The controls over the receipting, disbursing, recording, and accounting for the financial activities generated by the bookstore were insufficient. Checks were issued totaling \$144 for cash change. A cash count of the cash change fund totaled \$101.41. A similar comment was noted in prior Report B24727.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

TRANSFER TUITION - CHILDREN OF TEACHERS

North Miami Community Schools was not using prescribed Form 515, Transfer Tuition Statement, to calculate the transfer tuition fees for students transferring into the School Corporation. The School Board approved a flat fee for each school year.

Some teachers who do not live in the School Corporation District have not paid the correct amount of transfer tuition for their children who are being educated by the School Corporation. The current master teacher contract states in part: "Teachers living outside of the school district and having school age children may have those children attend North Miami Community Schools by paying (1/2) of the tuition." A similar comment was noted in prior Report's B20523 and B24727.

Indiana Code 26-11-6 states in part:

"(a) A school corporation may accept a transferring student without approval of the transferor corporation under section 5 of this chapter.

"(b) A transfer may not be accepted unless the requesting parents or student pays transfer tuition in an amount determined under the formula established . . ."

"Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute." (Accounting and Uniform Compliance Guideline Manual for Indiana Public School Corporations, Chapter 9)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
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 NORTH MIAMI COMMUNITY SCHOOLS, MIAMI COUNTY, INDIANA

Compliance

We have audited the compliance of the North Miami 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

December 12, 2006

NORTH MIAMI 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	10.555			
School Breakfast Program	10.553		\$ 10,850	\$ 18,370
National School Lunch Program	10.555		117,727	135,278
Special Milk Program for Children	10.556		<u>2,221</u>	<u>2,625</u>
Total for child nutrition cluster			<u>130,798</u>	<u>156,273</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010			
		04-5620	15,098	-
		05-5620	115,600	11,519
		06-5620	<u>-</u>	<u>84,108</u>
Total for program			<u>130,698</u>	<u>95,627</u>
Safe and Drug Free Schools and Communities - State Grants	84.186			
Safe and Drug		02-032	1,931	-
		03-072	2,974	2,632
		04-100	<u>-</u>	<u>3,090</u>
Total for program			<u>4,905</u>	<u>5,722</u>
State Grants for Innovative Programs	84.298			
		02-112	3,192	-
		03-144	211	6,689
		04-127	<u>805</u>	<u>2,842</u>
Total for program			<u>4,208</u>	<u>9,531</u>
Education Technology State Grants	84.318			
		2003-04	2,282	-
		2004-05	-	6,106
		2005-06	<u>-</u>	<u>1,195</u>
Total for program			<u>2,282</u>	<u>7,301</u>
Comprehensive School Reform Demonstration	84.332			
		04-5620	23,474	-
		05-5620	180,987	41,635
		06-5620	<u>-</u>	<u>162,870</u>
Total for program			<u>204,461</u>	<u>204,505</u>
Improving Teacher Quality State Grants	84.367			
		03-060	39,583	-
		04-117	<u>3,513</u>	<u>28,889</u>
Total for program			<u>43,096</u>	<u>28,889</u>
Total for federal grantor agency			<u>389,650</u>	<u>351,575</u>
Total federal awards expended			<u>\$ 520,448</u>	<u>\$ 507,848</u>

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

NORTH MIAMI 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 North Miami 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 Corporation 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
National School Lunch Program	10.555	\$ 12,836	\$ 12,471

NORTH MIAMI 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
84.332	Child Nutrition Cluster Comprehensive School Reform Demonstration

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.

NORTH MIAMI COMMUNITY SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

NORTH MIAMI COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on December 12, 2006, with Krista Warder, Treasurer; and Brent Kaufman, Superintendent of Schools. The officials concurred with our audit findings.