

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

AUDIT REPORT

OF

TWIN LAKES SCHOOL CORPORATION

WHITE COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED
01/19/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Margie L. Reynolds	07-01-04 to 06-30-07
Superintendent of Schools	Dr. Thomas Fletcher	07-01-04 to 06-30-07
President of the School Board	Mark Bentlage Mark D. Mills	07-01-04 to 06-30-06 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 TWIN LAKES SCHOOL CORPORATION, WHITE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Twin Lakes School Corporation (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 TWIN LAKES SCHOOL CORPORATION, WHITE COUNTY, INDIANA

We have audited the financial statements of the Twin Lakes School Corporation (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.

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

TWIN LAKES SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 6,064,696
Restricted assets:	
Cash and investments	<u>1,238,211</u>
Total assets	<u>\$ 7,302,907</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,238,211
Unrestricted	<u>6,064,696</u>
Total net assets	<u>\$ 7,302,907</u>

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

TWIN LAKES SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 7,230,932
Restricted assets:	
Cash and investments	<u>1,583,766</u>
Total assets	<u>\$ 8,814,698</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,583,766
Unrestricted	<u>7,230,932</u>
Total net assets	<u>\$ 8,814,698</u>

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

TWIN LAKES SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net
		Charges for Services	Operating Grants and Contributions	(Disbursement) Receipts
				Total
Governmental activities:				
Instruction	\$ 7,877,851	\$ -	\$ 157,611	\$ (7,720,240)
Support services	10,546,214	1,054,116	360,061	(9,132,037)
Community services	167,978	-	-	(167,978)
Nonprogrammed charges	1,543,749	-	-	(1,543,749)
Debt service	4,952,972	-	-	(4,952,972)
Total governmental activities	\$ 25,088,764	\$ 1,054,116	\$ 517,672	(23,516,976)
General receipts:				
Property taxes				16,724,058
Other local sources				2,552,657
State aid				8,103,392
Grants and contributions not restricted				961,622
Sale of property, adjustments, and refunds				98,284
Investment earnings				79,157
Total general receipts				28,519,170
Change in cash and investments				5,002,194
Net assets - beginning				2,300,713
Net assets - ending				\$ 7,302,907

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

TWIN LAKES SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 7,897,101	\$ -	\$ 274,197	\$ (7,622,904)
Support services	11,057,436	848,560	548,963	(9,659,913)
Community services	209,160	-	-	(209,160)
Nonprogrammed charges	1,741,899	-	-	(1,741,899)
Debt service	3,325,539	-	-	(3,325,539)
Total governmental activities	<u>\$ 24,231,135</u>	<u>\$ 848,560</u>	<u>\$ 823,160</u>	<u>(22,559,415)</u>
General receipts:				
Property taxes				12,370,944
Other local sources				1,965,719
State aid				8,230,060
Grants and contributions not restricted				1,087,433
Sale of property, adjustments, and refunds				90,869
Investment earnings				<u>326,181</u>
Total general receipts				<u>24,071,206</u>
Change in cash and investments				1,511,791
Net assets - beginning				<u>7,302,907</u>
Net assets - ending				<u>\$ 8,814,698</u>

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

TWIN LAKES SCHOOL CORPORATION
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	Other	Totals
Receipts:							
Local sources	\$ 9,480,178	\$ 1,641,660	\$ 4,432,719	\$ 2,620,095	\$ 347,675	\$ 1,886,915	\$ 20,409,242
Intermediate sources	747	-	-	-	-	-	747
State sources	8,241,069	-	-	-	-	253,679	8,494,748
Federal sources	600	-	-	-	-	1,087,337	1,087,937
Sale of property, adjustments and refunds	60,703	6,180	-	7,990	-	23,411	98,284
Intergovernmental transfers	-	-	-	-	-	360,227	360,227
Total receipts	<u>17,783,297</u>	<u>1,647,840</u>	<u>4,432,719</u>	<u>2,628,085</u>	<u>347,675</u>	<u>3,611,569</u>	<u>30,451,185</u>
Disbursements:							
Current:							
Instruction	6,896,493	-	-	-	-	981,358	7,877,851
Support services	5,916,072	963,867	-	1,756,775	524,726	1,384,774	10,546,214
Community services	167,003	-	-	-	-	975	167,978
Nonprogrammed charges	1,459,467	-	-	300,000	-	144,509	1,903,976
Debt services	1,165,604	-	3,168,764	-	-	618,604	4,952,972
Total disbursements	<u>15,604,639</u>	<u>963,867</u>	<u>3,168,764</u>	<u>2,056,775</u>	<u>524,726</u>	<u>3,130,220</u>	<u>25,448,991</u>
Excess (deficiency) of total receipts over (under) total disbursements	2,178,658	683,973	1,263,955	571,310	(177,051)	481,349	5,002,194
Cash and investments - beginning	<u>348,662</u>	<u>(93,822)</u>	<u>(208,872)</u>	<u>1,449,728</u>	<u>70,927</u>	<u>734,090</u>	<u>2,300,713</u>
Cash and investments - ending	<u>\$ 2,527,320</u>	<u>\$ 590,151</u>	<u>\$ 1,055,083</u>	<u>\$ 2,021,038</u>	<u>\$ (106,124)</u>	<u>\$ 1,215,439</u>	<u>\$ 7,302,907</u>

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

TWIN LAKES SCHOOL CORPORATION
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	Other	Totals
Receipts:							
Local sources	\$ 7,325,177	\$ 1,200,116	\$ 3,265,288	\$ 2,118,644	\$ 312,703	\$ 1,288,730	\$ 15,510,658
Intermediate sources	747	-	-	-	-	-	747
State sources	8,484,436	-	-	-	-	326,295	8,810,731
Federal sources	-	-	-	-	-	1,329,921	1,329,921
Sale of property, adjustments and refunds	39,171	29,306	-	16,924	-	5,468	90,869
Intergovernmental transfers	-	-	-	-	-	136,839	136,839
Total receipts	<u>15,849,531</u>	<u>1,229,422</u>	<u>3,265,288</u>	<u>2,135,568</u>	<u>312,703</u>	<u>3,087,253</u>	<u>25,879,765</u>
Disbursements:							
Current:							
Instruction	6,986,981	-	-	-	-	910,120	7,897,101
Support services	6,216,237	1,045,455	-	1,971,210	291,982	1,532,552	11,057,436
Community services	207,972	-	-	-	-	1,188	209,160
Nonprogrammed charges	1,691,768	-	-	100,000	-	86,970	1,878,738
Debt services	-	-	2,912,223	-	-	413,316	3,325,539
Total disbursements	<u>15,102,958</u>	<u>1,045,455</u>	<u>2,912,223</u>	<u>2,071,210</u>	<u>291,982</u>	<u>2,944,146</u>	<u>24,367,974</u>
Excess of total receipts over total disbursements	746,573	183,967	353,065	64,358	20,721	143,107	1,511,791
Cash and investments - beginning	<u>2,527,320</u>	<u>590,151</u>	<u>1,055,083</u>	<u>2,021,038</u>	<u>(106,124)</u>	<u>1,215,439</u>	<u>7,302,907</u>
Cash and investments - ending	<u><u>\$ 3,273,893</u></u>	<u><u>\$ 774,118</u></u>	<u><u>\$ 1,408,148</u></u>	<u><u>\$ 2,085,396</u></u>	<u><u>\$ (85,403)</u></u>	<u><u>\$ 1,358,546</u></u>	<u><u>\$ 8,814,698</u></u>

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

TWIN LAKES SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2005

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ 13,633	\$ 7,725
Sale of property, adjustments and refunds	-	1,362
Total additions	13,633	9,087
Deductions:		
Instruction	-	2,418
Support services	263,706	69
Total deductions	263,706	2,487
Excess (deficiency) of total additions over (under) total deductions	(250,073)	6,600
Cash and investments - beginning	1,222,875	20,456
Cash and investments - ending	\$ 972,802	\$ 27,056

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

TWIN LAKES SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2006

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Additions:		
Local sources	\$ 39,215	\$ 15,949
Bonds and loans	1,900,000	-
Sale of property, adjustments and refund	<u>408,900</u>	<u>-</u>
Total additions	<u>2,348,115</u>	<u>15,949</u>
Deductions:		
Instruction	-	12,769
Support services	<u>2,109,540</u>	<u>7,160</u>
Total deductions	<u>2,109,540</u>	<u>19,929</u>
Excess (deficiency) of total additions over (under) total deductions	238,575	(3,980)
Cash and investments - beginning	<u>972,802</u>	<u>27,056</u>
Cash and investments - ending	<u>\$ 1,211,377</u>	<u>\$ 23,076</u>

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

TWIN LAKES SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency</u>
Cash and investments	\$ 972,802	\$ 27,056	\$ 64,761
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 972,802	\$ 27,056	

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

TWIN LAKES SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 June 30, 2006

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency</u>
Cash and investments	\$ 1,211,377	\$ 23,076	\$ 47,000
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	<u>\$ 1,211,377</u>	<u>\$ 23,076</u>	

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

TWIN LAKES SCHOOL CORPORATION
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 accompanying financial statements present the activities of the School Corporation (primary government). There are no significant component units which require inclusion. 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 several 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 member school corporations. Complete financial statements for the LAJSSC can be obtained from 1501 Meadowlawn Avenue, Logansport, IN 46947.

The School Corporation is a participant with several other school corporations in a joint venture to operate the Indian Trails Career Cooperative which was created to engage in the joint employment of personnel and joint purchases of supplies, equipment, and facilities to provide programs and services for vocational education. The Cooperative's continued existence depends on continued funding by the School Corporation. Complete financial statements for the Cooperative can be obtained from the local educational agency (Twin Lakes School Corporation) at 565 South Main Street, Monticello, IN 47960.

The School Corporation is a participant with several other school corporations in a joint venture to operate the Wabash Valley Education Center (Center) which was created to operate and maintain an educational service for curriculum development, purchasing and financial management. The Center's continued existence depends on continued funding by the member school corporations. Complete financial statements for the Center can be obtained from their administrative office at 3081 Benton Street, West Lafayette, IN 47906-1129.

Related Organizations

The School Corporation's officials are also responsible for appointing the members of the boards of other organizations, but the School Corporation's accountability for these organizations does not extend beyond making the appointments. The School Corporation appoints one board member of the Monticello-Union Township Library and the Delphi Public Library. No financial relationship between the School Corporation and the Libraries exists.

TWIN LAKES SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 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, there are no business-type activities to report at this time.

Fund Financial Statements

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

The School Corporation reports the following major governmental funds:

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

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

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

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

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

Additionally, the School Corporation reports the following fund types:

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

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the students of the School Corporation.

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

TWIN LAKES SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Receipts are recorded when received and disbursements are recorded when paid.

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

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. 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

a. Sick Leave

Employees earn sick leave at the rate of 7 to 10 days per year. Unused sick leave may be accumulated to a maximum of 90 to 110 days, depending upon classification. Accumulated sick leave is paid to employees, at varying rates depending upon classification, through cash payments upon termination.

TWIN LAKES SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

b. Vacation Leave

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

c. Personal Leave

School Corporation employees earn personal leave at the rate of 2 or 3 days per year. Unused personal leave may be accumulated to a maximum of four days. Accumulated personal leave is not paid to employees upon termination.

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

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.

TWIN LAKES SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, 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.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

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

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

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.

TWIN LAKES SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Cash and Investment Balance Deficits

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

Fund	2005	2006
School Bus Replacement	\$ (106,124)	\$ (85,403)
Lunch	(47,519)	-
Perkins FY05 Grant	(28,585)	-

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	2005	2006
Capital Projects	Rainy Day	\$ 300,000	\$ 100,000
Area 10 Vocational Co-op	Area 10 Discretionary	11,314	21,559
Perkins FY05 Grant	Area 10 Discretionary	10,000	-
Perkins FY06 Grant	Other governmental	-	7,000
Title I FY03-04	Title I FY04-05	38,913	-
Title I FY04-05	Title I FY05-06	-	8,280
Totals		\$ 360,227	\$ 136,839

The School Corporation typically uses transfers to fund ongoing operating subsidies and to transfer the portion of state-shared revenues from the General Fund to the debt service fund for current-year debt service requirements.

TWIN LAKES SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); 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.

Midwest Area School Employees' Insurance Trust

During 1998, the School Corporation joined with other governmental entities to form the Midwest Area School Employees' Insurance Trust, a public entity risk pool currently operating as a common risk management and insurance program for 15 member governmental entities. This risk pool was formed in 1992. The purpose of the risk pool is to provide a medium for the funding and administration of group insurance plans for the benefit of the member's employees. Employees of the School Corporation pays an annual premium to the risk pool for medical coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$175,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$2,000,000 limit. The risk pool obtains independent coverage for insured events in excess of these limits.

B. Holding Corporation

The School Corporation has entered into a capital lease with Twin Lakes School Building Improvement Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the two years ending June 30, 2006, totaled \$5,694,000.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health care benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 53 with at least 15 years of service. Currently, 20 retirees meet these eligibility requirements. The School Corporation contributes a flat rate per retiree 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 \$28,997 were recognized for postemployment benefits.

TWIN LAKES SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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	\$ 97,059
Interest on net pension obligation	(6,835)
Adjustment to annual required contribution	7,789
Annual pension cost	98,013
Contributions made	115,392
Decrease in net pension obligation	(17,379)
Net pension obligation, beginning of year	(94,278)
Net pension obligation, end of year	\$ (111,657)

TWIN LAKES SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

	<u>PERF</u>
Contribution rates:	
School Corporation	6.82%
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

<u>Actuarial Assumptions</u>	<u>PERF</u>
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

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF 06-30-03	\$ 117,447	84%	\$ (85,106)
06-30-04	97,875	109%	(94,278)
06-30-05	98,013	118%	(111,657)

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

TWIN LAKES SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$223,603, \$242,280, and \$277,723, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

TWIN LAKES SCHOOL CORPORATION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 1,813,392	\$ 1,912,657	\$ (99,265)	95%	\$ 1,828,754	(5%)
07-01-04	1,850,524	1,962,283	(111,759)	94%	1,733,522	(6%)
07-01-05	1,942,895	2,271,691	(328,796)	86%	1,628,013	(20%)

TWIN LAKES SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 June 30, 2006

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 3,529,192
Buildings	64,771,300
Improvements other than buildings	2,325,000
Machinery and equipment	2,787,729
Construction in progress	<u>330,000</u>
 Total governmental activities, capital assets not being depreciated	 \$ <u><u>73,743,221</u></u>

TWIN LAKES SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2006

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

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Buildings	\$ 12,318,302	\$ 2,490,000
Bonds payable:		
General obligations bonds:		
2002 General obligation pension bonds	3,305,000	100,000
2006 General obligation pension bonds	<u>1,900,000</u>	<u>65,000</u>
Total governmental activities long-term debt	<u>\$ 17,523,302</u>	<u>\$ 2,655,000</u>

TWIN LAKES SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The cash balances of the School Bus Replacement Fund, the Lunch Fund, and the Perkins FY05 Grant Fund were overdrawn at June 30, 2005. The cash balance of the School Bus Replacement Fund was overdrawn at June 30, 2006. A similar comment was included in the prior Report B24481.

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

FEDERAL AND STATE AGENCIES – COMPLIANCE REQUIREMENTS

Twin Lakes School Corporation did not file required certain federal grant reports in a timely manner. The school lunch annual financial report for the year ending June 30, 2005, was not filed until February of 2006; and the annual financial report for the year ending June 30, 2006, has not been filed as of December 12, 2006. Three of the four quarterly reports reviewed for the Title I program were filed late. Quarterly reports for the periods ending December 31, 2004, December 31, 2005, and June 30, 2006, were filed late.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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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 TWIN LAKES SCHOOL CORPORATION, WHITE COUNTY, INDIANA

Compliance

We have audited the compliance of the Twin Lakes School Corporation (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. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-1 and 2006-2.

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)

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School Corporation's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-1 and 2006-2.

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 the 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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

TWIN LAKES SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 54,038	\$ 75,691
National School Lunch Program	10.555		<u>360,653</u>	<u>396,581</u>
Total for child nutrition cluster			414,691	472,272
Pass Through Indiana Department of Education				
Team Nutrition Grants				
Team Nutrition Grant CNTN-05-IN-1	10.574		-	<u>500</u>
Total for federal grantor agency			<u>414,691</u>	<u>472,772</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010			
		04-8565	88,432	-
		05-8565	229,616	51,771
		06-8565	-	<u>187,051</u>
Total for program			<u>318,048</u>	<u>238,822</u>
Vocational Education - Basic Grants to States	84.048			
		01-4700-8565	34,644	-
		03-4700-8565	750	-
		04-4700-8565	194,407	25,252
		05-4700-8565	-	<u>197,938</u>
Total for program			<u>229,801</u>	<u>223,190</u>
Safe and Drug Free Schools and Communities - State Grants	84.186			
		02-263	910	-
		03-173	2,263	9,729
		04-107	-	<u>5,683</u>
Total for program			<u>3,173</u>	<u>15,412</u>
State Grants for Innovative Programs	84.298			
		02-199	762	-
		03-237	3,862	10,439
		04-262	-	<u>6,468</u>
Total for program			<u>4,624</u>	<u>16,907</u>
Educational Technology State Grants	84.318			
		SY 03/04	2,828	6,156
		SY 04/05	<u>6,543</u>	<u>-</u>
Total for program			<u>9,371</u>	<u>6,156</u>

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

TWIN LAKES SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF EDUCATION (continued)</u>				
Pass-Through Indiana Department of Education (continued)				
Reading First State Grants	84.357		86,563	-
		SY 03/04	198,646	247,453
		SY 04/05	<u> </u>	<u> </u>
Total for program			<u>285,209</u>	<u>247,453</u>
English Language Acquisition Grants	84.365		11,568	-
		SY 03/04	27,174	-
		SY 04/05	-	39,489
		SY 05/06	<u> </u>	<u> </u>
Total for program			<u>38,742</u>	<u>39,489</u>
Improving Teacher Quality State Grants	84.367		55,277	-
		02-257	7,205	72,859
		03-081	<u> </u>	<u> </u>
Total for program			<u>62,482</u>	<u>72,859</u>
Total for federal grantor agency			<u>951,450</u>	<u>860,288</u>
Total federal awards expended			<u>\$ 1,366,141</u>	<u>\$ 1,333,060</u>

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

TWIN LAKES SCHOOL CORPORATION
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 Twin Lakes School Corporation (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
School Breakfast Program	10.553	\$ 2,392	\$ 10,055
National School Lunch	10.555	48,719	53,376

TWIN LAKES SCHOOL CORPORATION
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?	yes

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies
84.048	Vocational Education-Basic Grants to States

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.

TWIN LAKES SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-1, REPORTING – TIMELY AND ACCURATE

Federal Agency: U.S. Department of Agriculture
Pass-Through Indiana Department of Education
Federal Program: Child Nutrition Cluster – National School Lunch Program
CFDA Number 10.555

The School Corporation does not have adequate internal control procedures in place to ensure the timely filing of accurate reports required by the Indiana Department of Education.

The School Lunch Annual Financial Report (AFR) for the year ending June 30, 2005, due 30 days after June 30, was not file until February 2006. The AFR for the year ended June 30, 2006, due on July 30, 2006, had not been filed as of December 12, 2006.

“7CFR210.15 states in part: “Reporting summary. Participating school food authorities are required to submit forms and reports to the State agency or the distributing agency, as appropriate, to demonstrate compliance with Program requirements.”

We recommended that the School Corporation design and implement internal control procedures that will ensure the timely filing of accurate reports.

FINDING NO. 2006-2, REPORTING - TIMELY AND ACCURATE

Federal Agency: U.S. Department of Education
Pass-Through Indiana Department of Education
Federal Program: Title I Grants to Local Agency
CFDA Number 84.010

The School Corporation does not have adequate internal control procedures in place to ensure the timely filing of accurate reports required by the Indiana Department of Education.

The Title I quarterly monitoring reports for the quarters ending December 31, 2004, December 31, 2005, and June 30, 2006, due ten days after the end of the quarter, were not filed until February 16, 2005, January 26, 2006, and July 12, 2006; respectively. The Title I annual expenditure report for the fiscal year ended September 30, 2006, due on October 30, 2006, was not filed until November 8, 2006.

34CFR80.20(b) states in part: “The financial management systems of other grantees and sub-grantees must meet the following standards:

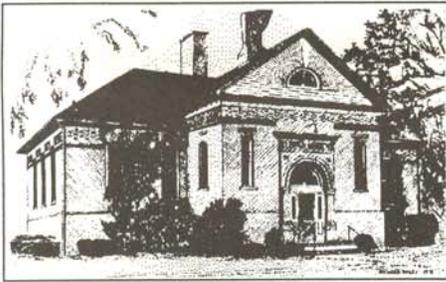
- (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.”

Failure to comply with federal program requirements and the requirements of the State pass-through agency could cause the School Corporation to forfeit the federal funds already received and jeopardize approval of future funding under federal assistance programs.

We recommended that the School Corporation design and implement internal control procedures that will ensure the timely filing of accurate reports.

TWIN LAKES SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



TWIN LAKES SCHOOL CORPORATION

565 SOUTH MAIN STREET
MONTICELLO, INDIANA 47960

PHONE: (574) 583-7211

FAX: (574) 583-8963

Corrective Action Plan December 5, 2006

Finding No. 2006-1

Federal Agency: U.S. Department of Agriculture
Pass-through Indiana Department of Education
Federal Program: National School Lunch Program
CFDA Number 10.555
Federal Award Number: SY04/05; SY05/06
Auditee Contact Person: Margie L. Reynolds
Title of Contact Person: Treasurer
Phone Number: 574-583-7211
Expected Completion Date: December 1, 2006

Corrective Action Planned:

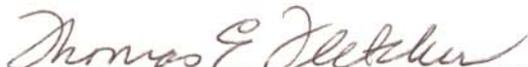
All required federal reports will be filed in a timely manner in accordance with the requirements of OMB Circular A-133. Margie Reynolds, Treasurer, will work closely with Mark Weaver, Food Services Director to ensure the required reports are filed timely.

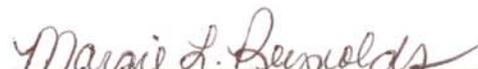
Finding No. 2006-2

Federal Agency: U.S. Department of Education
Pass-through Indiana Department of Education
Federal Program: Title I Grants to Local Agencies
CFDA Number 84.010
Federal Award Number: #05-8586; #06-8565
Auditee Contact Person: Margie L. Reynolds
Title of Contact Person: Treasurer
Phone Number: 574-583-7211
Expected Completion Date: December 1, 2006

Corrective Action Planned:

All required federal reports will be filed in a timely manner in accordance with the requirements of OMB Circular A-133. Procedures will be implemented to ensure the required reports are filed timely.


Thomas E. Fletcher, Superintendent


Margie L. Reynolds, Treasurer

TWIN LAKES SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on December 12, 2006, with Margie L. Reynolds, Treasurer; Marsha Morlan, Assistant Treasurer; Dr. Thomas Fletcher, Superintendent of Schools; Todd Bess, Assistant Superintendent of Schools; Mark D. Mills; President of the School Board; and Susan Mrzlack, Assistant Secretary of the School Board. The officials concurred with our audit findings.