

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

AUDIT REPORT

OF

LAKE CENTRAL SCHOOL CORPORATION

LAKE COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED
01/31/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Cora Mollick	07-01-04 to 06-30-07
Director of Business Services	Dr. Thomas J. Dykiel	07-01-04 to 06-30-07
Superintendent of Schools	Dr. Janet Emerick	07-01-04 to 06-30-07
President of the School Board	Margaret Clark Nancy Gray John DeVries	07-01-04 to 12-31-04 01-01-05 to 12-31-05 01-01-06 to 12-31-06



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 LAKE CENTRAL SCHOOL CORPORATION, LAKE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lake Central 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 18, 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 required parts of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

December 18, 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 LAKE CENTRAL SCHOOL CORPORATION, LAKE COUNTY, INDIANA

We have audited the financial statements of the Lake Central School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated December 18, 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.

We noted certain immaterial instances of noncompliance that we have discussed with the management of the School Corporation on December 18, 2006. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

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. However, we noted certain matters involving the internal control over financial reporting 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 financial reporting that, in our judgment, could adversely affect the School Corporation's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

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
(Continued)

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. Our consideration of the internal control over financial reporting 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 also considered to be material weaknesses. Of the reportable conditions described above, we consider item 2006-1 to be 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 18, 2006

LAKE CENTRAL SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 9,322,255
Restricted assets:	
Cash and investments	<u>2,503,965</u>
Total assets	<u>\$ 11,826,220</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 2,503,965
Unrestricted	<u>9,322,255</u>
Total net assets	<u>\$ 11,826,220</u>

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

LAKE CENTRAL SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 11,574,634
Restricted assets:	
Cash and investments	<u>5,247,646</u>
Total assets	<u>\$ 16,822,280</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 5,247,646
Unrestricted	<u>11,574,634</u>
Total net assets	<u>\$ 16,822,280</u>

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

LAKE CENTRAL SCHOOL CORPORATION
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	\$ 30,815,874	\$ -	\$ 365,808	\$ (30,450,066)
Support services	31,907,459	2,966,093	529,917	(28,411,449)
Community services	351,997	-	-	(351,997)
Nonprogrammed charges	110,606	-	-	(110,606)
Debt service	38,106,585	-	-	(38,106,585)
Total governmental activities	\$ 101,292,521	\$ 2,966,093	\$ 895,725	(97,430,703)
General receipts:				
Property taxes				32,916,941
Other local sources				7,599,209
State aid				26,278,599
Grants and contributions not restricted				3,538,042
Bonds and loans				37,186,672
Sale of property, adjustments, and refunds				537,887
Investment earnings				218,827
Total general receipts				108,276,177
Change in cash and investments				10,845,474
Net assets - beginning				980,746
Net assets - ending				\$ 11,826,220

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

LAKE CENTRAL 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	\$ 33,020,187	\$ -	\$ 204,211	\$ (32,815,976)
Support services	39,352,084	3,370,135	714,849	(35,267,100)
Community services	457,319	-	-	(457,319)
Nonprogrammed charges	167,141	-	-	(167,141)
Debt service	<u>34,727,797</u>	<u>-</u>	<u>-</u>	<u>(34,727,797)</u>
Total governmental activities	<u>\$ 107,724,528</u>	<u>\$ 3,370,135</u>	<u>\$ 919,060</u>	<u>(103,435,333)</u>
General receipts:				
Property taxes				51,944,542
Other local sources				6,844,402
State aid				25,835,618
Grants and contributions not restricted				3,452,913
Bonds and loans				14,020,054
Sale of property, adjustments, and refunds				4,200,579
Investment earnings				809,402
Intergovernmental transfers				<u>1,323,883</u>
				Total general receipts and intergovernmental transfers <u>108,431,393</u>
				Change in cash and investments 4,996,060
				Net assets - beginning <u>11,826,220</u>
				Net assets - ending <u>\$ 16,822,280</u>

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

LAKE CENTRAL SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	School Lunch	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 20,594,649	\$ 3,828,268	\$ 2,065,169	\$ 6,448,182	\$ 5,476,509	\$ 1,449,253	\$ 1,082,170	\$ 40,944,200
Intermediate sources	474,846	10,210	-	-	-	-	2,271,815	2,756,871
State sources	26,445,507	-	48,479	-	-	-	655,751	27,149,737
Federal sources	-	-	420,556	-	-	-	3,142,072	3,562,628
Bonds and loans	20,600,000	2,286,672	-	7,800,000	6,500,000	-	-	37,186,672
Sale of property, adjustments and refunds	136,033	30,028	39,401	-	164,541	10,400	157,484	537,887
Intergovernmental transfers	<u>52,457</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,800,835</u>	<u>6,853,292</u>
Total receipts	<u>68,303,492</u>	<u>6,155,178</u>	<u>2,573,605</u>	<u>14,248,182</u>	<u>12,141,050</u>	<u>1,459,653</u>	<u>14,110,127</u>	<u>118,991,287</u>
Disbursements:								
Current:								
Instruction	23,758,889	-	650	-	35,191	-	7,021,144	30,815,874
Support services	15,815,337	3,234,156	2,513,424	15,668	4,097,590	579,995	5,481,143	31,737,313
Community services	351,997	-	-	-	-	-	-	351,997
Nonprogrammed charges	4,264,702	35,000	35,000	-	2,251,915	-	547,281	7,133,898
Debt services	<u>19,085,801</u>	<u>3,460,287</u>	<u>-</u>	<u>10,383,092</u>	<u>5,177,405</u>	<u>-</u>	<u>-</u>	<u>38,106,585</u>
Total disbursements	<u>63,276,726</u>	<u>6,729,443</u>	<u>2,549,074</u>	<u>10,398,760</u>	<u>11,562,101</u>	<u>579,995</u>	<u>13,049,568</u>	<u>108,145,667</u>
Excess (deficiency) of total receipts over (under) total disbursements	5,026,766	(574,265)	24,531	3,849,422	578,949	879,658	1,060,559	10,845,620
Cash and investments - beginning	<u>(1,496,061)</u>	<u>(374,619)</u>	<u>497,490</u>	<u>(1,345,457)</u>	<u>3,990,477</u>	<u>23,122</u>	<u>(434,942)</u>	<u>860,010</u>
Cash and investments - ending	<u>\$ 3,530,705</u>	<u>\$ (948,884)</u>	<u>\$ 522,021</u>	<u>\$ 2,503,965</u>	<u>\$ 4,569,426</u>	<u>\$ 902,780</u>	<u>\$ 625,617</u>	<u>\$ 11,705,630</u>

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

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ 10,845,620
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>(146)</u>
Change in cash and investments of governmental activities	<u>\$ 10,845,474</u>

LAKE CENTRAL SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Transportation Operating	School Lunch	Debt Service	Capital Projects	School Bus Replacement	Rainy Day Fund	Other	Totals
Receipts:									
Local sources	\$ 28,882,051	\$ 5,038,965	\$ 2,252,356	\$ 12,680,526	\$ 9,719,308	\$ 570,920	\$ -	\$ 1,555,260	\$ 60,699,386
Intermediate sources	274,942	2,522	-	-	-	-	-	1,991,631	2,269,095
State sources	25,938,210	-	50,690	-	-	-	-	552,431	26,541,331
Federal sources	-	-	570,327	-	-	-	-	3,095,934	3,666,261
Bonds and loans	10,000,000	-	-	2,020,054	2,000,000	-	-	-	14,020,054
Sale of property, adjustments and refunds	620,421	22,499	43,195	-	6,022	-	-	79,436	771,573
Intergovernmental transfers	1,424	-	-	-	-	-	2,400,000	7,546,669	9,948,093
Total receipts	65,717,048	5,063,986	2,916,568	14,700,580	11,725,330	570,920	2,400,000	14,821,361	117,915,793
Disbursements:									
Current:									
Instruction	25,109,694	2,625	5,125	-	-	-	-	7,900,631	33,018,075
Support services	17,407,985	3,663,315	2,681,088	15,667	5,440,064	711,994	-	6,587,461	36,507,574
Community services	457,319	-	-	-	-	-	-	-	457,319
Nonprogrammed charges	6,074,551	490,000	120,000	-	2,016,902	-	-	364,899	9,066,352
Debt services	15,400,000	1,003,551	-	12,856,192	4,732,546	-	-	735,508	34,727,797
Total disbursements	64,449,549	5,159,491	2,806,213	12,871,859	12,189,512	711,994	-	15,588,499	113,777,117
Excess (deficiency) of total receipts over (under) total disbursements	1,267,499	(95,505)	110,355	1,828,721	(464,182)	(141,074)	2,400,000	(767,138)	4,138,676
Cash and investments - beginning	3,530,705	(948,884)	522,021	2,503,965	4,569,426	902,780	-	625,617	11,705,630
Cash and investments - ending	\$ 4,798,204	\$ (1,044,389)	\$ 632,376	\$ 4,332,686	\$ 4,105,244	\$ 761,706	\$ 2,400,000	\$ (141,521)	\$ 15,844,306

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

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ 4,138,676
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>857,384</u>
Change in cash and investments of governmental activities	<u>\$ 4,996,060</u>

LAKE CENTRAL SCHOOL CORPORATION
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN CASH AND INVESTMENTS
 PROPRIETARY FUND
 For The Year Ended June 30, 2005

	Internal Service Fund
Receipts:	
Transfers	\$ 170,000
Disbursements:	
Support services	170,146
Changes in cash and investments	(146)
Cash and investments - beginning	120,736
Cash and investments - ending	\$ 120,590

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

LAKE CENTRAL SCHOOL CORPORATION
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN CASH AND INVESTMENTS
 PROPRIETARY FUND
 For The Year Ended June 30, 2006

	Internal Service Fund
Receipts:	
Sale of property, adjustments and refunds	\$ 3,429,006
Transfers	275,000
Total receipts	3,704,006
Disbursements:	
Instruction	2,112
Support services	2,844,510
Total disbursements	2,846,622
Changes in cash and investments	857,384
Cash and investments - beginning	120,590
Cash and investments - ending	\$ 977,974

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

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

	<u>Pension Trust Funds</u>
Additions: Sale of property, adjustments and refunds	\$ 253,446
Deductions: Instruction	<u> 106,761</u>
Excess of total additions over total deductions	146,685
Cash and investments - beginning	<u> -</u>
Cash and investments - ending	<u><u> 146,685</u></u>

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

LAKE CENTRAL SCHOOL CORPORATION
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	\$ 1,394,680
Transfers	23,042
Total additions	1,417,722
Deductions:	
Instruction	60,280
Nonprogrammed charges	1,323,883
Total deductions	1,384,163
Excess of total additions over total deductions	33,559
Cash and investments - beginning	146,685
Cash and investments - ending	\$ 180,244

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

LAKE CENTRAL SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

	<u>Pension Trust Funds</u>
<u>Assets</u>	
Cash and investments	<u>\$ 146,685</u>
<u>Net Assets</u>	
Held in trust for employee benefits and other purposes	<u>\$ 146,685</u>

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

LAKE CENTRAL SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2006

	<u>Pension Trust Funds</u>
<u>Assets</u>	
Cash and investments	<u>\$ 180,244</u>
<u>Net Assets</u>	
Held in trust for employee benefits and other purposes	<u>\$ 180,244</u>

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

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

Primary Government: Lake Central School Corporation

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 the School Town of Munster in a joint venture to operate West Lake Cooperative (Co-op) which was created to provide instruction for handicapped children. The School Corporation is obligated by contract to remit its share of expenses according to the number of children enrolled at the Co-op. The Co-op's continued existence depends on continued funding by the School Corporation. The financial statements for the West Lake Cooperative are part of the Lake Central Corporation's financial statements.

The School Corporation is a participant in the Northwest Indiana Educational Services Center (Center), a joint school services program established May 30, 1985, for participating school corporations to cooperate and share programs such as curriculum development, instructional materials, needs assessment, computer utilization and in-service education. The Center operates under the authority of the Northwest Indiana Public School Study Council. The School Corporation provides funding based on average daily membership, determined annually. Complete financial statements for the Center can be obtained from the Center's administrative offices, 2939 41st Avenue, Highland, Indiana, 46322.

The School Corporation is a participant in the Northwest Indiana Public School Study Council (Study Council), a joint school services program established December 10, 1969, for the improvement of education and the study of problems and issues involved in public education. A board composed of a member from each participating school corporation governs the Study Council. The School Corporation pays \$1,250 annually to belong to the Study Council. Complete financial statements for the Study Council can be obtained from the Merrillville Community School Corporation, 6701 Delaware Street, Merrillville, Indiana, 46410.

The School Corporation is a participant with fifteen other school corporations in Lake County in a joint venture to operate the Lake County Safe Schools Commission. The Commission was authorized in 1999 by Indiana Code 5-2-10.1. The Commission was established to improve school safety issues. The Commission is governed by a board composed of a member from each school corporation in

LAKE CENTRAL SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Lake County. Although the member schools may fund the Commission, the Commission has generated sufficient revenue without member payments. Complete financial statements for the Commission can be obtained through the Lake Station Community School Corporation, 2500 Pike Street, Lake Station, Indiana, 46405.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange 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. 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 school lunch fund is used to record all receipts from the sale of lunches, federal and state reimbursement, gifts and other receipts. It includes disbursements for personal service, food, supplies and equipment for the program.

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 rainy day fund is to account for transfers of unused and unencumbered funds in accordance with Indiana Code 36-1-8-5 and a locally adopted resolution. The fund is subject to the same appropriation process as funds that receive tax money.

LAKE CENTRAL SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Additionally, the School Corporation reports the following fund types:

The internal service funds account for group health insurance and workman's compensation disbursements provided to School Corporation employees.

The pension trust funds account for the activities of the Retirement/Severance Bond and the Post-Retirement/Severance Future Benefit Funds, which accumulate resources for pension benefit payments.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary 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.

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.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any enterprise funds.

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

LAKE CENTRAL SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. See Note IV.C. for more information about property tax rates and levies.

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 1 to 13 days per year. Unused sick leave may be accumulated to a maximum of 150 days. Accumulated sick leave is paid to employees through cash payments upon retirement.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 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 1 to 4 days per year. Personal leave does not accumulate from year to year. At the end of the year, unused personal days convert to sick days.

2. Capital Assets

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

3. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary 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.

4. 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."

LAKE CENTRAL SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. 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.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Cash and Investments and 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

Intergovernmental 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 intergovernmental transfers in the fund financial statements are eliminated in the government-wide Statement of Cash Activities except for the net amount of transfers between governmental and fiduciary funds, which are reported as Intergovernmental Transfers. The effects of interfund services between funds, if any, are not eliminated in the Statement of Cash Activities.

LAKE CENTRAL SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 January 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 are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

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

B. Cash and Investment Balance Deficits

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

Fund	2005	2006
Transportation Operating #41	\$ 948,884	\$ 1,044,389
West Lake Joint Service #130	127,224	1,387,004
Workforce Development 05-06 #300	-	469
Common School Loan 05-06 #321	-	1,825
Special Education, Part B #0541	94,488	94,488
Special Education, Part B 05-06 #558	-	171,246
Special Education Preschool 05-06 #559	-	2,871
Drug Free 04-05 #583	10,587	-
Title II, Part D #687	-	145
English Language Acquisition #688	21,786	14,193

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.

LAKE CENTRAL SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

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

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of June 30, 2006, the School Corporation did not hold any investments.

Investment Policies

Indiana Code 5-13-9 authorizes the School Corporation to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the School Corporation and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the School Corporation may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

LAKE CENTRAL SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Interfund Transfers

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

Transfer From	Transfer To	2005	2006
General Fund	Rainy Day Fund	\$ -	\$ 2,000,000
	Other governmental	4,054,098	3,863,909
	Internal Service	100,000	65,000
	All others	-	13,042
Transportation Operating	Rainy Day Fund	-	400,000
	Internal Service	35,000	85,000
	All others	-	5,000
School Lunch	Internal Service	35,000	115,000
	All others	-	5,000
Capital Projects	Other governmental	2,251,915	-
	Internal Service	-	10,000
	All others	-	1,995,402
Other governmental	General Fund	52,457	1,424
	Other governmental	494,822	363,476
All others	Other governmental	-	1,323,882
Totals		<u>\$ 7,023,292</u>	<u>\$ 10,246,135</u>

The School Corporation typically uses transfers for cash flow purposes as provided by various statutory provisions.

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; 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.

Job Related Illnesses or Injuries To Employees

The School Corporation has chosen to establish a risk financing fund for risks associated with job related illnesses or injuries to employees. The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$225,000 per year.

LAKE CENTRAL SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each affected fund and are reported as quasi-external interfund transactions.

Medical Benefits to Employees, Retirees, and Dependents

The School Corporation has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents (excluding postemployment benefits). The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$100,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each affected fund and are reported as quasi-external interfund transactions.

B. Holding Corporations

The School Corporation has entered into a capital lease with the Kolling School Building Corporation and the Lake Central Multi-District School Building Corporation (the lessor). The first lessor was organized as a not-for-profit corporation and the second lessor was organized as a for profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation.

C. Tax Levies and Rates

Property tax rates and levies for 2004 taxes payable in 2005 were not established by February 15, 2004, as required by state statute due to the delay in the completion of the reassessment of Lake County. The 2005 property tax rates and levies were not established until October 2004; thus, the property taxes were not billed or collected timely. The final settlement of the 2004 taxes payable in 2005 was distributed to the various governmental entities in March 2006. This resulted in reduced tax revenues for the school corporation in 2005.

The 2005 pay 2006 rates and levies were not established by February 15, 2005, as required by state statute due to the delay in the completion of the reassessment of Lake County. The tax bills were mailed to Lake County residents in August 2006. They were due in two installments on August 29, 2006 and November 14, 2006.

D. Subsequent Events

On August 21, 2006, a physical education addition at Lake Central High School was approved. The estimated cost of the entire project is \$5.8 million. The bids were awarded on October 2, 2006. Construction should be completed in July 2007.

On September 18, 2006, the Indiana State Board of Education granted the School Corporation an advancement of \$241,853 from the Common School Fund. As of December 18, 2006, the School Corporation has received \$150,089 on this advancement. The advancement will be repaid over four years with an interest rate of 1%.

LAKE CENTRAL SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

On November 6, 2006, a school bus bid was awarded for eight 72 passenger busses and two 48 passenger special needs busses with a lift for a total of \$674,536.

On December 4, 2006, \$9,000,000 in 2007 tax anticipation warrants (TAW) for the General Fund was approved with an interest rate of 3.56%. The TAW is due on December 31, 2007.

E. 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 20 years of service, including 10 years of service in the School Corporation. Currently, 61 retirees meet these eligibility requirements. The School Corporation and retirees provide between 45%-100% and 0%-55%, 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 \$295,723 were recognized for postemployment benefits.

F. 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 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.

LAKE CENTRAL SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 394,949
Interest on net pension obligation	(29,752)
Adjustment to annual required contribution	33,905
Annual pension cost	399,102
Contributions made	489,368
Decrease in net pension obligation	(90,266)
Net pension obligation, beginning of year	(410,371)
Net pension obligation, end of year	\$ (500,637)
Contribution rates:	
School Corporation	6%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 518,346	97%	\$ (315,391)
	06-30-04	396,784	124%	(410,371)
	06-30-05	399,102	123%	(500,637)

LAKE CENTRAL SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$910,940, \$709,593, and \$797,560, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

LAKE CENTRAL 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)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 7,960,523	\$ 7,793,275	\$ 167,248	102%	\$ 7,917,114	2%
07-01-04	8,146,373	8,093,841	52,532	101%	7,546,335	1%
07-01-05	8,534,154	9,468,605	(934,451)	90%	7,774,497	(12%)

LAKE CENTRAL SCHOOL CORPORATION
 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.

General infrastructure assets (those reported by governmental activities) are included regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 4,151,138
Buildings	75,723,988
Improvements other than buildings	<u>3,000,161</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 82,875,287</u>

An inventory or record of machinery and equipment over the \$2,000 threshold for capitalization has not been maintained.

LAKE CENTRAL SCHOOL CORPORATION
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT

June 2006

Description of Debt	Principal Ending Balance	Principal Due Within One Year	Interest Ending Balance	Interest Due Within One Year	Semi-Annual Lease Payment
Governmental Activities:					
Capital Leases:					
Kolling Elementary	\$ 770,000	\$ 245,000	\$ 72,755	\$ 37,510	\$ 143,000
Homan, Bibich Peifer & Watson Elementary	10,675,000	1,405,000	1,852,874	444,115	926,000
Kahler Middle	15,605,000	1,090,000	4,724,071	678,284	886,500
Freshman Center	15,135,000	1,035,000	4,393,294	591,750	815,000
Clark Middle	25,160,000	-	14,657,053	1,178,988	900,000
Loans Payable-TAW's	9,000,000	9,000,000	105,699	105,699	
Common School Fund Loans Payable					
Loan A1179	100,000	10,000	3,227	977	
Loan A1083	135,000	30,000	3,375	1,275	
Loan A1054	88,478	25,280	1,770	822	
Loan A1000	50,000	20,000	750	450	
Loan A0966	73,563	36,782	920	644	
Loan A0953	40,000	20,000	500	350	
Loan A0860	18,480	18,480	92	92	
Bonds Payable:					
General Obligation Bonds:					
2002 Renovation Bonds	185,000	185,000	6,825	6,825	
Pension Bonds	16,925,000	565,000	10,465,565	902,340	
Total governmental activities long-term debt	<u>\$ 93,960,522</u>	<u>\$ 13,685,541</u>	<u>\$ 36,288,770</u>	<u>\$ 3,950,121</u>	

LAKE CENTRAL SCHOOL CORPORATION
OTHER REPORT

The audit report presented herein was prepared in addition to the official report prepared for the individual School Corporation office listed below:

Kahler Middle School

LAKE CENTRAL SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

BANK RECONCILING ITEMS

We observed numerous reconciling items during our review of the School Corporation's bank reconcilements as of June 30, 2006, that have not been posted to the ledger in a timely manner.; i.e., on May 9, 2005, the School Corporation repaid \$1,627,486 in Tax Anticipation Warrants via wire transfers to the Indiana Bond Bank. However, the repayments were not posted to the ledger. Overall, there were 13 adjusting entries totaling \$1,977,960 that have not been corrected, but rather continue to be carried on the reconcilement. All of these adjusting entries have been carried on the reconcilements for at least four months and some date as far back as November 2002.

The reconciling items were brought to the attention of School Corporation Officials during the audit. The School Corporation Treasurer has subsequently posted the transactions in the current school year. The financial statements presented in this audit report have been adjusted to reflect these reconciling items.

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

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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

TAX ANTICIPATION WARRANT REPAYMENTS

The General and Debt Service Funds received \$6,200,000 and \$4,800,000 in Tax Anticipation Warrant proceeds, respectively, on July 2, 2004. However, when the warrants were repaid in 2005, \$7,459,461.38 was disbursed from the General Fund and \$3,540,538.62 was disbursed from the Debt Service Fund. As a result, the Debt Service Fund owes the General Fund \$1,259,461.38.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Payments or transfers which are not authorized by statute, ordinance, resolution, or court order must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

LAKE CENTRAL SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

OLD OUTSTANDING CHECKS

Our review of the bank reconcilements as of June 30, 2006, revealed checks totaling \$17,096.14 outstanding in excess of two years.

Indiana Code 5-11-10.5-2 states in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

Indiana Code 5-11-10.5-3 states in part: "Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the: (1) board of finance of the political subdivision; or (2) the fiscal body of a city or town. The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

Indiana Code 5-11-10.5-5 states:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision."

NEGATIVE DISBURSEMENTS

When the School Corporation corrects an error or wants to reclassify a disbursement, a negative disbursement is posted to the account where the original posting took place. Many accounts reported a negative amount of disbursements for the year due to the timing of some of these reclassifications. The School Corporation posted over \$183,473 of negative disbursements during the audit period.

Receipt and disbursement corrections or other errors should be corrected by memorandum entry with the issuance of a check and receipt to document the flow of the transactions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OVERDRAWN CASH BALANCES

The following funds had overdrawn cash balances during the audit period:

LAKE CENTRAL SCHOOL CORPORATION
 AUDIT RESULTS AND COMMENTS
 (Continued)

Fund	June 30, 2005	June 30, 2006
Transportation Operating #41	\$ 948,884	\$ 1,044,389
West Lake Joint Service #130	127,224	1,387,004
Workforce Development 05-06 #300	-	469
Common School Loan 05-06 #321	-	1,825
Special Education, Part B #541	94,488	94,488
Special Education, Part B 05-06 #558	-	171,246
Special Education Preschool 05-06 #559	-	2,871
Drug Free 04-05 #583	10,587	-
Title II Part D #687	-	145
English Language Acquisition #688	21,786	14,193

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)

CLAIMS

Sixty-six percent of claims reviewed were not certified by the fiscal officer that the amounts were true and correct. A similar comment appeared in the prior report.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services."

"(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

TRANSFER TUITION

We reviewed the calculation of Transfer Tuition prepared by the School Corporation for the 2005-2006 school year. The calculation was prepared using Form 515. The amounts used by the School Corporation for expenditures on the Form 515 did not agree with the financial records. As a result, the transfer tuition charged by the School Corporation was incorrect. A similar comment appeared in the prior report.

LAKE CENTRAL SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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 Indiana Public School Corporations, Chapter 9)

APPROVAL OF FORMS

The School Corporation changed computer systems during the 2003-2004 school year. The financial record output from that system (cash balances, detail of receipts, and detail of disbursements) has not been approved for use by the Lake Central School Corporation. A similar comment appeared in the prior report.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TEXTBOOK RENTAL RECEIPTS (Applies to Grimmer Middle, Bibich, Homan and Kolling Elementary Schools)

We noted the following concerning controls over the receipting of textbook rental fees:

1. Textbook rental receipts for the elementary and middle schools were preprinted on pre-numbered receipts. When payment was received, the student's preprinted receipt was pulled and payment was noted on the receipt which caused textbook rental receipts to not be issued in numerical order.
2. Payments were noted on the preprinted receipt without a new textbook rental receipt being issued for each collection.
3. "Daily Fee Payment" reports were not utilized to trace the receipt posted to the Book Rental Fund back to the original textbook rental receipts.

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. Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

LAKE CENTRAL SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Form TBR-2, Official Receipt - Individual Textbook Rental List, is to be prenumbered and printed in triplicate. The form, one set for each student, is to be prepared when textbooks and related materials are issued to the student. Form TBR-2, Official Receipt - Individual Textbook Rental List provides for the date the textbooks were issued, the name of the student and the total fee collected. The completed form shall be signed by the issuing officer who could be the treasurer of the extra-curricular account or someone designated by the treasurer to issue the textbooks and collect the rental fees. If the volume of transactions for grades with a fixed list (applicable to all students) of books and materials is great enough to demand it, a copy of the printed list may be attached to the TBR-2 form and the form processed with a reference to such attached list instead of further itemization.

The original of Form TBR-2 is to be given the payer (student or parent). The duplicate is to be retained by the issuing officer and the triplicate is to remain intact in the book. The duplicate, together with rental fees collected, must be transmitted daily to the treasurer of the extra-curricular account. The treasurer may direct the issuing officer to deposit all fees collected each day and submit an acknowledged, duplicate deposit slip with the duplicate copies of Form TBR-2. The treasurer may also require the issuing officer to submit a summary or recap sheet of all fees collected by grade or other designated categories. If this is done, the total of the summary or recap sheet must agree with the amount on the duplicate deposit slip as well as the total of all TBR-2 forms submitted for the day. All duplicates of Form TBR-2 shall be filed alphabetically, by student last names, in the office of the treasurer for audit purposes. A separate TBR-2 should be issued for each payment. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 4)

FINES AND FEES (Applies to Lake Central High School)

The High School is currently charging a \$25 parking fee to students who drive to school.

Additionally, the School collects library fines and fees and a schedule change fee which were being receipted to and retained in various extra-curricular funds without being remitted to the School Corporation.

The State Board of Accounts is of the audit position the following types of fees should not be assessed, collected or receipted by a school or school corporation: Air Conditioning Fees; Parking Fees; Instructional Fees; Bus Rider Fees; Fees for Payroll Positions (Nurses, Principals, Counselors, etc.) (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

Indiana Code 20-26-4-1(d) concerning duties of the School Corporation Treasurer, states in part: "The treasurer is the official custodian of all funds of the school corporation and is responsible for the proper safeguarding and accounting for the funds . . ." Therefore, all grant monies and properly authorized fees at an individual building should be transferred to the School Corporation Central Office on a timely and regular basis for receipting into the appropriate school corporation fund. The School Corporation Attorney should provide written guidance concerning whether fees are appropriate in regards to Constitutional provisions.

All monies received for educational purposes, including those related to educational programs or facilities must be receipted to school corporation funds. The following items erroneously appear in funds of the extra curricular account. Accounting for them should be in the general fund of the school corporation. Examples are: Library Fines and Fees, Typing Fees. . .

All authorized educational fees (the School Board should be able to justify any educational fees (non-payroll positions) and ensure Constitutional problems do not exist) must be receipted to the General Fund of the school corporation and included as miscellaneous revenues when preparing the school corporation budget. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

LAKE CENTRAL SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

OLD OUTSTANDING CHECKS (Applies to Lake Central High School)

The bank reconcilements as of June 30, 2006, revealed checks outstanding in excess of two years.

Indiana Code 5-11-10.5-2 states in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

Indiana Code 5-11-10.5-3 states in part: "Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the: (1) board of finance of the political subdivision; or (2) the fiscal body of a city or town. The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

Indiana Code 5-11-10.5-5 states:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision."

COMPOSITION OF EXTRA-CURRICULAR DEPOSITS (Applies to Lake Central High School)

We noted two deposits in which the cash amount was \$25 less and the check amount was \$25 more than the receipt totals. Both receipt series contained receipts for \$25.

Indiana Code 5-13-6-1 (c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

PUBLIC RECORDS RETENTION (Applies to Grimmer Middle School)

Ticket sale reports for 2004-2005 school year were not presented for audit.

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

LAKE CENTRAL SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

DONATIONS (Applies to Lake Central High School)

No approval was indicated in the minutes of the School Board for several donations received at the High School. A similar comment appeared in the prior report.

Cash donations that are extra-curricular in nature may be accounted for in the Extra-Curricular Account. Any School Corporation donations shall be accounted for in the school corporation records. The acceptance of these donations shall have prior approval by the Board of School Trustees. Either the School Corporation Treasurer or Extra-Curricular Treasurer will be responsible for the accounting of these funds as applicable. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

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

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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 LAKE CENTRAL SCHOOL CORPORATION, LAKE COUNTY, INDIANA

Compliance

We have audited the compliance of the Lake Central 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.

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 18, 2006

LAKE CENTRAL 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		\$ 49,552	\$ 53,145
National School Lunch Program	10.555		412,631	481,132
Special Milk Program for Children	10.556		<u>1,906</u>	<u>104</u>
Total for cluster			<u>464,089</u>	<u>534,381</u>
Pass-Through Indiana Department of Education				
Fresh Fruit and Vegetable Program	10.582		<u>38,164</u>	<u>83,086</u>
Total for federal grantor agency			<u>502,253</u>	<u>617,467</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Special Education Cluster				
Special Education - Grants to States	84.027			
		14204-064-PN01	137	-
		14204-064-PY02	41,905	-
		14205-064-PN01	2,401,976	21,441
		14205-064-SN01	48,217	700
		14204-042-DY01	-	85,000
		14205-064-DY01	-	37,842
		14206-064-PN01	<u>-</u>	<u>2,585,246</u>
Total for program			<u>2,492,235</u>	<u>2,730,229</u>
Special Education - Preschool Grants	84.173			
		45703-064-PY02	1,200	-
		45704-064-PN01	99	-
		45704-064-PY02	20,368	-
		45705-064-PN01	93,069	15,014
		45706-064-PN01	<u>-</u>	<u>85,021</u>
Total for program			<u>114,736</u>	<u>100,035</u>
Total for cluster			<u>2,606,971</u>	<u>2,830,264</u>
Title I Grants to Local Educational Agencies	84.010			
		04-4615	39,781	-
		05-4615	38,271	213,857
		06-4615	<u>-</u>	<u>207,054</u>
Total for program			<u>78,052</u>	<u>420,911</u>

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

LAKE CENTRAL 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)				
Safe and Drug Free Schools and Communities - State Grants	84.186			
		03-005	13,134	-
		04-026	3,120	-
		04-026	27,981	61,008
		05-038	-	8,722
Total for program			<u>44,235</u>	<u>69,730</u>
State Grants for Innovative Programs	84.298			
		04-077	75,958	278
		05-168	4,440	11,138
Total for program			<u>80,398</u>	<u>11,416</u>
Education Technology State Grants	84.318			
		FY 04-05	2,287	-
		FY 05-06	-	1,774
Total for program			<u>2,287</u>	<u>1,774</u>
English Language Acquisition Grants	84.365			
		FY 03-04	1,293	-
		FY 04-05	30,273	-
		FY 05-06	-	18,457
Total for program			<u>31,566</u>	<u>18,457</u>
Improving Teacher Quality State Grants	84.367			
		04-224	41,898	103,693
		05-224	-	116,461
Total for program			<u>41,898</u>	<u>220,154</u>
Total for federal grantor agency			<u>2,885,407</u>	<u>3,572,706</u>
Total federal awards expended			<u>\$ 3,387,660</u>	<u>\$ 4,190,173</u>

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

LAKE CENTRAL 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 Lake Central 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
Child Nutrition Cluster	10.555	\$ 95,842	\$ 85,721

LAKE CENTRAL 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?	yes
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
84.010	Special Education Cluster Child Nutrition Cluster Title 1 Grants to Local Educational Agencies

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

Auditee qualified as low-risk auditee?	no
--	----

LAKE CENTRAL SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section II – Financial Statement Findings

The School Corporation's bank reconciliations as of June 30, 2006, contain numerous reconciling items that have not been posted to the ledger in a timely manner. For example, on May 9, 2005, the School Corporation repaid \$1,627,486 in Tax Anticipation Warrants by wire transfers to the Indiana Bond Bank. However, these repayments have yet to be posted to the ledger. Overall, there were 13 adjusting entries totaling \$1,977,960 that have not been corrected, but rather continue to be carried on the reconciliation. All of these adjusting entries have been carried on the reconciliations for at least four months and some date as far back as November 2002.

These outstanding items were brought to the attention of school officials during the audit. The School Corporation Treasurer has subsequently posted these transactions in the current school year. The financial statements presented in this audit report have been adjusted to reflect these reconciling items.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

We recommended that the officials post reconciling items to the ledger in a timely manner.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

LAKE CENTRAL SCHOOL CORPORATION

8260 WICKER AVENUE, ST. JOHN, INDIANA 46373
Phone 219-365-8507 -- Fax 219-365-6406

DR. THOMAS J. DYKIEL

*Director of Business Services
and Planning*
Phone 365-8551, Ext. 124
tdykiel@lakecentral.k12.in.us

DR. JANET EMERICK

Superintendent

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number:	<u>2004-01</u>
Original SBA Audit Report Number:	<u>B24475</u>
Fiscal Year:	<u>2004</u>
Auditee Contact Person:	<u>Dr. Thomas J. Dykiel</u>
Title of Contact Person:	<u>Director of Business Services</u>
Phone Number:	<u>219.558.2715</u>
Status of Finding:	<u>Cash Management-Special Education Cluster</u>

Lake Central School Corporation has revised its cash management procedures to minimize large cash balances. On all federal funds we are now requesting the money monthly over a twelve month period and will make adjustments to the cash request forms as needed to comply with this request.

This procedure we believe has corrected FINDING NO. 2004-01 CASH MANAGEMENT.



Thomas J. Dykiel Ed.D.

LAKE CENTRAL SCHOOL CORPORATION

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DR. JANET EMERICK

Superintendent

Corrective Action Plan

Finding 2006-1 Internal Controls Deficiency Over Posting of Bank Reconciliation Items

Lake Central School Corporation will post bank reconciliation items on a more timely basis. This will be completed monthly after the bank reconciliation.


Thomas J. Dykiel Ed.D.

December 11, 2006

LAKE CENTRAL SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on December 18, 2006, with Dr. Janet Emerick, Superintendent of Schools; and Dr. Thomas J. Dykiel, Director of Business Services. The official response has been made a part of this report and may be found on pages 54 through 58.

LAKE CENTRAL SCHOOL CORPORATION

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DR. JANET EMERICK
Superintendent

January 8, 2007

Mr. Charles Johnson
State Examiner
State Board of Accounts
Indiana Government Center
Room E418
Indianapolis, In. 46207.2765

**RE: Lake Central Audit Results & Comments
July 1, 2004 to June 30, 2006**

Dear Mr. Johnson:

This is our official response to the summary audit plan on prior audit findings for the audit period of July 1, 2004 to June 30, 2006.

Corporation Audit Findings

Bank Reconcilements-

The School Corporation's bank reconcilements as of June 30, 2006 contain numerous reconciling items that have not been posted to the ledger in a timely manner.

Corrective Action-

These items have been corrected before the exit conference was held. All future reconcilements will be processed on a timely basis.

Tax Anticipation Warrant Repayments-

On July 2, 2004, the General and Debt Service Funds received \$6,200,000 and \$4,800,000 in Tax Anticipation Warrant proceeds, respectively. However, when the warrants were repaid in 2005, \$7,459,461.38 was disbursed from the General Fund and \$3,540,538.62 was disbursed from the Debt Service Fund. As a result, the Debt Service Fund owes the General Fund \$1,259,461.38 for payments made on its behalf.

Corrective Action-

Better controls have been implemented to make sure the proper amounts are repaid from the correct funds.

Old Outstanding Checks-

Our review of the bank reconciliations as of June 30, 2006 revealed checks totaling \$17,096.14 outstanding in excess of two years.

Corrective Action-

These checks will be removed on the January 15th school board meeting. More care will be given to removing these checks in a timely manner.

Negative Disbursements-

When the School Corporation corrects an error or wants to reclassify a disbursement, a negative disbursement is posted to the account where the original posting took place. Due to the timing of some of these reclassifications, many accounts reported a negative amount of disbursements for the year. During the audit period, the School Corporation posted over \$183,483 of negative disbursements.

Corrective Action-

Reclassifications will be made within the six month time period that they were originally made.

Overdrawn Cash Balances-

Ten different funds had a negative balance during the audit period.

Corrective Action-

Transportation Fund had a negative balance at the end of each fiscal year due to late property tax payments from the county. We will ask the county to pay the property taxes by the end of June. The other funds will have greater scrutiny to make sure their cash balances are closer to zero and not negative.

Claims-

As stated in the prior audit report, 66% of claims reviewed were not certified by the fiscal officer that the amounts were true and correct.

Corrective Action-

The treasurer has been instructed to sign the claims.

Transfer Tuition-

We reviewed the calculation of Transfer Tuition prepared by the School Corporation for the 2005-06 school year. The calculation was prepared using the Form 515. The amounts used by the School Corporation for expenditures on the Form 515 did not agree with the financial records. As a result, the transfer tuition charged by the School Corporation was incorrect.

Corrective Action-

Greater care will be given to utilize the proper numbers.

Approval of Forms-

As stated in the prior audit report, the School Corporation changed computer systems during the 2003-04 school year. The output from that system has not been approved for use by the Lake Central School Corporation.

Corrective Action-

Forms were approved by the School Board on the December 4, 2006 meeting and the resolution approving the forms and a copy of the forms were submitted to the State Board of Accounts for final approval.

Extra-Curricular**Textbook Rental Receipts-**

Textbook rental receipts for the elementary and middle schools were pre-printed on pre-numbered receipts. When the payment was received, the student's pre-printed receipt was pulled and payment was noted on the receipt. This resulted in textbook rental receipts not being issued in numerical order. Payments were also noted on the pre-printed receipt without a new textbook rental receipt being issued for each collection. Daily fee payment reports were not utilized to trace the receipt posted to the Book Rental Fund back to the original textbook rental receipts.

Corrective Action-

A meeting will be held in the near future to address these problems with the bookkeepers.

Fines and Fees-

The high school is currently charging a \$25 parking fee to students to drive to school and the school collects library fines and fees and a schedule change fee. These educational fees were being receipted to and retained in various extra-curricular funds without being remitted to the school corporation.

Corrective Action-

The high school bookkeeper has been informed to prepare a check and submit it to the corporation office.

Old Outstanding Checks-

The bank reconcilements as of June 30, 2006, revealed checks outstanding in excess of two years.

Corrective Action-

The bookkeeper has been informed to write off those checks and add the money back into the fund.

Composition of Extra-Curricular Deposits-

We noted that two deposits in which the cash amount was \$25 less and the check amount was \$25 more than the receipt totals. Both receipt series contained receipts for \$25. The composition of the receipts may have been improperly noted on the receipt as "cash" instead of "check".

Corrective Action-

The bookkeeper has been informed of this problem and greater care will be given to make sure the receipts are properly reported.

Public Records Retention-

Ticket sale reports for the 2004-05 school year were not presented for audit.

Corrective Action-

The principal has been instructed to have all school records stored in one area and not in classrooms.

Donations-

As stated in the prior audit, no approval was indicated in the minutes of the School Board for several donations received at the high school.

Corrective Action-

The bookkeeper has been instructed to have all donations of \$250 or more, must have School Board approval.

Disaster Recovery-

A disaster recovery plan provides written procedures to help ensure that critical accounting functions can continue in the event computer processing capabilities are interrupted, and that the computerized accounting system can be effective and efficiently restored.

Corrective Action-

We have already started working on a disaster recovery plan.

Logical Security-

Effective security procedures prohibit unauthorized access and restrict the computerized resources each authorized user may utilize. Access to the operating system, accounting applications and other computerized resources is controlled through user identification codes (user ID) and passwords. User IDs are unique identifiers assigned to each authorized user, which remain constant for that user. Passwords are confidential keywords associated with the user ID to provide verification of the user's identify. A password should be known only to the authorized user of that user ID and password.

Corrective Action-

Changes have been made for logical security problems.

Sincerely,

Janet Emerick

Janet Emerick
Superintendent

Thomas Dykiel

Thomas Dykiel
Business Manager

Cora Mollick

Cora Mollick
Treasurer

RECEIVED

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