

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

AUDIT REPORT

OF

LAKE STATION COMMUNITY SCHOOLS

LAKE COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED
01/31/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Sandra Cain	07-01-04 to 06-30-07
Superintendent of Schools	Dan DeHaven	07-01-04 to 06-30-07
President of the School Board	Michael Stills James Vanderlin Larry Biggs	07-01-04 to 06-30-05 07-01-05 to 06-30-06 07-01-06 to 06-30-07



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

TO: THE OFFICIALS OF THE LAKE STATION COMMUNITY
SCHOOLS, 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 Station Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. 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 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 November 17, 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 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 information. The Schedule of Capital Assets and the 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 the 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

November 15, 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 STATION COMMUNITY
SCHOOLS, LAKE COUNTY, INDIANA

We have audited the financial statements of the Lake Station Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated November 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

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

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

STATE BOARD OF ACCOUNTS

November 15, 2006

LAKE STATION COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	<u>\$ 2,708,182</u>
<u>Net Assets</u>	
Unrestricted	<u>\$ 2,708,182</u>

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

LAKE STATION COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	<u>\$ 3,475,565</u>
<u>Net Assets</u>	
Unrestricted	<u>\$ 3,475,565</u>

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

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

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 4,416,021	\$ -	\$ 96,390	\$ (4,319,631)
Support services	11,403,804	274,599	402,670	(10,726,535)
Community services	115,766	-	-	(115,766)
Nonprogrammed charges	820,699	-	-	(820,699)
Debt service	4,314,026	-	-	(4,314,026)
Total governmental activities	\$ 21,070,316	\$ 274,599	\$ 499,060	(20,296,657)
General receipts:				
Property taxes				2,185,554
Other local sources				700,566
State aid				8,362,747
Grants and contributions not restricted				936,619
Bonds and loans				8,255,917
Sale of property, adjustments, and refunds				23,701
Investment earnings				48,428
Total general receipts				20,513,532
Change in cash and investments				216,875
Net assets - beginning				2,491,307
Net assets - ending				\$ 2,708,182

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

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

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 4,786,119	\$ -	\$ 74,752	\$ (4,711,367)
Support services	7,194,186	236,422	528,965	(6,428,799)
Community services	127,064	-	-	(127,064)
Nonprogrammed charges	803,261	-	-	(803,261)
Debt service	4,708,471	-	-	(4,708,471)
Total governmental activities	\$ 17,619,101	\$ 236,422	\$ 603,717	(16,778,962)
General receipts:				
Property taxes				3,619,117
Other local sources				556,999
State aid				8,735,196
Grants and contributions not restricted				898,661
Bonds and loans				3,513,155
Sale of property, adjustments, and refunds				104,941
Investment earnings				118,276
Total general receipts				17,546,345
Change in cash and investments				767,383
Net assets - beginning				2,708,182
Net assets - ending				\$ 3,475,565

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

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

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Common School Phase II	Other	Totals
Receipts:								
Local sources	\$ 1,114,089	\$ 144,161	\$ 878,068	\$ 328,923	\$ 88,853	\$ -	\$ 316,608	\$ 2,870,702
Intermediate sources	337,883	-	-	-	-	-	563	338,446
State sources	8,442,808	-	-	-	-	-	233,913	8,676,721
Federal sources	254	-	-	-	-	-	1,121,450	1,121,704
Bonds and loans	3,500,000	-	-	-	-	4,190,977	564,940	8,255,917
Sale of property, adjustments and refunds	19,487	931	-	-	-	2,933	350	23,701
Interfund transfers	-	66,000	-	-	-	-	9,184	75,184
Total receipts	13,414,521	211,092	878,068	328,923	88,853	4,193,910	2,247,008	21,362,375
Disbursements:								
Current:								
Instruction	3,792,215	-	-	-	-	-	623,806	4,416,021
Support services	4,663,166	288,888	-	508,150	91,737	4,192,562	1,659,301	11,403,804
Community services	109,428	-	-	-	-	-	6,338	115,766
Nonprogrammed charges	821,035	-	66,000	-	-	-	8,848	895,883
Debt services	2,528,825	122,763	1,457,519	180,021	24,898	-	-	4,314,026
Total disbursements	11,914,669	411,651	1,523,519	688,171	116,635	4,192,562	2,298,293	21,145,500
Excess (deficiency) of total receipts over (under) total disbursements	1,499,852	(200,559)	(645,451)	(359,248)	(27,782)	1,348	(51,285)	216,875
Cash and investments - beginning	1,638,526	41,808	196,464	26,558	(54,003)	-	641,954	2,491,307
Cash and investments - ending	<u>\$ 3,138,378</u>	<u>\$ (158,751)</u>	<u>\$ (448,987)</u>	<u>\$ (332,690)</u>	<u>\$ (81,785)</u>	<u>\$ 1,348</u>	<u>\$ 590,669</u>	<u>\$ 2,708,182</u>

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

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

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Common School Phase II	Other	Totals
Receipts:								
Local sources	\$ 1,496,187	\$ 295,064	\$ 1,627,891	\$ 524,965	\$ 107,890	\$ -	\$ 252,681	\$ 4,304,678
Intermediate sources	225,297	-	-	-	-	-	833	226,130
State sources	8,794,129	-	-	-	-	-	113,842	8,907,971
Federal sources	209	-	-	-	-	-	1,329,398	1,329,607
Bonds and loans	3,240,000	-	-	-	-	23,784	249,371	3,513,155
Sale of property, adjustments and refunds	75,646	5,705	-	-	-	-	23,592	104,943
Interfund transfers	-	-	-	-	-	-	10,000	10,000
Total receipts	<u>13,831,468</u>	<u>300,769</u>	<u>1,627,891</u>	<u>524,965</u>	<u>107,890</u>	<u>23,784</u>	<u>1,979,717</u>	<u>18,396,484</u>
Disbursements:								
Current:								
Instruction	3,985,517	-	-	-	-	-	800,602	4,786,119
Support services	5,260,508	287,194	-	460,940	63,502	16,048	1,105,994	7,194,186
Community services	123,967	-	-	-	-	-	3,097	127,064
Nonprogrammed charges	753,761	-	-	-	-	-	59,500	813,261
Debt services	3,500,000	-	1,208,471	-	-	-	-	4,708,471
Total disbursements	<u>13,623,753</u>	<u>287,194</u>	<u>1,208,471</u>	<u>460,940</u>	<u>63,502</u>	<u>16,048</u>	<u>1,969,193</u>	<u>17,629,101</u>
Excess of total receipts over total disbursements	207,715	13,575	419,420	64,025	44,388	7,736	10,524	767,383
Cash and investments - beginning	<u>3,138,378</u>	<u>(158,751)</u>	<u>(448,987)</u>	<u>(332,690)</u>	<u>(81,785)</u>	<u>1,348</u>	<u>590,669</u>	<u>2,708,182</u>
Cash and investments - ending	<u>\$ 3,346,093</u>	<u>\$ (145,176)</u>	<u>\$ (29,567)</u>	<u>\$ (268,665)</u>	<u>\$ (37,397)</u>	<u>\$ 9,084</u>	<u>\$ 601,193</u>	<u>\$ 3,475,565</u>

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

LAKE STATION COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

The accompanying financial statements present the activities of the School Corporation (primary government). There are no significant component units which require inclusion.

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

Joint Venture

The School Corporation is a participant with nine other school corporations in a joint venture to operate the Northwest Indiana Special Education Cooperative (Cooperative) which was created to provide instruction for handicapped children. The School Corporation is obligated by contract to a funding percentage based on its share of assessed valuation at March 1 of the previous year and its share of Average Daily Membership as compared to the total of all member school corporations determined annually. The governing board of the Cooperative consists of a member selected by each participating school corporation. The board has full authority to manage the Cooperative including responsibility for fiscal matters. Complete financial statements for the Cooperative can be obtained from the Cooperative at 2150 West 97th Avenue, Crown Point, Indiana, 46307.

The School Corporation is a participant in a 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. The Study Council is governed by a board composed of a member from each participating school corporation. The School Corporation pays \$1,000 annually to belong to the Study Council. Complete financial statements for the Study Council can be obtained through the Merrillville Community School Corporation, 6701 Delaware Street, Merrillville, Indiana, 46410.

The School Corporation is a participant in the Northwest Indiana Educational Service Center (Service Center), a joint school services program established May 30, 1985, for the participating school corporations to cooperate and share programs such as curriculum development, instructional materials, needs assessments, computer utilization, and in-service education. The Service 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 Service Center can be obtained through the School Town of Highland, 2030 41st Avenue, Highland, Indiana, 46322.

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 IC 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 County.

LAKE STATION COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 Schools, 2500 Pike Street, Lake Station, Indiana, 46405.

The School Corporation is a participant with other participating school corporations in a joint venture to operate the Northwest Indiana Natural Gas Cooperative (Gas Cooperative), which was created to procure natural gas in a more economical and efficient manner. The Gas Cooperative operates under the authority of the Northwest Indiana Educational Service Center (Service Center). The School Corporation provides funding for administrative costs based upon a percentage basis of the Average Daily Membership Counts not to exceed \$10,000. Complete financial statements for the Gas Cooperative can be obtained from the Service Center Administration Offices, 2939 41st Avenue, Highland, Indiana, 46322.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash Activities and Statements of Cash and Investments display information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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 School Corporation's primary operating fund and accounts for all financial resources of the School Corporation, except those required to be accounted for in another fund.

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

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

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

LAKE STATION COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

The common school phase II fund accounts for financial resources from the common school construction loan program used to make school improvements.

Additionally, the School Corporation reports the following fund type:

Agency funds account for assets held by the School Corporation as an agent for employee payroll withholdings. At June 30, 2005 and 2006, all agency funds had zero cash balances.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, 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 or internal service 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 the fair value of the investments are reported as interest receipts in the year of the sale of the investment.

LAKE STATION COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Property Taxes

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

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 10 days per year. Unused sick leave may be accumulated to a maximum of 90 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 3 days per year. Personal leave does not accumulate from year to year. Accumulated personal leave is added to the employees' sick leave at the end of the school year.

4. Capital Assets

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

5. Long-Term Debt

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

6. Equity Classification

Government-Wide Statements

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

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

LAKE STATION COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

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

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

Program Receipts

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

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

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

Government-Wide Financial Statements

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

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

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain

LAKE STATION COMMUNITY SCHOOLS
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

taxpayer comments. In September of each year, the governing board, through the passage of a resolution, approves the budget for the next year. Copies of the budget resolution 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 function for all 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	2004-2005	2005-2006
Transportation Operating	\$ 158,751	\$ 145,176
Debt Service	448,987	29,567
Capital Projects	332,690	268,665
School Bus Replacement	81,785	37,397

Cash and investment deficits arose primarily from disbursements or expenses exceeding receipts or revenues due to the underestimate of current requirements. These deficits are to be repaid from future revenues.

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. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13.

LAKE STATION COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The School Corporation does not have a formal investment policy in regards to custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The School Corporation must follow state statute and limit the stated final maturities of the investments to no more than two years. The School Corporation does not have a formal investment policy in regards to interest rate risk for investments.

LAKE STATION COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The School Corporation does not have a formal investment policy in regards to credit risk for investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The School Corporation does not have a formal investment policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

Foreign Currency Risk

The School Corporation does not have a formal policy in regards to foreign currency risk.

B. Interfund Transfers

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

<u>Transfer From</u>	<u>Transfer To</u>	<u>2004-2005</u>	<u>2005-2006</u>
Debt Service	Transportation Operating	\$ 66,000	\$ -
Nonmajor governmental	Nonmajor governmental	<u>9,184</u>	<u>10,000</u>
Totals		<u>\$ 75,184</u>	<u>\$ 10,000</u>

The school corporation typically uses transfers for cash flow purposes as authorized by various statutes.

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, 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 reassessment of Lake County. The tax bills were mailed to Lake County taxpayers in August 2006. The taxes are due in two installments, August 29, 2006, and November 14, 2006.

LAKE STATION COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

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

Medical Benefits to Employees

During 2002, the School Corporation joined with other governmental entities in the Porter County Schools Employees' Insurance Trust, a public entity risk pool currently operating as a common risk management and insurance program for eight member governmental entities. This risk pool was formed in 1997. The purpose of the risk pool is to provide a medium for the funding and administration of medical benefits to employees. The School Corporation pays an annual premium to the risk pool for its medical benefits coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$100,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$100,000 limit.

B. Holding Corporation

The School Corporation has entered into a capital lease with the Lake Station School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation.

The school facilities under the lease are included in the Schedule of Capital Assets of the School Corporation and the corresponding lease obligation has been included in the Schedule of Long-Term Debt. Lease payments during the years ended June 30, 2005, and June 30, 2006, totaled \$70,000 and \$88,500, respectively.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health and life 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. Currently, five retirees meet these eligibility requirements for the life insurance and one retiree meets these eligibility requirements for health insurance benefits. The School Corporation provides 100% of the life insurance postemployment benefits. The retiree provides \$100 per month and the School Corporation provides the balance due for the health insurance 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 \$13,336 were recognized for postemployment benefits.

LAKE STATION COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Subsequent Events

Property 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 property 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 taxpayers in August 2006. The property taxes are due in two installments on August 29, 2006, and November 14, 2006.

E. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

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

LAKE STATION COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 91,709
Interest on net pension obligation	(6,881)
Adjustment to annual required contribution	7,841
Annual pension cost	92,669
Contributions made	91,969
Increase in net pension obligation	700
Net pension obligation, beginning of year	(94,909)
Net pension obligation, end of year	\$ (94,209)
 Contribution rates:	
School Corporation	7.75%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 97,024	101%	\$ (66,684)
	06-30-04	71,650	139%	(94,909)
	06-30-05	92,669	128%	(94,209)

LAKE STATION COMMUNITY SCHOOLS
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.

Plan members are required to contribute 3% of their salary and 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 \$131,492, \$115,762, and \$106,150, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

LAKE STATION COMMUNITY SCHOOLS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Assets Over Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 1,613,536	\$ 1,693,141	\$ (79,605)	95%	\$ 1,293,007	(6%)
07-01-04	1,651,062	1,981,131	(330,069)	83%	1,309,958	(25%)
07-01-05	1,723,609	2,252,638	(529,029)	77%	1,356,024	(39%)

LAKE STATION COMMUNITY SCHOOLS
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2006

	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 469,763
Buildings	11,975,832
Machinery and equipment	1,495,163
Transportation equipment	813,266
Construction in progress	<u>840,842</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 15,594,866</u>

LAKE STATION COMMUNITY SCHOOLS
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Edison Jr. Sr. High School	\$ 1,105,000	\$ 40,000
Notes and loans payable:		
Common school fund loans		
School building equipment and improvements	10,933,030	905,062
Veterans memorial fund loan		
School building equipment and improvements	<u>173,950</u>	<u>173,950</u>
Total governmental activities long-term debt	<u>\$ 12,211,980</u>	<u>\$ 1,119,012</u>

LAKE STATION COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

VEHICLE USAGE

The Superintendent of Schools is provided a school corporation vehicle for business and personal usage. No additional compensation has been reported to the Internal Revenue Service on form W-2 for the personal usage.

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

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Assets of the governmental unit may not be used in a manner unrelated to the functions and purposes of the governmental unit.

Whenever an item or other asset owned by the political subdivision is entrusted to an officer or employee, to be used at times outside the normal work time for business purposes, such as a cellular phone, or vehicle, a log should be maintained which clearly shows the business use. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CHANGE ORDERS IN EXCESS OF 20%

A contract for site-work and paving at the Edison Jr.-Sr. High School renovation project incurred net change orders of \$95,210.50. The total awarded project was \$397,510. All change orders were approved by the School Board. However, an emergency situation was not noted in the board minutes. Change orders exceeded 20% of the awarded project (\$79,502) by \$15,708.50.

If, in the course of construction, reconstruction or repair of a public work project, it becomes necessary to change or alter the original specifications, a change order may be issued to add, delete, or change an item or items in the original contract. All change orders must be directly related to the original public work project.

Addendum. The change order becomes an addendum to the contract and must be approved and signed by the board and the contractor.

Architect or Engineer. If a licensed architect or engineer is assigned to the public work project the change order must be prepared by that person.

LAKE STATION COMMUNITY SCHOOLS
 AUDIT RESULTS AND COMMENTS
 (Continued)

Increase in Scope of Project. The total of all change orders issued that increase the scope of the project may not exceed twenty percent (20%) of the amount of the original contract. A change order issued as a result of circumstances that could not have been reasonably foreseen does not increase the scope of the project.

Cost of Materials. If additional units of materials included in the original contract are needed, the cost of these units in the change order must be the same as those shown in the original contract. A change order may not be issued before commencement of the actual construction, reconstruction, or repairs except in the case of an emergency. In that case, the board must make a declaration, and the board's minutes must show the nature of the emergency. [IC 36-1-12-18] (Accounting and Uniform Compliance and Guidelines Manual for Indiana Public School Corporations, Chapter 16)

OVERDRAWN CASH BALANCES

The School Corporation had overdrawn cash balances as shown below:

	June 30, 2005		June 30, 2006
Debt Service	\$ 448,987		\$ 29,567
Capital Project	332,690		268,665
Transportation Operating	158,751		145,176
School Bus Replacement	81,785		37,397

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)

PRESCRIBED FORMS

The School Corporation uses a form called "Meeting Expense Claim" in lieu of Mileage Claim (General Form 101). The local form was not approved for use.

The Mileage Claim (General Form 101) is designed to serve as a claim for mileage reimbursement to be presented to the school board for allowance. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 2)

All governmental units are required by law to use the forms prescribed by the State Board of Accounts; however, if it is desirable to use a different form or to have a prescribed form modified to conform for computer applications, a letter and three copies of the proposed form may be submitted to the State Board of Accounts for approval. No form should be printed and placed into use, other than a prescribed form, without prior approval. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

DISBURSEMENT CERTIFICATION

We noted that some claims did not have adequate certification signatures. The School Corporation Treasurer signs the "Accounts Payable/PR Register" each month to certify that the claims listed and the invoices attached are true and correct. However, sponsors and other school officials did not sign the Accounts Payable Voucher to indicate approval that the attached invoices are true and correct and that the materials or services itemized were ordered and received.

LAKE STATION COMMUNITY SCHOOLS
 AUDIT RESULTS AND COMMENTS
 (Continued)

The Accounts Payable Voucher (Form 523) is designed to replace Claim Form 505. The form must be used in accordance with the following conditions: School corporations 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 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 board having jurisdiction over the allowance of the payment of the claim. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 2)

CAPITAL PROJECTS FUND DISBURSEMENTS

A school newsletter was paid for out of the Capital Projects Fund as follows:

	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-2007 (through 10-18-06)</u>
Newsletter	<u>\$ 9,990</u>	<u>\$ 9,990</u>	<u>\$ 4,995</u>

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

RECEIPTS - EDISON JR.-SR. HIGH SCHOOL

The receipts are not clearly marked in the area designated cash, check, money order, etc. We were unable to trace the composition of funds received to the detail on the deposit slips.

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."

PRESCRIBED FORMS – CAFETERIA EXTRA-CURRICULAR ACCOUNT

The cafeteria funds and records are maintained as separate accounts, similar to an Extra-Curricular Account, by the Cafeteria Director. Our reviews of prescribed forms disclosed the following:

1. The receipts used by the cafeteria funds are not being used as prescribed. The portion of the receipt used to describe the payment type (cash, check, money order, etc.) has not been completed.
2. The hand posted ledger pages are not a prescribed form.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF THE LAKE STATION COMMUNITY
SCHOOLS, LAKE COUNTY, INDIANA

Compliance

We have audited the compliance of the Lake Station Community Schools (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

Internal Control Over Compliance

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

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

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe the reportable condition described above is not 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

November 15, 2006

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

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
U.S. DEPARTMENT OF AGRICULTURE				
Pass-through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 101,633	\$ 103,613
National School Lunch Program	10.555		307,103	304,911
Summer Food Service Program for Children	10.559		<u>19,732</u>	<u>22,856</u>
Total for federal grantor agency			<u>428,468</u>	<u>431,380</u>
U.S. DEPARTMENT OF EDUCATION				
Pass-through Indiana Department of Education				
Title I Grants to Local Educational Agencies				
	84.010			
		04-4680	38,158	-
		05-4680	163,537	48,970
		06-4680	<u>-</u>	<u>216,525</u>
Total for program			<u>201,695</u>	<u>265,495</u>
Vocational Education - Basic Grants to States				
	84.048			
		04-1353-4680	254	-
		05-1353-4680	<u>-</u>	<u>209</u>
Total for program			<u>254</u>	<u>209</u>
Safe and Drug Free Schools and Communities - State Grants				
	84.186			
		03-2301	392	-
		03-195	2,533	-
		04-139	8,167	-
		05-093	<u>-</u>	<u>8,495</u>
Total for program			<u>11,092</u>	<u>8,495</u>
State Grants for Innovative Programs				
	84.298			
		02-232	7,082	3,794
		03-162	7,302	1,882
		04-208	<u>-</u>	<u>7,298</u>
Total for program			<u>14,384</u>	<u>12,974</u>
Education Technology State Grants				
	84.318			
Enhancing Education Through Technology			28	-
			5,592	-
			1,836	4,584
			<u>-</u>	<u>2,561</u>
Total for program			<u>7,456</u>	<u>7,145</u>
Reading First State Grants				
	84.357			
Indiana Reading First Grant			98,276	-
			282,440	90,660
			<u>-</u>	<u>370,104</u>
Total for program			<u>380,716</u>	<u>460,764</u>
English Language Acquisition Grants				
	84.365			
Language Instruction for Limited English Proficient and Immigrant Students			25,532	6,807
			<u>-</u>	<u>25,602</u>
Total for program			<u>25,532</u>	<u>32,409</u>
Improving Teacher Quality State Grants				
	84.367			
			67,727	-
			<u>-</u>	<u>67,927</u>
Total for program			<u>67,727</u>	<u>67,927</u>
Total for federal grantor agency			<u>708,856</u>	<u>855,418</u>
Total federal awards expended			<u>\$ 1,137,324</u>	<u>\$ 1,286,798</u>

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

LAKE STATION COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

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

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

II. Noncash Assistance

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

Program Title	Federal CFDA Number	2004-2005	2005-2006
School Breakfast Program	10.553	\$ 7,208	\$ 4,882
National School Lunch Program	10.555	21,733	14,735

LAKE STATION COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	yes

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.357	Reading First State Grants

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

Auditee qualified as low-risk auditee? yes

LAKE STATION COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section II – Financial Statement Findings

No matters were reportable.

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-1, CASH MANAGEMENT - TITLE I

Federal Agency: U.S. Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Pass-Through Entity: Indiana Department of Education
Program: FY 2005-2006, 06-4680

The School Corporation had excessive monthly cash balances for 9 out of 12 months in Fiscal Year 2005-2006. The ending cash balances ranged from 17.53% to 28.58% of the award amount (cash balances ranged from \$55,365.85 to \$90,233.27). The months which had cash balances in excess of 15% of the amended award amount of \$315,776.34. Average monthly expenditures were \$22,125 per month for the Fiscal Year 2005-2006.

The School Corporation was approved by the State to carry over \$21,505.03 of funds in excess of 15% from the 2004-2005 program year to the 2005-2006 program year. With approval of the carry over, the State indicated the School Corporation will not be eligible again for such a request until the 2008-2009 program year. Any carry over exceeding the 15% limitation during the three year period must be returned to the SEA (State Educational Agency). The carry over amount of \$21,505.03 has been included in the program award of \$315,776.34.

34 CFR 80.20(b)(7) states in part: "Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency."

Failure to adhere to this requirement could cause the School Corporation to be ineligible to receive Federal awards in the future and cause the School Corporation to return unused funds to the State.

We recommended that the School Corporation design and properly monitor procedures that would ensure that federal funds be disbursed in a timely manner.

LAKE STATION COMMUNITY SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

LAKE STATION COMMUNITY SCHOOLS

2500 PIKE STREET / LAKE STATION, IN 46405 / TELEPHONE (219) 962-1159
FAX (219) 962-4011



DAN DEHAVEN
SUPERINTENDENT

NICK GEORGION
PUPIL PERSONNEL DIRECTOR

November 16, 2006

Corrective Action Plan

Finding 2006-1 Cash Management - Title 1

Federal Agency:	U.S. Department of Education
Federal Program:	Title 1
CFDA Number:	84.010
Award Number:	FY 2005-06
Pass-Through:	Indiana Department of Education
Auditor Contact Person:	Dan DeHaven
Title of Contact Person:	Superintendent
Phone Number:	219 962-1159
Expected Completion Date:	November 16, 2006

The Lake Station Community School Corporation will more closely monitor the Title 1 cash balances to conform to the 10% rule so that disbursements will be done in a timely manner.

Sincerely,

Dan DeHaven
Superintendent

Sandra Cain
Director of Business Affairs

LAKE STATION COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on November 27, 2006, with Dan DeHaven, Superintendent of Schools; Sandra Cain, Treasurer; and Larry Biggs, President of the School Board.