

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

AUDIT REPORT

OF

THEA BOWMAN LEADERSHIP ACADEMY

LAKE COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED

02/21/2007

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials.....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	3-4
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.....	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Cash and Investments	6-7
Statement of Cash Activities	8-9
Fund Financial Statements:	
Governmental Funds:	
Statement of Receipts, Disbursements, and Cash and Investment Balances – Governmental Funds.....	10-11
Notes to Financial Statements	12-18
Supplementary Information:	
Schedule of Capital Assets	19
Schedule of Long-Term Debt.....	20
Audit Results and Comments:	
Average Daily Membership (ADM) – Incorrect Reporting to the State	21
Optical Images of Checks.....	21
Receipt Issuance	22
Extra-Curricular Account.....	22
Overdrawn Cash Balances	22
Loan to Instructional Aide	22
Internal Controls Over Compensated Absences	22
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	24-25
Schedule of Expenditures of Federal Awards.....	26
Note to Schedule of Expenditures of Federal Awards	27
Schedule of Findings and Questioned Costs.....	28-29
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings.....	30
Corrective Action Plan.....	31
Exit Conference.....	32
Official Response	33-34

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director of Finance	Vito Bianco	07-01-04 to 06-30-07
Principal of the School	Dr. Gwendolyn Adell	07-01-04 to 06-30-07
Chair of the School Advisory Council	Dr. Dale Cudjoe	07-01-04 to 06-30-07



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 FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE THEA BOWMAN LEADERSHIP ACADEMY, LAKE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Thea Bowman Leadership Academy Charter School (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 and each major fund 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 7, 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 School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

December 7, 2006



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 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 THEA BOWMAN LEADERSHIP ACADEMY, LAKE COUNTY, INDIANA

We have audited the financial statements of the Thea Bowman Leadership Academy Charter School (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated December 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

STATE BOARD OF ACCOUNTS

December 7, 2006

THEA BOWMAN LEADERSHIP ACADEMY
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ <u>389,359</u>
<u>Net Assets</u>	
Unrestricted	\$ <u>389,359</u>

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

THEA BOWMAN LEADERSHIP ACADEMY
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ <u>1,046,597</u>
<u>Net Assets</u>	
Unrestricted	\$ <u>1,046,597</u>

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

THEA BOWMAN LEADERSHIP ACADEMY
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	\$ 1,722,346	\$ -	\$ 22,447	\$ (1,699,899)
Support services	1,589,068	14,360	-	(1,574,708)
Community services	770	-	-	(770)
Nonprogrammed charges	38,125	-	-	(38,125)
Total governmental activities	\$ 3,350,309	\$ 14,360	\$ 22,447	(3,313,502)
General receipts:				
Property taxes				518,714
Other local sources				197,895
State aid				2,106,047
Grants and contributions not restricted				219,373
Investment earnings				5,030
Total general receipts				3,047,059
Change in cash and investments				(266,443)
Net assets - beginning				655,802
Net assets - ending				\$ 389,359

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

THEA BOWMAN LEADERSHIP ACADEMY
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	Capital Grants and Contributions	Total
Governmental activities:					
Instruction	\$ 1,945,056	\$ -	\$ 13,411	\$ -	\$ (1,931,645)
Support services	<u>2,472,270</u>	<u>39,101</u>	<u>131,825</u>	<u>-</u>	<u>(2,301,344)</u>
Total governmental activities	<u>\$ 4,417,326</u>	<u>\$ 39,101</u>	<u>\$ 145,236</u>	<u>\$ -</u>	<u>(4,232,989)</u>
General receipts:					
Property taxes					1,839,919
Other local sources					26,687
State aid					2,481,625
Grants and contributions not restricted					521,906
Sale of property, adjustments, and refunds					2,240
Investment earnings					<u>17,850</u>
Total general receipts					<u>4,890,227</u>
Change in cash and investments					657,238
Net assets - beginning					<u>389,359</u>
Net assets - ending					<u>\$ 1,046,597</u>

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

THEA BOWMAN LEADERSHIP ACADEMY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	<u>General</u>	<u>Knight Foundation</u>	<u>Title I</u>	<u>Other</u>	<u>Totals</u>
Receipts:					
Local sources	\$ 641,139	\$ 73,500	\$ 5,569	\$ 15,791	\$ 735,999
State sources	2,128,494	-	-	-	2,128,494
Federal sources	<u>-</u>	<u>-</u>	<u>171,700</u>	<u>47,673</u>	<u>219,373</u>
Total receipts	<u>2,769,633</u>	<u>73,500</u>	<u>177,269</u>	<u>63,464</u>	<u>3,083,866</u>
Disbursements:					
Current:					
Instruction	1,632,126	19,012	61,162	10,046	1,722,346
Support services	1,495,448	-	24,806	68,814	1,589,068
Community services	-	-	770	-	770
Nonprogrammed charges	<u>38,125</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,125</u>
Total disbursements	<u>3,165,699</u>	<u>19,012</u>	<u>86,738</u>	<u>78,860</u>	<u>3,350,309</u>
Excess (deficiency) of total receipts over (under) total disbursements	(396,066)	54,488	90,531	(15,396)	(266,443)
Cash and investments - beginning	<u>655,802</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>655,802</u>
Cash and investments - ending	<u>\$ 259,736</u>	<u>\$ 54,488</u>	<u>\$ 90,531</u>	<u>\$ (15,396)</u>	<u>\$ 389,359</u>

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

THEA BOWMAN LEADERSHIP ACADEMY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Knight Foundation	Title I	Federal Planning	Other	Totals
Receipts:						
Local sources	\$ 1,858,540	\$ -	\$ -	\$ -	\$ 65,021	\$ 1,923,561
State sources	2,495,035	-	-	-	18,147	2,513,182
Federal sources	-	-	278,511	236,920	120,150	635,581
Sale of property, adjustments and refunds	1,508	732	-	-	-	2,240
Intergovernmental transfers	339,334	-	77,790	-	24,481	441,605
Total receipts	4,694,417	732	356,301	236,920	227,799	5,516,169
Disbursements:						
Current:						
Instruction	1,593,926	1,779	221,992	15,368	111,991	1,945,056
Support services	2,199,823	18,790	38,560	58,712	156,385	2,472,270
Nonprogrammed charges	102,268	28,479	183,332	-	127,526	441,605
Total disbursements	3,896,017	49,048	443,884	74,080	395,902	4,858,931
Excess (deficiency) of total receipts over (under) total disbursements	798,400	(48,316)	(87,583)	162,840	(168,103)	657,238
Cash and investments - beginning	259,736	54,488	90,531	-	(15,396)	389,359
Cash and investments - ending	<u>\$ 1,058,136</u>	<u>\$ 6,172</u>	<u>\$ 2,948</u>	<u>\$ 162,840</u>	<u>\$ (183,499)</u>	<u>\$ 1,046,597</u>

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

THEA BOWMAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Primary Government

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange 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 primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The knight foundation fund is to be used for the creation of a state-of-the-art elementary and middle school science laboratory.

The title I fund accounts for federal grant programs for enhancement of english and mathematics.

THEA BOWMAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
(Continued)

The federal planning fund is to be used toward charter school planning activities that include professional development of staff and board members, training, supplies, evaluation, and monitoring.

C. Measurement Focus and Basis of Accounting

The government-wide 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.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

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

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 6 days per year. Unused sick leave may be accumulated to a maximum of 60 days. Accumulated sick leave is not paid to employees.

THEA BOWMAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
(Continued)

b. Personal Leave

School Corporation employees earn personal leave at the rate of 2 days per each year. Personal leave does not accumulate from year to 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.
- 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

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. 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 include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

THEA BOWMAN LEADERSHIP ACADEMY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

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

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

II. Stewardship, Compliance and Accountability

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
Textbook Rental	\$ <u>77,508</u>	\$ <u>186,430</u>

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements.

III. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to

THEA BOWMAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
(Continued)

receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2006, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2005-2006</u>
General Fund	Title I	\$ 77,790
General Fund	All others	24,478
Knight Foundation	General Fund	28,479
Title I	General Fund	183,332
All others	General Fund	<u>127,526</u>
Total		<u>\$ 441,605</u>

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

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; 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; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. 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

THEA BOWMAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

As the School Corporation has just joined PERF, actuarial information has not yet been formulated.

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

THEA BOWMAN LEADERSHIP ACADEMY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. 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 for the fiscal years ended June 30, 2005 and 2006, at 6.82% and 7%, respectively, of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2005 and 2006, were \$63,544 and \$80,058, respectively. The School Corporation actually contributed 100% of the required contribution for the fiscal years, respectively.

THEA BOWMAN LEADERSHIP ACADEMY
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2006

Capital assets are reported at actual historical cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Improvements other than buildings	\$ 44,868
Furniture and equipment	<u>579,876</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 624,744</u>

THEA BOWMAN LEADERSHIP ACADEMY
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Notes and loans payable	\$ 1,434,287	\$ 134,125

THEA BOWMAN LEADERSHIP ACADEMY
AUDIT RESULTS AND COMMENTS

AVERAGE DAILY MEMBERSHIP (ADM) - INCORRECT REPORTING TO THE STATE

The information presented for audit indicates enrollment figures on Form 30A, Report of Average Daily Membership (ADM) for State Support, were incorrect for the school year ending June 30, 2006.

The enrollment count dates for the 2005-2006 year was September 23, 2005. The difference between the count reported on the ADM and the verified figures is shown below:

<u>School Year</u>	<u>Grade</u>	<u>Count as Reported on Form 30A</u>	<u>Actual Enrollment Figures</u>	<u>Difference</u>
2005-2006	1 through 12	470	471	(1)

School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment applicable to the School Corporation because of incorrect reporting. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

OPTICAL IMAGES OF CHECKS

Two of the four bank accounts for Thea Bowman Leadership Academy are checking accounts. The payroll checking account did not return the actual cancelled checks with the monthly bank statements. The operating checking account had an optical image of only the front side of the checks.

Indiana Code 5-15-6-3(a) concerning optical imaging of checks states in part:

". . . 'original records' includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . ."

Furthermore, Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

THEA BOWMAN LEADERSHIP ACADEMY
AUDIT RESULTS AND COMMENTS
(Continued)

RECEIPT ISSUANCE

Receipts were not issued for electronic funds transfer or items received in the mail.

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 Indiana Public School Corporations, Chapter 9)

EXTRA-CURRICULAR ACCOUNT

The Thea Bowman Leadership Academy collected \$25,920 in 2005-2006 for various student activities which was deposited in the general fund rather than an extra-curricular account.

Activity or activities as used herein has reference to conducting any athletic, social, class, or other school function and the collection, custody and disbursement of any money in connection therewith, other than functions conducted solely by any organization of parents and teachers, which does not include public money. The collection, custody, and disbursement of the money for an activity are represented in the accounting records by a fund and the control account for all of the activity funds is designated as the "School Extra-Curricular Account." (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

OVERDRAWN CASH BALANCES

The cash balance of the Textbook Rental Fund was overdrawn by \$77,508 and \$186,430 at June 30, 2005 and 2006, respectively.

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)

LOAN TO INSTRUCTIONAL AIDE

A \$1,500 loan was made to an instructional aide in 2004-2005 with the requirement that the loan be paid back with a payroll deduction of \$62.50 per pay.

Salaries and wages of public officers may not be paid in advance. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

INTERNAL CONTROLS OVER COMPENSATED ABSENCES

A cumulative balance of unused sick days is not maintained.

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 managements objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE THEA BOWMAN LEADERSHIP ACADEMY, LAKE COUNTY, INDIANA

Compliance

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

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

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as 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. Reportable conditions are 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 none of the reportable conditions described above is a material weakness.

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

STATE BOARD OF ACCOUNTS

December 7, 2006

THEA BOWMAN LEADERSHIP ACADEMY
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 National School Lunch Program	10.555	FY 2004-2005 FY 2005-2006	\$ 97,089 -	\$ - <u>120,909</u>
Total for federal grantor agency			<u>97,089</u>	<u>120,909</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education Title I Grants to Local Educational Agencies	84.010	FY 03/04 FY 04/05 FY 05/06	27,894 92,308 -	- - <u>260,552</u>
Total for program			<u>120,202</u>	<u>260,552</u>
Safe and Drug Free Schools and Communities-State Grants	84.186		-	<u>6,274</u>
Charter Schools	84.282		-	<u>74,080</u>
Improving Teacher Quality State Grants	84.367		-	<u>51,673</u>
Total for federal grantor agency			<u>217,291</u>	<u>513,488</u>
Total federal awards expended			<u>\$ 217,291</u>	<u>\$ 513,488</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

THEA BOWMAN LEADERSHIP ACADEMY
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Thea Bowman Leadership Academy Charter School (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 the School Corporation shall be conducted biennially. Such audits shall include both years within the biennial period.

THEA BOWMAN LEADERSHIP ACADEMY
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

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

THEA BOWMAN LEADERSHIP ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-1, INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The Title I Annual Expenditure Reports and/or supporting documentation did not agree with the general ledger. The supporting documentation presented for audit did not agree with the Title I Annual Expenditure Reports. The Title I Program Director stated that supporting documentation was provided to the Charter School management company from which the Title I Annual Expenditure Reports were compiled. The Accounting Controller of the management company stated that the management company prepared the 2005-2006 report but the 2004-2005 report was prepared by the Title I Program Director.

The Accounting Controller of the Charter School management company stated that the Title I Annual Expenditure Reports would not agree with the general ledger since the reports were based on the documentation provided by the Title I Program Director rather than the general ledger. There were numerous posting errors from prior years that were shown as error correction adjustments during the 2005-2006 fiscal period.

34 CFR Subpart C 80.20 (a)(2)(b) states: "The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes."

The internal controls over reporting were not adequate.

Failure to establish adequate reporting internal controls and demonstrate compliance with the reporting requirements may jeopardize the Charter School's ability to obtain federal awards in the future.

We recommended that the Charter School implement procedures and internal controls that will ensure that the financial reports are prepared based on the ledger.

THEA BOWMAN LEADERSHIP ACADEMY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



The American Quality Schools Corporation

850 W. Jackson Boulevard • Suite 275 • Chicago, IL 60607
(312) 226-3355 • Fax (312) 226-1027

FINDING NO. 2006-1. (Internal Control over Financial Reporting)

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

CORRECTIVE ACTION:

Internal Controls over Financial Reporting will be improved as follows:

All Quarterly and Annual Reports will be based on actual financial activity as posted to the general ledger for the Title I grant cash and fund accounts.

All Quarterly and Annual Reports will be balanced to the general ledger Title I grand cash balances and approved by the program director before filing.

All supporting documentation, balanced general ledger reports, and program director approval will be kept within the Title I grant files for each report filed.

Treasurer

11/28/06

Date

THEA BOWMAN LEADERSHIP ACADEMY
EXIT CONFERENCE

The contents of this report were discussed on December 7, 2006, with Vito Bianco, Director of Finance; Dr. Dale Cudjoe, Chair of the School Advisory Council; and Kathleen Kansfield, Accounting Controller. The official response has been made a part of this report and may be found on pages 33 and 34.



The American Quality Schools Corporation

850 W. Jackson Boulevard • Suite 275 • Chicago, IL 60607
(312) 226-3355 • Fax (312) 226-1027

State Board of Accounts
302 Washington St. Room E418
Indianapolis, IN 46204-2765

December 19, 2006

School: Thea Bowman Leadership Academy
Response by Management Company to Audit Examination Results and Comments

Average Daily Membership (ADM) – Incorrect Reporting to the State

The enrollment count date used by director for submission was several days earlier than the actual enrollment count date of September 23, 2005. The Indiana Department of Education, Division of School Finance will be contacted to correct any possible underpayment due to the School Corporation due to this error.

The director will use the specific enrollment count dates for all future ADM reports due.

Optical Images of Checks

In the early months of the audit period, the School Corporation was not receiving cancelled checks or two sided optical images for the two checking accounts. This was changed after the initial year audit results and comments and the School Corporation now receives the actual cancelled checks for both the checking accounts.

Receipt Issuance

A receipt book is maintained at the management company office for all electronic funds transferred, interest earnings, and any other deposit items not received directly by the school office.

Extra-Curricular Account

The School Corporation has student activities receipts and disbursements now reported under a separate fund code. However, as a result of the audit comments, these funds will be maintained and reported separately from the School Corporation operating activities.

School: Thea Bowman Leadership Academy
Response by Management Company to Audit Examination Results and Comments

Overdrawn Cash Balances

The School Corporation will have the School Board Authorize semi-annual transfers from the General Fund to cover Textbook Funds purchases and costs that typically exceed the student rental or replacement fees and state reimbursement funds received.

Loan to Instructional Aide

There have been and will not be any subsequent loans or payroll advances made since the initial loan identified in the audit comment.

Internal Controls over Compensated Absences

The School Corporation running attendance reports will be modified to report cumulative balance of remaining sick days. However, any reported sick time is verified for payroll eligibility for each employee at the time each payroll is processed.

Finding No. 2006-1 Internal Control Over Financial Reporting

During most of the 2 year audit period, Title I Expenditure reports were submitted by the School Director, independent of the financial accounting records maintained by the Management Company. Unfortunately, some expenditure items were not identified as Title I related in financial accounting records and therefore the Title I Expenditure reports ending cash balance did not match the financial accounting records.

Title I Expenditure reports are not submitted based on financial accounting records only. A Corrective Action Report was submitted in response to this finding.

The above responses reflect the School Corporation and Management Company's commitment to accurate reporting and documentation as required by the Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations.

Sincerely,



Vito Bianco, Treasurer