

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

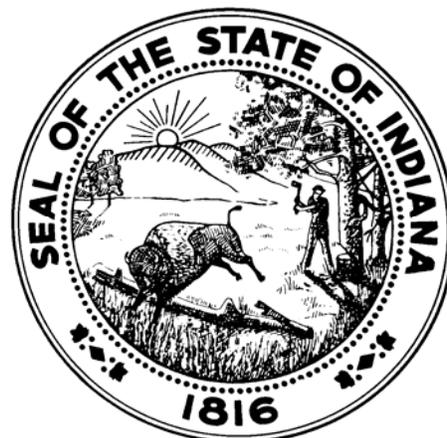
AUDIT REPORT

OF

LEBANON COMMUNITY SCHOOL CORPORATION

BOONE COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED
03/05/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Melissa L. Moore	07-01-04 to 06-30-07
Superintendent of Schools	Ralph Walker Robert L. Taylor	07-01-04 to 08-30-06 09-01-06 to 06-30-07
President of the School Board	Alan Cragun Jane Myers Ronald Morelock	07-01-04 to 06-30-05 07-01-05 to 06-30-06 07-01-06 to 06-30-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE LEBANON COMMUNITY
SCHOOL CORPORATION, BOONE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lebanon Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated January 24, 2007, 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

January 24, 2007



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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 LEBANON COMMUNITY
SCHOOL CORPORATION, BOONE COUNTY, INDIANA

We have audited the financial statements of the Lebanon Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 24, 2007. 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

January 24, 2007

LEBANON COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 8,078,353
Restricted assets:	
Cash and investments	<u>(121,969)</u>
Total assets	<u>\$ 7,956,384</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ (121,969)
Unrestricted	<u>8,078,353</u>
Total net assets	<u>\$ 7,956,384</u>

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

LEBANON COMMUNITY SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 8,618,162
Restricted assets:	
Cash and investments	<u>374,210</u>
Total assets	<u>\$ 8,992,372</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 374,210
Unrestricted	<u>8,618,162</u>
Total net assets	<u>\$ 8,992,372</u>

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

LEBANON COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 11,391,171	\$ -	\$ 171,683	\$ (11,219,488)
Support services	15,973,818	1,688,526	120,333	(14,164,959)
Community services	162,935	-	-	(162,935)
Nonprogrammed charges	176,751	-	-	(176,751)
Debt service	14,683,119	-	-	(14,683,119)
Total governmental activities	<u>\$ 42,387,794</u>	<u>\$ 1,688,526</u>	<u>\$ 292,016</u>	<u>(40,407,252)</u>
General receipts:				
Property taxes				21,245,405
Other local sources				4,303,533
State aid				12,029,764
Grants and contributions not restricted				947,911
Bonds and loans				3,499,646
Sale of property, adjustments, and refunds				90,859
Investment earnings				<u>128,939</u>
Total general receipts				<u>42,246,057</u>
Change in cash and investments				1,838,805
Net assets - beginning				<u>6,117,579</u>
Net assets - ending				<u><u>\$ 7,956,384</u></u>

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

LEBANON COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 11,316,431	\$ -	\$ 116,602	\$ (11,199,829)
Support services	16,914,213	1,630,677	69,717	(15,213,819)
Community services	342,590	-	-	(342,590)
Nonprogrammed charges	839,474	-	-	(839,474)
Debt service	8,537,435	-	-	(8,537,435)
Total governmental activities	\$ 37,950,143	\$ 1,630,677	\$ 186,319	(36,133,147)
General receipts:				
Property taxes				15,675,377
Other local sources				3,471,791
State aid				13,207,259
Grants and contributions not restricted				917,156
Bonds and loans				3,577,384
Sale of property, adjustments, and refunds				70,491
Investment earnings				249,677
Total general receipts				37,169,135
Change in cash and investments				1,035,988
Net assets - beginning				7,956,384
Net assets - ending				\$ 8,992,372

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

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

	General	Transportation Operating	CLASS Fund	CLASS Fund	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:									
Local sources	\$ 10,197,258	\$ 1,766,264	\$ -	\$ 136,461	\$ 8,284,447	\$ 3,364,831	\$ 429,078	\$ 2,662,201	\$ 26,840,540
Intermediate sources	299	-	-	-	-	-	-	525,564	525,863
State sources	12,184,655	-	-	86,303	-	-	-	216,345	12,487,303
Federal sources	-	-	-	-	-	-	-	782,388	782,388
Bonds and loans	3,109,224	390,422	-	-	-	-	-	-	3,499,646
Sale of property, adjustments and refunds	53,158	4,117	-	-	-	24,888	-	8,696	90,859
Intergovernmental transfers	1,245,387	363,617	-	1,007,615	60,001	110,944	-	1,705,900	4,493,464
Total receipts	26,789,981	2,524,420	-	1,230,379	8,344,448	3,500,663	429,078	5,901,094	48,720,063
Disbursements:									
Current:									
Instruction	10,113,429	-	-	-	-	-	-	1,277,742	11,391,171
Support services	8,593,274	1,353,804	-	-	-	3,323,053	127,580	2,576,107	15,973,818
Community services	160,141	-	-	-	-	-	-	2,794	162,935
Nonprogrammed charges	955,067	155,070	-	-	839,955	393,698	123,128	2,203,297	4,670,215
Debt services	7,244,403	383,000	-	-	6,886,858	-	-	168,858	14,683,119
Total disbursements	27,066,314	1,891,874	-	-	7,726,813	3,716,751	250,708	6,228,798	46,881,258
Excess (deficiency) of total receipts over (under) total disbursements	(276,333)	632,546	-	1,230,379	617,635	(216,088)	178,370	(327,704)	1,838,805
Cash and investments - beginning	4,641,382	(182,944)	-	(1)	(737,846)	1,158,311	19,298	1,219,379	6,117,579
Cash and investments - ending	\$ 4,365,049	\$ 449,602	\$ -	\$ 1,230,378	\$ (120,211)	\$ 942,223	\$ 197,668	\$ 891,675	\$ 7,956,384

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

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

	General	Transportation Operating	CLASS Fund	CLASS Fund	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:									
Local sources	\$ 7,250,827	\$ 1,402,016	\$ -	\$ 328,745	\$ 6,326,701	\$ 2,521,233	\$ 334,012	\$ 2,207,047	\$ 20,370,581
Intermediate sources	299	-	-	-	-	-	-	656,642	656,941
State sources	13,306,607	-	166,457	-	-	-	-	207,143	13,680,207
Federal sources	-	-	-	-	-	-	-	630,527	630,527
Bonds and loans	1,079,931	510,311	-	-	-	-	-	1,987,142	3,577,384
Sale of property, adjustments and refunds	28,232	2,510	-	-	-	16,556	-	23,193	70,491
Intergovernmental transfers	375,711	72,370	1,050,872	-	-	-	-	175,187	1,674,140
Total receipts	22,041,607	1,987,207	1,217,329	328,745	6,326,701	2,537,789	334,012	5,886,881	40,660,271
Disbursements:									
Current:									
Instruction	10,012,545	-	-	-	-	-	-	1,303,886	11,316,431
Support services	8,348,294	1,314,828	-	508,251	165,940	2,553,844	653,951	3,369,105	16,914,213
Community services	340,743	-	-	-	-	-	-	1,847	342,590
Nonprogrammed charges	391,270	-	-	1,050,872	180,381	82,706	80,000	728,385	2,513,614
Debt services	2,302,222	439,013	-	-	5,503,658	-	-	292,542	8,537,435
Total disbursements	21,395,074	1,753,841	-	1,559,123	5,849,979	2,636,550	733,951	5,695,765	39,624,283
Excess (deficiency) of total receipts over (under) total disbursements	646,533	233,366	1,217,329	(1,230,378)	476,722	(98,761)	(399,939)	191,116	1,035,988
Cash and investments - beginning	4,365,049	449,602	-	1,230,378	(120,211)	942,223	197,668	891,675	7,956,384
Cash and investments - ending	\$ 5,011,582	\$ 682,968	\$ 1,217,329	\$ -	\$ 356,511	\$ 843,462	\$ (202,271)	\$ 1,082,791	\$ 8,992,372

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

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

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Intermediate sources	\$ -	\$ 77,250
Federal sources	-	23,591
Sale of property, adjustments and refunds	-	755
Total additions	-	101,596
Deductions:		
Instruction	-	23,649
Support services	1,995,470	79,284
Nonprogrammed charges	235,486	4,116
Total deductions	2,230,956	107,049
Deficiency of total additions under total deductions	(2,230,956)	(5,453)
Cash and investments - beginning	2,230,956	27,503
Cash and investments - ending	\$ -	\$ 22,050

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

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

	Private-Purpose Trust Funds
Additions:	
Local sources	\$ 75,139
Intermediate sources	60,000
Federal sources	33,571
Sale of property, adjustments and refunds	617
Total additions	169,327
Deductions:	
Instruction	62,552
Support services	67,543
Total deductions	130,095
Excess of total additions over total deductions	39,232
Cash and investments - beginning	22,050
Cash and investments - ending	\$ 61,282

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

LEBANON COMMUNITY SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 June 30, 2005

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 22,050	\$ 15,155
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 22,050	

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

LEBANON COMMUNITY SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 June 30, 2006

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 61,282	\$ 64,653
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 61,282	

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

LEBANON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Primary Government:	Lebanon Community School Corporation
Blended Component Unit:	None
Discretely Presented Component Unit:	None

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 Clinton Central School Corporation, Clinton Prairie School Corporation, Community Schools of Frankfort, North West Hendricks County School Corporation, Rossville Consolidated School District and Western Boone County Community School Corporation in a joint venture to operate Boone-Clinton-North West Hendricks County Joint Services for Exceptional Children which was created to educate special education students. The School Corporation is obligated by contract to remit a pro-rata share of expenses annually to the Community Schools of Frankfort. Complete financial statements for the Boone-Clinton-North West Hendricks County Joint Services for Exceptional Children can be obtained from the Community Schools of Frankfort.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. 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

LEBANON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

The School Corporation reports the following major governmental funds:

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

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

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

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

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

The CLASS funds (different fund established each year) are used to account for receipts and disbursements for the CLASS program, an independent professional development program funded by the State and housed in the School. The CLASS personnel provide professional development services to schools in Indiana.

Additionally, the School Corporation reports the following fund types:

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

The private-purpose trust fund reports a trust arrangement under which principal and income benefit instructional support, drug testing and wetlands project for students.

Agency funds account for assets held by the School Corporation as an agent for state, federal and insurance companies and serve as control accounts for certain cash transactions during the time they are a liability to the School Corporation.

C. Measurement Focus and Basis of Accounting

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

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

LEBANON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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 proprietary funds.

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

3. Compensated Absences

a. Miscellaneous Leave (Replaces Sick and Personal Leave)

Teachers and Administrators earn miscellaneous leave at the rate of 10 to 12 days per year. Unused miscellaneous leave may be accumulated to a maximum of 60 days. Accumulated miscellaneous leave is paid to teachers and administrators through cash payments and deposited into the individual's 401(a) plan.

Classified employees earn miscellaneous leave at the rate of 5 to 12 days per year based in months of service. Unused miscellaneous leave may be accumulated to a maximum of 175 days. Accumulated miscellaneous leave is paid to employees through cash payments upon retirement.

LEBANON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

b. Vacation Leave

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

4. Capital Assets

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

5. Long-Term Debt

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

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

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (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.

LEBANON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Operating Receipts and Disbursements

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

F. Internal and Interfund Balances and Activities

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

1. Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Cash and Investments and the Statement of Cash Activities 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 Cash and Investments and the Statement of Cash Activities.
2. Primary government and component unit activity and balances – Resource flows between the primary government and the discretely-presented component unit(s) are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

LEBANON COMMUNITY SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

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

B. Cash and Investment Balance Deficits

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

Fund	2005	2006
School Bus Replacement	\$ -	\$ 202,771
School Lunch	66,861	74,426
Textbook Rental	184,483	206,819
Debt Service	120,211	-

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

III. Detailed Notes on All Funds

A. Deposits 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. At June 30, 2006, the bank balance held at Key Bank in the amount of \$832,956 collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-School Corporation's name. The remaining 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.

LEBANON COMMUNITY SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of June 30, 2006, the School Corporation had the following investments:

Investment Type	Primary Government Market Value
Repurchase Agreements	\$ 832,956

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.

LEBANON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 for custodial credit risk for investments. At June 30, 2006, the School Corporation held investments in repurchase accounts in the amount of \$832,956. Of these investments \$832,956 were held by the Counterparty.

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.

Investment Type	Investment Maturities (In Years) Less Than 1
Repurchase Agreements	\$ 832,956

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below.

Standard and Poor's Rating	School's Investments Government Sponsored Enterprise
AA	\$ 832,956

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 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. The School Corporation does not have any investments with foreign currency risk.

LEBANON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Interfund Transfers

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

Transfer From	Transfer To	2005	2006
General Fund	Other governmental	\$ 545,808	\$ -
Debt Service	General Fund	199,063	190,951
Debt Service	Transportation Operating	193,541	72,370
Debt Service	Other governmental	447,351	87,866
Capital Projects	Transportation Operating	60,000	-
Capital Projects	Other governmental	333,678	-
Transportation Operating	Debt Service	60,001	-
Transportation Operating	Other governmental	95,070	-
School Bus Replacement	Other governmental	123,128	80,000
CLASS Fund	CLASS Fund	1,007,615	1,050,872
Other governmental	General Fund	1,047,135	184,760
Other governmental	Transportation Operating	110,076	-
Other governmental	Capital Projects	110,944	-
Other governmental	Other governmental	160,054	7,321
Totals		<u>\$ 4,493,464</u>	<u>\$ 1,674,140</u>

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

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; 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.

Job Related Illnesses or Injuries to Employees

During 1999, the School Corporation joined with other governmental entities to form the Central Indiana School Employees Insurance Trust, a public entity risk pool currently operating as a common risk management and insurance program for six member governmental entities. This risk pool was formed in 1990. The purpose of the risk pool is to provide a medium for the funding and administration of group insurance plans for the benefit of the members' employees. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per

LEBANON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Holding Corporations

The School Corporation has entered into a capital lease with Lebanon High School Building Corporation and Lebanon Middle 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. Lease payments during the 2004-2005 year totaled \$4,950,000 and during the 2005-2006 year totaled \$5,023,000.

C. Pension Plans

1. 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.

LEBANON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$475,231, \$431,878, and \$399,672, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

2. Defined Contribution Pension Plan

Private Pension

Plan Description

The School Corporation has a defined contribution pension plan administered by Lincoln National Life Insurance Company as authorized by Indiana Code 5-10.2-2-1. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the School Corporation and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

Lincoln National Life Insurance Company
1300 South Clinton Street
Fort Wayne, IN 46802-3506
Ph. (800) 454-6265

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the School Corporation and the Plan Administrator. Plan members are required to contribute from 1% to 10% of the annual covered salary based on employee election. The School Corporation is required to contribute at an actuarially determined rate. The current rate is 2.5% to a maximum of 7.5% of annual covered payroll based on the employee's contribution. Employer and employee contributions to the plan for the 2004-2005 year were \$233,902 and \$102,478, respectively. Employer and employee contributions to the plan for the 2005-2006 year were \$173,945 and \$114,439 respectively.

LEBANON COMMUNITY SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS

June 30, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ -
Buildings	97,465,349
Improvements other than buildings	994,207
Machinery and equipment	10,661,868
Construction in progress	<u>-</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 109,121,424</u>

LEBANON COMMUNITY SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Lebanon Middle School Building Corporation	\$ 1,089,942	\$ 85,000
Lebanon Middle School Building Corporation	16,590,000	585,000
Lebanon Middle School Building Corporation	14,900,000	135,000
Lebanon High School Building Corporation	7,495,000	675,000
Claims and judgments		
Temporary Loans payable	1,542,078	1,542,078
Common School Loans payable	664,603	147,690
Bonds payable:		
General obligation bonds:		
Pension/Severance Bonds	2,835,000	195,000
Series 2003	920,000	100,000
Series 2005	1,850,000	75,000
Total governmental activities long-term debt	<u>\$ 47,886,623</u>	<u>\$ 3,539,768</u>

LEBANON COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

PRESCRIBED FORMS

The following prescribed or approved forms were not always in use:

- 1 TBR-2 Form - Textbook Rental Receipt (for Elementary Schools)
2. Form 99 - Payroll Schedule and Voucher

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

OVERDRAWN CASH BALANCES

The Debt Service Fund, School Lunch fund and Textbook Rental Fund were overdrawn in the 2004-2005 school year.

The School Bus Replacement Fund, School Lunch Fund and Textbook Rental Fund were overdrawn in the 2005-2006 School year.

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)

SCHOOL FOOD VERIFICATIONS OF ELIGIBILITY

The School Corporation test-checked the validity of information provided on the applications for free and reduced-priced meals during the 2005-2006 school year. The results of the test-checks, which were reported to the Indiana Department of Education in accordance with 7CFR 245.6(a), are as follows:

Number of Approved Applications: 567

Number of Approved Applications Verified: 17

Method of Selection: Randomly chosen by computer

Error Rate of Items Verified: 70%

An "error" for purposes of the test-check was an application that could not be verified by the program participant with requested "income verification" information (i.e., paycheck stub, W-2, etc.). Any program participant who was found to have an application that could not be verified was dropped from the free and reduced-price meal program.

Officials should request a written position from the Indiana Department of Education stating whether the corrective action taken was sufficient or if additional verifications need to be performed when high incidences of errors in test sample verifications are noted. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

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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 LEBANON COMMUNITY
SCHOOL CORPORATION, BOONE COUNTY, INDIANA

Compliance

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

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

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006.

Internal Control Over Compliance

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

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirement(s) of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

STATE BOARD OF ACCOUNTS

January 24, 2007

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

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
U.S. DEPARTMENT OF AGRICULTURE				
Pass-Through Indiana Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	FY 04/05 FY 05/06	\$ 61,454 -	\$ - 70,538
Total for program			61,454	70,538
National School Lunch Program	10.555	FY 04/05 FY 05/06	398,236 -	- 372,168
Total for program			398,236	372,168
Total for federal grantor agency			459,690	442,706
U.S. DEPARTMENT OF JUSTICE				
Pass-through Indiana Criminal Justice Institute:				
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	2002-JF-FX-018	617	-
U.S. DEPARTMENT OF EDUCATION				
Pass-Through Indiana Department of Education:				
Title I Grants to Local Educational Agencies	84.010	04-0665 FY03-04 05-665 SY2004-2005 CSR SY2005-2006 CSR 06-0665	\$ 22,263 51,862 312,707 181,695 - -	\$ - 1,800 50,209 49,370 126,352 259,353
Total for program			568,527	487,084
Pass-Through Community Schools of Frankfort: Special Education-Grants to States	84.027	2004-2005 Summer 2005 2005-2006	551,347 3,312 -	32,188 32,448 541,262
Total for program			554,659	605,898
Pass-Through Department of Education: Safe and Drug Free School and Communities - State Grants	84.186	03-283 04-054 03-2308	16,449 - 151	10,081 2,377 -
Total for program			16,600	12,458
Pass-Through Indiana Department of Workforce Development: Tech-Prep Education	84.243	2004-2005 2005-2006	21,852 -	8,148 27,716
Total for program			21,852	35,864
Pass-Through Indiana Department of Education: Eisenhower Professional Development State Grants:	84.281	01050	7,200	-
State Grants for Innovative Programs:	84.298	04-293 01-046C	19,524 -	13,616 413
Total for program			19,524	14,029
Improving Teacher Quality State Grants:	84.367	SY 04-05 SY 03-04	153,299 7,979	119,049 8,214
Total for Program			161,278	127,263
Pass-Through Wabash Valley Education Center: English Language Acquisition:	84.365A	FY 2005-2006	404	1,219
Total for federal grantor agency			1,350,044	1,283,815
Total federal awards expended			\$ 1,810,351	\$ 1,726,521

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

LEBANON COMMUNITY SCHOOL CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

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

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

III. Noncash Assistance

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

Program Title	Federal CFDA Number	2005	2006
National School Lunch Program	10.555	<u>\$ 33,149</u>	<u>\$ 27,884</u>

LEBANON COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weaknesses identified? no
 Reportable conditions identified that are not considered to be material weaknesses? none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:
 Material weaknesses identified? no
 Reportable conditions identified that are not considered to be material weaknesses? none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Title I Part A Grants to Local Agencies
84.027	Special Education Grants to States

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

LEBANON COMMUNITY SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

LEBANON COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on January 30, 2007, with Robert L. Taylor, Superintendent of Schools; Ronald Morelock, President of the School Board; Charles Tait, Business Manager; and Melissa L. Moore, Treasurer. The officials concurred with our audit findings.