

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

AUDIT REPORT

OF

SCHOOL CITY OF WHITING

LAKE COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED
03/08/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Cynthia Adams	12-17-02 to 06-30-07
Superintendent of Schools	Dr. Sandra T. Martinez	07-01-04 to 06-30-07
President of the School Board	Anthony Borgo Milo Dumezich Lindy Fisher	01-01-04 to 12-31-04 01-01-05 to 12-31-05 01-01-06 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE SCHOOL CITY OF WHITING, LAKE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School City of Whiting (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 October 31, 2006, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

The Schedule of Funding Progress, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

STATE BOARD OF ACCOUNTS

November 22, 2006



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE SCHOOL CITY OF WHITING, LAKE COUNTY, INDIANA

We have audited the financial statements of the School City of Whiting (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated October 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

We noted certain immaterial instances of noncompliance that we have discussed with the management of the School Corporation on November 30, 2006. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

We noted other matters involving the internal control over financial reporting that we have discussed with the management of the School Corporation on November 30, 2006. These immaterial instances of non-compliance were subsequently communicated to management in a separate letter.

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

STATE BOARD OF ACCOUNTS

November 22, 2006

SCHOOL CITY OF WHITING
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 6,674,822
Restricted assets:	
Cash and investments	<u>297,843</u>
Total assets	<u>\$ 6,972,665</u>
<u>Net Assets</u>	
Restricted for:	
Debt service	\$ 297,843
Unrestricted	<u>6,674,822</u>
Total net assets	<u>\$ 6,972,665</u>

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

SCHOOL CITY OF WHITING
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 5,166,699
Restricted assets:	
Cash and investments	<u>56,396</u>
Total assets	<u>\$ 5,223,095</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 56,396
Unrestricted	<u>5,166,699</u>
Total net assets	<u>\$ 5,223,095</u>

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

SCHOOL CITY OF WHITING
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	\$ 2,915,502	\$ -	\$ 1,799,419	\$ (1,116,083)
Support services	4,993,485	145,034	218,614	(4,629,837)
Community services	146,369	-	-	(146,369)
Nonprogrammed charges	385,295	-	-	(385,295)
Debt service	5,127,336	-	-	(5,127,336)
Total governmental activities	\$ 13,567,987	\$ 145,034	\$ 2,018,033	(11,404,920)
General receipts:				
Property taxes				3,692,487
Other local sources				323,719
State aid				2,934,487
Grants and contributions not restricted				445,874
Bonds and loans				6,646,065
Sale of property, adjustments, and refunds				61,707
Investment earnings				51,780
Total general receipts				14,156,119
Change in cash and investments				2,751,199
Net assets - beginning				4,221,466
Net assets - ending				\$ 6,972,665

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

SCHOOL CITY OF WHITING
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	\$ 2,877,174	\$ -	\$ 38,391	\$ (2,838,783)
Support services	5,058,232	166,602	259,510	(4,632,120)
Community services	158,225	-	-	(158,225)
Nonprogrammed charges	730,143	-	-	(730,143)
Debt service	10,829,402	-	-	(10,829,402)
Total governmental activities	\$ 19,653,176	\$ 166,602	\$ 297,901	(19,188,673)
General receipts:				
Property taxes				7,642,878
Other local sources				323,650
State aid				3,027,683
Grants and contributions not restricted				479,950
Bonds and loans				5,798,150
Sale of property, adjustments, and refunds				25,672
Investment earnings				141,120
Total general receipts				17,439,103
Change in cash and investments				(1,749,570)
Net assets - beginning				6,972,665
Net assets - ending				\$ 5,223,095

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

SCHOOL CITY OF WHITING
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 2,569,363	\$ 223,205	\$ 419,061	\$ 724,489	\$ 98,104	\$ 164,852	\$ 4,199,074
Intermediate sources	13,945	-	-	-	-	-	13,945
State sources	4,147,856	96,686	147,580	319,172	22,721	74,968	4,808,983
Federal sources	165,654	-	-	3,190	-	420,568	589,412
Bonds and loans	4,815,000	343,000	5,815	1,375,000	25,000	82,250	6,646,065
Sale of property, adjustments and refunds	50,124	6,887	2,010	-	-	2,686	61,707
Intergovernmental transfers	5,662	-	-	-	-	552,090	557,752
Total receipts	<u>11,767,604</u>	<u>669,778</u>	<u>574,466</u>	<u>2,421,851</u>	<u>145,825</u>	<u>1,297,414</u>	<u>16,876,938</u>
Disbursements:							
Current:							
Instruction	2,698,366	-	-	-	-	217,136	2,915,502
Support services	3,264,725	358,513	-	876,812	22,946	470,489	4,993,485
Community services	135,693	-	-	-	-	10,676	146,369
Nonprogrammed charges	321,721	25,000	12,908	527,693	25,000	30,725	943,047
Debt services	3,297,545	227,134	884,882	692,975	24,800	-	5,127,336
Total disbursements	<u>9,718,050</u>	<u>610,647</u>	<u>897,790</u>	<u>2,097,480</u>	<u>72,746</u>	<u>729,026</u>	<u>14,125,739</u>
Excess (deficiency) of total receipts over (under) total disbursements	2,049,554	59,131	(323,324)	324,371	73,079	568,388	2,751,199
Cash and investments - beginning	<u>2,068,515</u>	<u>139,804</u>	<u>621,167</u>	<u>893,598</u>	<u>311,967</u>	<u>186,415</u>	<u>4,221,466</u>
Cash and investments - ending	<u>\$ 4,118,069</u>	<u>\$ 198,935</u>	<u>\$ 297,843</u>	<u>\$ 1,217,969</u>	<u>\$ 385,046</u>	<u>\$ 754,803</u>	<u>\$ 6,972,665</u>

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

SCHOOL CITY OF WHITING
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 4,951,780	\$ 458,179	\$ 966,922	\$ 1,501,686	\$ 181,572	\$ 191,790	\$ 8,251,929
Intermediate sources	22,322	-	-	-	-	-	22,322
State sources	3,051,324	-	-	6,538	-	64,789	3,122,651
Federal sources	168,319	-	-	-	-	514,564	682,883
Bonds and loans	4,021,550	300,000	350,000	1,040,000	-	86,600	5,798,150
Sale of property, adjustments and refunds	20,325	2,123	-	-	500	2,723	25,671
Intergovernmental transfers	7,129	-	-	-	-	424,392	431,521
Total receipts	<u>12,242,749</u>	<u>760,302</u>	<u>1,316,922</u>	<u>2,548,224</u>	<u>182,072</u>	<u>1,284,858</u>	<u>18,335,127</u>
Disbursements:							
Current:							
Instruction	2,627,390	-	-	-	-	249,784	2,877,174
Support services	3,289,757	370,804	-	839,018	35,000	523,653	5,058,232
Community services	132,826	-	-	-	-	25,399	158,225
Nonprogrammed charges	170,901	-	-	400,484	10,100	580,179	1,161,664
Debt services	6,895,000	423,000	1,558,370	1,898,000	55,032	-	10,829,402
Total disbursements	<u>13,115,874</u>	<u>793,804</u>	<u>1,558,370</u>	<u>3,137,502</u>	<u>100,132</u>	<u>1,379,015</u>	<u>20,084,697</u>
Excess (deficiency) of total receipts over (under) total disbursements	(873,125)	(33,502)	(241,448)	(589,278)	81,940	(94,157)	(1,749,570)
Cash and investments - beginning	4,118,069	198,935	297,843	1,217,969	385,046	754,803	6,972,665
Cash and investments - ending	<u>\$ 3,244,944</u>	<u>\$ 165,433</u>	<u>\$ 56,395</u>	<u>\$ 628,691</u>	<u>\$ 466,986</u>	<u>\$ 660,646</u>	<u>\$ 5,223,095</u>

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

SCHOOL CITY OF WHITING
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.

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 in the Northwest Indiana Educational Service Center (Service Center), a joint school services program established May 30, 1985, for the participating school corporations to cooperate and share programs such as curriculum development, instructional materials, needs assessments, computer utilization, and in-service education. The Service Center operates under the authority of the Northwest Indiana Public School Study Council. The School Corporation provides funding based on Average Daily Membership, determined annually. Complete financial statements for Service Center can be obtained through School Town of Highland, 2939 41st Street, Highland, Indiana, 46322.

The School Corporation is a participant in the Northwest Indiana Public School Study Council (Study Council), a joint school services program established December 10, 1969, for the improvement of education and the study of problems and issues involved in public education. The Study Council is governed by a board composed of a member from each participating school corporation. The School Corporation pays \$1,000 annually to belong to the Study Council. Complete financial statements of the Study Council can be obtained through the Merrillville Community School Corporation, 6701 Delaware Street, Merrillville, Indiana, 46410.

The School Corporation is a participant with 15 other school corporations in Lake County in a joint venture to operate the Lake County Safe Schools Commission. The Commission was authorized in 1999 by Indiana Code 5-2-10.1. The Commission was established to improve school safety issues. The Commission is governed by a board composed of a member from each school corporation in Lake County. Although the member schools may fund the Commission, the Commission has generated sufficient revenue without member payments. Complete financial statements for the Commission can be obtained through the Lake Station Community School Corporation, 2500 Pike Street, Lake Station, Indiana, 46405.

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

SCHOOL CITY OF WHITING
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

The School Corporation reports the following major governmental funds:

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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.

SCHOOL CITY OF WHITING
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.

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 10 days per year. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is not paid to employees upon termination.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 10 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 3 days per year. Unused personal leave accumulates to the sick leave balance at year end.

2. Capital Assets

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

SCHOOL CITY OF WHITING
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. 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.

4. Equity Classification

Government-Wide Statements

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

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

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

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

Program Receipts

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

F. Internal and Interfund Balances and Activities

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

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:

SCHOOL CITY OF WHITING
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

II. Stewardship, Compliance and Accountability

Budgetary Information

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

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

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

III. Detailed Notes on All Funds

A. Deposits

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

B. Interfund Transfers

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

SCHOOL CITY OF WHITING
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Transfer From</u>	<u>Transfer To</u>	<u>2005</u>	<u>2006</u>
General Fund	Other governmental	\$ 12	\$ -
Capital Projects	Other governmental	527,693	400,484
Other governmental	General Fund	5,662	7,129
Other governmental	Other governmental	<u>24,385</u>	<u>23,908</u>
Totals		<u>\$ 557,752</u>	<u>\$ 431,521</u>

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

C. Restatements and Reclassifications

For the year ended June 30, 2005, certain changes have been made to the financial statements to more appropriately reflect financial activity of the School Corporation. The following schedule presents a summary of reclassified balances by opinion unit:

<u>Opinion Unit</u>	<u>Balance as Reported June 30, 2004</u>	<u>Fund Reclassification</u>	<u>Balance as Restated July 1, 2005</u>
Fiduciary Funds	\$ (1,383)	\$ 1,383	\$ -
Governmental Funds	-	(1,383)	(1,383)

IV. Other Information

A. Risk Management

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

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

Medical Benefits to Employees, Retirees, and Dependents (Excluding Postemployment Benefits)

The School Corporation has chosen to establish a risk financing fund for risks associated with medical benefits to employees. The risk financing fund is accounted for in the Self-Insurance Fund, a trust fund accounted for separately from the corporation records, where employee premiums fully pay claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$50,000 per person, per year and \$1,247,365 aggregate per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

SCHOOL CITY OF WHITING
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Holding Corporation

The School Corporation has entered into a capital lease with the School City of Whiting 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 years 2004-2005 and 2005-2006 totaled \$595,000 and \$625,000, respectively.

D. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 50 with at least 15 years of service. Currently, seven retirees meet these eligibility requirements. The School Corporation provides single plan health insurance coverage at no cost until the retiree becomes eligible for Medicare, or, if the retiree chooses, a family plan may be purchased by the retiree paying the difference between the single plan and the family plan of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$54,250 were recognized for postemployment benefits.

E. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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

SCHOOL CITY OF WHITING
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 64,439
Interest on net pension obligation	(6,719)
Adjustment to annual required contribution	7,657
Annual pension cost	65,377
Contributions made	62,254
Increase in net pension obligation	3,123
Net pension obligation, beginning of year	(92,680)
Net pension obligation, end of year	\$ (89,557)
Contribution rates:	
School Corporation	6.25%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

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

SCHOOL CITY OF WHITING
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	<u>Year Ending</u>		<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-03	\$	66,620	105%	\$ (78,903)
	06-30-04		55,157	125%	(92,680)
	06-30-05		65,377	113%	(89,557)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

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

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$97,463, \$95,971, and \$90,222, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

SCHOOL CITY OF WHITING
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 747,861	\$ 869,948	\$ (122,087)	86%	\$ 911,059	(13%)
07-01-04	783,407	987,107	(203,700)	79%	954,226	(21%)
07-01-05	832,744	1,086,020	(253,276)	77%	927,683	(27%)

SCHOOL CITY OF WHITING
 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>06-30-06 Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 374,988
Buildings	29,288,181
Improvements other than buildings	1,818,440
Machinery and equipment	<u>580,267</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 32,061,876</u>

SCHOOL CITY OF WHITING
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance 06-30-06	Due Within One Year
Governmental Activities:		
Capital leases:		
Administration Center and Athletic Complex	\$ 1,310,000	\$ 645,000
Notes and loans payable	226,607	30,736
Total governmental activities long-term debt	\$ 1,536,607	\$ 675,736

SCHOOL CITY OF WHITING
AUDIT RESULTS AND COMMENTS

TRANSFER TUITION

The School City accepts cash transfer tuition students. The transfer tuition charged by the School City is a flat rate set by the School Board. The School City does not charge transfer tuition based on the Transfer Tuition Statement - Form 515. A similar comment appeared in prior audit reports.

Indiana Code 26-11-6(b) states in part: "A transfer may not be accepted unless the requesting parents or student pays transfer tuition in an amount determined under the formula established . . ."

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)

TRANSPORTATION FUND EXPENDITURES

A portion of the salaries of the Superintendent and the Treasurer were paid from the Transportation Fund. A similar comment appeared in prior audit reports.

Indiana Code 5-11-9-4 requires in part: ". . . records be maintained showing which hours were worked each day by officers and employees . . . employed . . . in more than one (1) position by the same public agency . . ."

Some positions have been formally established by boards of school trustees, through job description, duties assigned, title, salary schedules, etc., as transportation related (for example, Assistant Superintendent-Transportation Director). We will not take audit exception, in these situations (other than positions excluded by statute), to direct transportation related employees having direct transportation related expenses being paid from the transportation fund if a cost allocation system based upon auditable statistics is established tracking costs attributable to the transportation program and therefore payable from the transportation fund. The use of time cards, time logs, or other means of accumulating auditable statistics upon which to base costs would have to be maintained. The time spent on such programs by persons serving in more than one program area must be specific if costs are to be separated. These costs cannot be accurately maintained on a percentage basis and requires the use of one of the methods mentioned above to provide auditable statistics and should cover all program areas in which a person serves or for which the service, materials, supplies, etc., are provided. (The School Administrator and Uniform Compliance Guidelines, Volume 157)

EMPLOYEE SERVICE RECORDS

The School City maintains computerized service records for both certified and noncertified employees. These computerized service records were not approved by the State Board of Accounts for the School City. The beginning balance of vacation time and the ending balance of vacation, and personal time balances are not reported on the service records. The beginning balance and the ending balance of sick time is presented on this report but the ending balance was incorrect.

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

SCHOOL CITY OF WHITING
AUDIT RESULTS AND COMMENTS
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

EMPLOYEE TIME CARD

We noted two hourly employees using a time card to "clock in" but not using the time card to "clock out." The time out was "penciled" in on these cards and the employee was paid for an eighty hour pay period. The School City requires hourly employees to use time cards and a time clock.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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

The information presented for audit indicates enrollment figures on Form Number 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 school year was September 15, 2005. The difference between the count reported on the ADM and the verified figures are shown below:

<u>School Year</u>	<u>Grade</u>	<u>Count as Reported on Form Number 30A</u>	<u>Actual Enrollment Figures</u>	<u>Difference</u>
2005-2006	Kindergarten	28.5	28	.5

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)

RECEIPT ISSUANCE (NATHAN HALE ELEMENTARY SCHOOL)

The treasurer's copy of textbook rental receipts was changed to reflect the date of deposit.

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

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 SCHOOL CITY OF WHITING, LAKE COUNTY, INDIANA

Compliance

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

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

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

Internal Control Over Compliance

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

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

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.

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

STATE BOARD OF ACCOUNTS

November 22, 2006

SCHOOL CITY OF WHITING
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 24,780	\$ 32,565
National School Lunch Program	10.555		146,708	179,079
Special Milk Program for Children	10.556		442	614
Summer Food Service Program for Children	10.559		<u>12,200</u>	<u>14,872</u>
Total for cluster			<u>184,130</u>	<u>227,130</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through School City of East Chicago				
Special Education Cluster				
Special Education - Grants to States	84.027		<u>175,390</u>	<u>142,466</u>
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010	04-4760	83,480	-
		05-4760	84,279	93,797
		06-4760	<u>-</u>	<u>151,540</u>
Total for program			<u>167,759</u>	<u>245,337</u>
Safe and Drug Free Schools and Communities State Grants	84.186	02-029	174	-
		03-062	3,786	-
		04-155	5,308	-
		05-034	<u>-</u>	<u>1,503</u>
Total for program			<u>9,268</u>	<u>1,503</u>
State Grants for Innovative Programs	84.298	03116	24,486	-
		04190	5,271	23,992
		05047	<u>-</u>	<u>10,976</u>
Total for program			<u>29,757</u>	<u>34,968</u>
Education Technology State Grants	84.318	02	577	-
		03	2,039	-
		04	4,365	-
		05	<u>-</u>	<u>1,639</u>
Total for program			<u>6,981</u>	<u>1,639</u>
English Language Acquisition Grants	84.365		<u>3,198</u>	<u>29,142</u>
Improving Teacher Quality State Grants	84.367	03-123	18,242	-
		04-209	24,837	19,265
		05-043	<u>-</u>	<u>2,229</u>
Total for program			<u>43,079</u>	<u>21,494</u>
Total for federal grantor agency			<u>435,432</u>	<u>476,549</u>
Total federal awards expended			<u>\$ 619,562</u>	<u>\$ 703,679</u>

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

SCHOOL CITY OF WHITING
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 School City of Whiting (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 corporation types with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Noncash Assistance

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

Program Title	Federal CFDA Number	2005	2006
School Breakfast Program	10.553	\$ 2,492	\$ 2,656
National School Lunch Program	10.555	14,498	14,335

SCHOOL CITY OF WHITING
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	Child Nutrition Cluster Title I Grants to Local Educational Agencies Special Education Cluster

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.

SCHOOL CITY OF WHITING
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters were reportable.

SCHOOL CITY OF WHITING
EXIT CONFERENCE

The contents of this report were discussed on November 30, 2006, with Dr. Sandra T. Martinez, Superintendent of Schools; Cynthia Adams, Treasurer; and Joseph L. Curosh, Attorney. The official response has been made a part of this report and may be found on pages 35 through 41.

SCHOOL CITY OF WHITING

1500 CENTER STREET

WHITING, INDIANA 46394

(219)659-0656 • (219) 473-4008 FAX

SANDRA T. MARTINEZ, Ph.D.
SUPERINTENDENT OF SCHOOLS
Smartinez@ns.whiting.k12.in.us



BOARD OF SCHOOL TRUSTEES

Sue Mills-Groninger, President

Shawn Turpin, Vice President

Anthony Borgo, Secretary

Stephanie Stamper-Strabavy, Trustee

Lindy Fisher, Trustee

<p>SCHOOL CITY OF WHITING OFFICIAL RESPONSE AUDIT PERIOD: July 1, 2004 – June 30, 2006</p>

I. TRANSFER TUITION

Please see the written opinion of Board attorney, Joseph L. Curosh.

II. SALARIES PAID FROM TRANSPORTATION FUND

Please see the written opinion of Board attorney, Joseph L. Curosh.

III. EMPLOYEE SERVICE RECORDS

The recommendations of the State Board of Accounts have been implemented by the personnel software vendor during this audit. The form has been submitted to the State Board of Accounts for approval.

IV. EMPLOYEE TIME CARD

The time clock is located within the school office, which on occasion may be closed when employees are still working and unable to clock in or out. The practice has been to allow the supervisor to write the time on the time card and initial it. The School City of Whiting Policy will be revised to include the current procedure.

V. RECEIPT ISSUANCE

The Nathan Hale Treasurer has been notified of the proper procedures and will adhere to the State Board of Accounts guidelines.

February 27, 2007

Dr. Sandra Martinez
Superintendent of Schools
School City of Whiting
1500 Center Street
Whiting, Indiana 46394

RE: STATE BOARD OF ACCOUNTS AUDIT FOR THE TWO YEAR PERIOD ENDING 6/30/06
RESPONSE TO AUDIT RESULTS AND COMMENTS
SCHOOL CITY OF WHITING CASH TRANSFER TUITION RECEIPTS

Dear Dr. Martinez:

This letter is written in reference to the *Audit Results and Comments* issued by the State Board of Accounts in their Audit of the School City of Whiting for the two-year period ending 6/30/06 concerning Cash Transfer Tuition.

I. BACKGROUND

The School City of Whiting accepts cash transfer tuition students for Whiting Middle School and Whiting High School. The cash transfer tuition students are only accepted if there is space available to absorb the additional cash transfer student without increasing the fixed costs of the school. The School City of Whiting does not accept cash transfer tuition students for Whiting Elementary School because it does not have space available. The transfer tuition charged by the Whiting School City is a flat rate which is set by the Whiting School Board. The Whiting School City does not charge transfer tuition based on the calculations set on the Transfer Tuition Statement - Form No. 515. By accepting transfer tuition students, the Whiting School City annually generates approximately an additional One Hundred Thousand Dollars (\$100,000.00) per year for its general fund. This amount was generated without the addition of any staff as it is the district's policy not to accept a cash transfer student unless there is

classroom space/seats available. The tuition payments for the cash transfer students are paid entirely by the parents/guardians of the transfer students. None of the didtrict's cash transfer students are enrolled due to court foster-home placement. The Whiting School City only accepts students who are residents of Indiana.

II. ANALYSIS

The School City of Whiting is a small school district with large assessed valuation for its size. Most of its operating funds come from local property taxes.

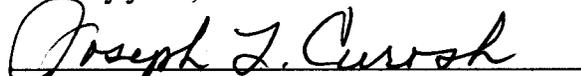
The funding formula is sensitive to the amount of tuition support provided by the State to the School District, and if the tuition support amount under the formula is low, then the tuition rate set under IC 20-8.1-6.1-3 becomes very high. Due to this quirk in funding under the funding formula as applied to the Whiting School District, the calculation of the transfer tuition under IC 20-8.1-6.1-3 in part (b) creates a tuition rate of such magnitude that it is prohibitive for the potential transfer students and would in effect eliminate this source of revenue to the Whiting School District. In addition, since only a small portion of the transfer tuition comes from any governmental bodies, the State of Indiana saves the payment of Tuition Support which it would have had to expend if the transfer students had attended the school district in which they resided. The transfer students to the Whiting School District come almost exclusively from the Hammond and East Chicago City School Districts.

If the School City of Whiting attempted to set the amount it charges for cash transfer tuition on the calculations set out on the Transfer Tuition Statement - Form No. 515, the absolute net effect of this action would be to totally eliminate the approximate One Hundred Thousand Dollars (\$100,000.00) of cash transfer tuition receipts from the Whiting School District. It would also require the State of Indiana to pay tuition support if the cash transfer students were forced to attend the school district in which they resided. If the cash transfer tuition for the School City of Whiting was calculated in accordance with the Transfer Tuition Statement - Form No. 515, it would significantly exceed the cash transfer tuition rate for

all of the nearby school districts. This change would be an increase in the cash transfer tuition of approximately two times the present tuition rate. The only conclusion that can reasonably be drawn is that the Whiting School District would eliminate all cash transfer students if its cash transfer tuition was set with the Transfer Tuition Statement - Form No. 515.

The benefit derived by setting the cash transfer tuition at an affordable rate is to generate approximately One Hundred Thousand Dollars (\$100,000.00) per year for the Whiting School District's general fund and to reduce the tuition support paid by the State of Indiana to the school district in which the transfer students resided. Simply put, the School City of Whiting receives approximately Three Thousand Eight Hundred Dollars (\$3,800.00) per year per cash transfer student and the State of Indiana is relieved of paying approximately Three Thousand One Hundred Thirteen Dollars (\$3,113.00) in tuition support for each of these cash transfer students. This is a total net swing of approximately Six thousand Nine Hundred Dollars (\$6,900.00) in a combined benefit for both the School City of Whiting and the State of Indiana which would be lost if the School City of Whiting was compelled to set its cash transfer tuition with the Transfer Tuition Statement - Form No. 515.

Sincerely yours,



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February 27, 2007

Dr. Sandra Martinez
Superintendent of Schools
School City of Whiting
1500 Center Street
Whiting, Indiana 46394

RE:*BOARD OF ACCOUNTS AUDIT FOR TWO YEAR PERIOD ENDING 6/30/06*
RESPONSE TO AUDIT RESULTS AND COMMENTS
SCHOOL CITY OF WHITING TRANSPORTATION FUND EXPENDITURES

Dear Dr. Martinez:

This letter is written in reference to the *Audit Results and Comments* issued by the State Board of Accounts in their Audit of the School City of Whiting for the two year period ending 6/30/06 concerning the practice of paying portions of the salaries for the Superintendent, the Treasurer and the Superintendent's secretary from the Transportation Fund during the audit period.

The practice of allocating 5% of the Superintendent's salary, 5% of the Treasurer's salary, and 10% of the Superintendent's secretary's salary to the Transportation Fund reflects that a portion of the duties of the Superintendent, Deputy Treasurer and the Superintendent's secretary are devoted and attributable to the transportation function. These transportation duties are due to the small size of the school district and the necessity that these positions perform responsibilities and duties that include both the transportation function and the operation function. The paying of portions of these salaries from the Transportation Fund is consistent with, rather than contrary to, I.C. 21-2-11.5-2(b) and I.C. 21-2-11.5-2(c). It should be noted in analyzing this matter, the Whiting School System only pays positions, which have transportation-related responsibilities included in their duties from the Transportation Fund. Furthermore the portions of the salaries paid out of the Transportation Fund are set to reflect the percentage of transportation related duties performed by said position.

IC 21-2-11.5-2(b), School Transportation Fund, states in part: "The costs attributable to transportation include: (1) the salaries paid bus drivers, transportation supervisors, mechanics and garage employees, clerks, and other transportation-related employees. . ."

Clearly the above-cited statute is not a prohibition against paying "other transportation-related employees" out of the transportation Fund. The list of costs attributable to transportation set out above in IC 21-2-11.5-2(b) is not intended to exhaust all possible types of costs which can be attributable to transportation. The practice of the Whiting School City merely follows this statute and conservatively apportions the percentages of the transportation-related duties of the Superintendent, Treasurer, and Superintendent's secretary to the Transportation Fund.

Effective July 1, 1995, IC 21-2-11.5-2(c) states: "Beginning January 1, 1996, portions, percentages, or parts of salaries of teaching personnel or principals are not attributable to transportation. However, parts of salaries of instructional aides who are assigned to assist with the school transportation program are attributable to transportation. The costs described in this section (other than instructional aide costs) may not be budgeted for payment or paid from the school transportation fund."

The conclusion of Attorney General Advisory No. 96-78 states in part: "The school transportation fund was established to cover costs which are attributable to transportation. Indiana Code 21-2-11.5-2(b)(1) through (b)(7) set forth the costs that may be attributed to transportation. According to subsection (b)(1), the salaries of "transportation-related" employees may be paid from this fund. As the school superintendent and school corporation treasurer do not appear to be positions that are transportation-related, payment from the transportation fund of the salaries attached to these positions would be improper."(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Page 8-23)

The Attorney General Advisory Opinion No. 96-78 clearly sets forth that "According to subsection (b)(1), the salaries of "transportation-related" employees may be paid from this fund." He further only says that "the school superintendent and school corporation treasurer do not appear to be positions that are transportation-related, payment from the transportation fund of the salaries attached to

these positions would be improper." In the Whiting School City, a 5% portion of both the superintendent's and the corporation treasurer's salaries and 10% of the Superintendent's secretary's salary are in fact transportation-related and as such these portions of each of these salaries can appropriately be paid from the transportation account.

Based on the transportation duties included in the responsibilities of the Superintendent, the Treasurer, and the Superintendent's secretary of the School City of Whiting, it is clear that the portions of their duties that are transportation-related can be paid out of the Transportation Fund. It is noted that the transportation duties of the Superintendent, the Treasurer and the Superintendent's secretary are included in the job description of each, respectively.

Sincerely yours,



JOSEPH L. CUROSH
ATTORNEY FOR THE SCHOOL CITY OF WHITING