

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

AUDIT REPORT
OF
DUNELAND SCHOOL CORPORATION
PORTER COUNTY, INDIANA
July 1, 2004 to June 30, 2006



FILED
04/26/2007

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials.....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	3-4
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.....	5-6
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Cash and Investments	7-8
Statement of Cash Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Statement of Receipts, Disbursements, and Cash and Investment Balances – Governmental Funds.....	11-12
Reconciliation of the Statement of Receipts, Disbursements, and Cash and Investment Balances of Governmental Funds to the Statement of Cash Activities.....	11-12
Proprietary Funds:	
Statement of Receipts, Disbursements, and Changes in Cash and Investments – Proprietary Fund.....	13-14
Fiduciary Funds:	
Statement of Receipts, Disbursements, and Changes in Cash and Investments – Fiduciary Funds.....	15-16
Statement of Cash and Investments – Fiduciary Funds.....	17-18
Notes to Financial Statements	19-29
Required Supplementary Information:	
Schedule of Funding Progress	30
Supplementary Information:	
Schedule of Capital Assets.....	31
Schedule of Long-Term Debt.....	32
Other Report.....	33
Audit Results and Comments:	
Transfer Tuition and Form 515	34
Timeliness of Reports	34
Capital Asset Records	34
Average Daily Membership (ADM) – Incorrect Reporting to the State	34-35
Cash Change Fund.....	35
Correction of Errors	35
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	38-39
Schedule of Expenditures of Federal Awards.....	40
Notes to Schedule of Expenditures of Federal Awards	41
Schedule of Findings and Questioned Costs.....	42-44
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings.....	45
Corrective Action Plan.....	46
Exit Conference.....	47

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Bonita K. Gaston	07-01-04 to 06-30-07
Superintendent of Schools	Dr. Dirk E. Baer	07-01-04 to 06-30-07
President of the School Board	Michael Griffin Nick Jurasevich Michael Trout Janice M. Custer	07-01-04 to 12-31-04 01-01-05 to 12-31-05 01-01-06 to 12-31-06 01-01-07 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE DUNELAND SCHOOL CORPORATION, PORTER COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Duneland 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 February 12, 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.

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

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.

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 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

March 6, 2007



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Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF THE DUNELAND SCHOOL CORPORATION, PORTER COUNTY, INDIANA

We have audited the financial statements of the Duneland School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated February 12, 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.

We noted certain immaterial instances of noncompliance that we have discussed with the management of the School Corporation on February 12, 2007. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School Corporation's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Of the reportable conditions described above, we consider item 2006-1 to be a material weakness.

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

STATE BOARD OF ACCOUNTS

March 6, 2007

DUNELAND SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 23,982,939
Restricted assets:	
Cash and investments	<u>4,118,584</u>
Total assets	<u>\$ 28,101,523</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 4,118,584
Unrestricted	<u>23,982,939</u>
Total net assets	<u>\$ 28,101,523</u>

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

DUNELAND SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 13,012,951
Restricted assets:	
Cash and investments	<u>1,581,934</u>
Total assets	<u>\$ 14,594,885</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,581,934
Unrestricted	<u>13,012,951</u>
Total net assets	<u>\$ 14,594,885</u>

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

DUNELAND 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	\$ 15,606,371	\$ -	\$ 149,849	\$ (15,456,522)
Support services	31,384,182	1,915,931	417,591	(29,050,660)
Community services	481,414	-	-	(481,414)
Nonprogrammed charges	2,174,451	-	-	(2,174,451)
Debt service	16,270,058	-	-	(16,270,058)
Total governmental activities	\$ 65,916,476	\$ 1,915,931	\$ 567,440	(63,433,105)
General receipts:				
Property taxes				35,656,098
Other local sources				7,342,711
State aid				16,231,646
Grants and contributions not restricted				510,817
Bonds and loans				4,551,658
Sale of property, adjustments, and refunds				4,560,545
Investment earnings				459,405
Total general receipts				69,312,880
Change in cash and investments				5,879,775
Net assets - beginning				22,221,748
Net assets - ending				\$ 28,101,523

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

DUNELAND 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	\$ 15,863,976	\$ -	\$ 143,153	\$ (15,720,823)
Support services	34,132,040	1,764,235	822,015	(31,545,790)
Community services	472,200	-	-	(472,200)
Nonprogrammed charges	2,820,068	-	-	(2,820,068)
Debt service	12,729,317	-	-	(12,729,317)
Total governmental activities	\$ 66,017,601	\$ 1,764,235	\$ 965,168	(63,288,198)
General receipts:				
Property taxes				20,264,351
Other local sources				4,312,763
State aid				13,928,681
Grants and contributions not restricted				346,871
Bonds and loans				4,529,411
Sale of property, adjustments, and refunds				5,779,832
Investment earnings				619,651
Total general receipts				49,781,560
Change in cash and investments				(13,506,638)
Net assets - beginning				28,101,523
Net assets - ending				\$ 14,594,885

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

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

	General	Transportation Operating	Rainy Day Fund	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$23,236,121	\$ 3,790,088	\$ -	\$ 7,897,932	\$ 5,171,553	\$ 660,501	\$3,729,475	\$ 44,485,670
Intermediate sources	-	-	-	-	-	-	26,910	26,910
State sources	16,393,495	-	-	-	-	-	167,178	16,560,673
Federal sources	2,500	-	-	-	-	-	746,730	749,230
Bonds and loans	3,000,000	802,000	-	-	-	207,000	542,658	4,551,658
Sale of property, adjustments and refunds	17,877	12,861	-	-	18,428	-	21,094	70,260
Interfund transfers	574,559	-	300,000	612,131	-	-	241,226	1,727,916
Total receipts	43,224,552	4,604,949	300,000	8,510,063	5,189,981	867,501	5,475,271	68,172,317
Disbursements:								
Current:								
Instruction	15,031,516	-	-	-	-	-	574,855	15,606,371
Support services	15,443,783	2,662,456	951,059	-	4,659,424	167,643	2,305,138	26,189,503
Community services	475,370	-	-	-	-	-	6,044	481,414
Nonprogrammed charges	2,456,497	-	-	123,498	114,844	465,378	742,150	3,902,367
Debt services	7,328,439	760,000	-	6,961,104	-	-	1,220,515	16,270,058
Total disbursements	40,735,605	3,422,456	951,059	7,084,602	4,774,268	633,021	4,848,702	62,449,713
Excess (deficiency) of total receipts over (under) total disbursements	2,488,947	1,182,493	(651,059)	1,425,461	415,713	234,480	626,569	5,722,604
Cash and investments - beginning	10,197,975	375,302	5,025,000	2,172,279	2,392,988	-	999,114	21,162,658
Cash and investments - ending	<u>\$ 12,686,922</u>	<u>\$ 1,557,795</u>	<u>\$ 4,373,941</u>	<u>\$ 3,597,740</u>	<u>\$ 2,808,701</u>	<u>\$ 234,480</u>	<u>\$ 1,625,683</u>	<u>\$ 26,885,262</u>

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

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

Net change in fund balances - total governmental funds	\$ 5,722,604
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>157,171</u>
Change in cash and investments of governmental activities	<u>\$ 5,879,775</u>

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

	General	Transportation Operating	Rainy Day Fund	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 13,138,346	\$ 2,054,244	\$ -	\$ 3,973,054	\$ 4,117,939	\$ 338,571	\$ 2,731,141	\$ 26,353,295
Intermediate sources	277	-	-	-	-	-	14,590	14,867
State sources	14,048,817	-	-	-	-	-	419,756	14,468,573
Federal sources	-	-	-	-	-	-	772,148	772,148
Bonds and loans	2,500,000	369,000	-	593,000	-	363,000	704,411	4,529,411
Sale of property, adjustments and refunds	229,566	11,309	-	-	17,093	-	9,225	267,193
Interfund transfers	14,632	-	2,300,000	-	-	-	100,070	2,414,702
Total receipts	29,931,638	2,434,553	2,300,000	4,566,054	4,135,032	701,571	4,751,341	48,820,189
Disbursements:								
Current:								
Instruction	15,264,148	-	-	-	-	-	599,828	15,863,976
Support services	16,298,858	2,832,138	329,879	7,160	6,046,411	451,455	2,819,854	28,785,755
Community services	471,024	-	-	-	-	-	1,176	472,200
Nonprogrammed charges	4,772,518	-	-	-	300,000	-	162,252	5,234,770
Debt services	3,000,000	802,000	-	7,006,554	-	207,000	1,713,763	12,729,317
Total disbursements	39,806,548	3,634,138	329,879	7,013,714	6,346,411	658,455	5,296,873	63,086,018
Excess (deficiency) of total receipts over (under) total disbursements	(9,874,910)	(1,199,585)	1,970,121	(2,447,660)	(2,211,379)	43,116	(545,532)	(14,265,829)
Cash and investments - beginning	12,686,922	1,557,795	4,373,941	3,597,740	2,808,701	234,480	1,625,683	26,885,262
Cash and investments - ending	<u>\$ 2,812,012</u>	<u>\$ 358,210</u>	<u>\$ 6,344,062</u>	<u>\$ 1,150,080</u>	<u>\$ 597,322</u>	<u>\$ 277,596</u>	<u>\$ 1,080,151</u>	<u>\$ 12,619,433</u>

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

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

Net change in fund balances - total governmental funds	\$(14,265,829)
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>759,191</u>
Change in cash and investments of governmental activities	<u><u>\$(13,506,638)</u></u>

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

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 861,565
Sale of property, adjustments and refunds	<u>4,490,285</u>
Total receipts	<u>5,351,850</u>
Disbursements:	
Support services	<u>5,194,679</u>
Changes in cash and investments	157,171
Cash and investments - beginning	<u>1,059,090</u>
Cash and investments - ending	<u>\$ 1,216,261</u>

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

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

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 592,837
Sale of property, adjustments and refunds	<u>5,512,639</u>
Total receipts	<u>6,105,476</u>
Disbursements:	
Support services	<u>5,346,285</u>
Changes in cash and investments	759,191
Cash and investments - beginning	<u>1,216,261</u>
Cash and investments - ending	<u><u>\$ 1,975,452</u></u>

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

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

	<u>Pension Trust Funds</u>
Additions:	
Local sources	\$ <u>120,338</u>
Deductions:	
Support services	<u>290,221</u>
Deficiency of total additions under total deductions	(169,883)
Cash and investments - beginning	<u>7,447,913</u>
Cash and investments - ending	<u><u>\$ 7,278,030</u></u>

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

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

	Pension Trust Funds
Additions:	
Local sources	\$ 254,659
Bonds and loans	5,847,126
Total additions	6,101,785
Deductions:	
Support services	842,394
Excess of total additions over total deductions	5,259,391
Cash and investments - beginning	7,278,030
Cash and investments - ending	\$ 12,537,421

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

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

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	<u>\$ 7,278,030</u>	<u>\$ 330,949</u>
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	<u>\$ 7,278,030</u>	

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

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

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ <u>12,537,421</u>	\$ <u>409,170</u>
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ <u>12,537,421</u>	

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

DUNELAND 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: Duneland School Corporation

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

Joint Venture

The School Corporation is a participant with six Porter County School Corporations in a joint venture to operate the Porter County Education Interlocal (Interlocal) which was created to provide regional educational services. The School Corporation is obligated by contract to remit a share of the operating costs, based on a formula which uses the number of students within each corporation that are served by the Interlocal. The Interlocal's continued existence depends on continued funding by the School Corporation. Complete financial statements for the Interlocal can be obtained from the Porter County Education Interlocal Administrative Offices, 750 Ransom Road, Valparaiso, IN, 46385.

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

The School Corporation is a participant with 25 other school corporations in a joint venture to operate the Northwest Indiana Educational Service Center (Service Center) which was created to purchase equipment and supplies and to provide staff training and other programs. The Service Center's governing board has full authority to manage the Service Center, including responsibility for fiscal matters. Complete financial statements for the Service Center can be obtained from the Service Center's administrative office at 2939 – 41st Street, Highland, IN, 46322-2790.

The School Corporation is a participant with 15 other school corporations in a joint venture to operate the Northwest Indiana Natural Gas Cooperative (Cooperative) with the Northwest Indiana Educational Service Center (Service Center) as the administrative agency which was created to purchase natural gas. The Cooperative's governing board has full authority to manage the Cooperative, including responsibility for fiscal matters. Complete financial statements for the Cooperative can be obtained from the Service Center's administrative office at 2939 – 41st Street, Highland, IN, 46322-2790.

DUNELAND SCHOOL CORPORATION
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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

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

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

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

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.

Additionally, the School Corporation reports the following fund types:

The internal service fund accounts for assets used to pay for health self-insurance.

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

Agency funds account for assets held by the School Corporation as an agent for payroll withholdings and serve as control of accounts for certain cash transactions during the time they are a liability to the School Corporation.

DUNELAND SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations 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.

DUNELAND SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 10 to 12 days per year based on months of service. Unused sick leave of certified personnel may be accumulated indefinitely. Unused sick leave of noncertified personnel may be accumulated to a maximum of 150 days. Accumulated sick leave is paid to employees through cash payments upon separation of employment.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from ½ day per month to 12 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year for nonteaching and noncertified personnel. Vacation leave may be accumulated to a maximum of 40 days for administrators. Accumulated vacation leave is paid to employees through cash payments upon separation of employment.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 3 days per year. Unused personal leave may be accumulated to the sick leave balance at the close of the school 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.

DUNELAND SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

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

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

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

F. Internal and Interfund Balances and Activities

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

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Cash and Investments and Statement of Cash Activities.

DUNELAND SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied 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.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

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

2. Investments

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

Investment Policies

Indiana Code 5-13-9 authorizes the School Corporation to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal

DUNELAND SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

B. Interfund Transfers

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

Transfer From	Transfer To	2005	2006
General Fund	Rainy Day Fund	\$ 245,000	\$ 2,000,000
General Fund	Other governmental	37,045	14,975
Debt Service Fund	General Fund	11,912	-
Debt Service Fund	Other governmental	111,586	-
Capital Project Fund	General Fund	59,844	-
Capital Project Fund	Rainy Day Fund	55,000	300,000
School Bus Replacement	General Fund	465,378	-
Other governmental	General Fund	37,425	14,632
Other governmental	Debt Service Fund	612,131	-
Other governmental	Other governmental	92,595	85,095
Totals		<u>\$ 1,727,916</u>	<u>\$ 2,414,702</u>

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

DUNELAND SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

IV. Other Information

A. Risk Management

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

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Medical Benefits to Employees, Retirees, and Dependents

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

B. Holding Corporation

The School Corporation has entered into a capital lease with the Duneland 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 year ended June 30, 2006, totaled \$6,944,000.

C. Subsequent Events

On December 4, 2006, the School Board authorized the issuance of tax anticipation warrants totaling \$8,500,000. The warrants mature on December 31, 2007, with an interest rate of 3.6%.

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 55 with at least 15 years of service. Currently, 22 retirees meet these eligibility requirements. For the School Corporation retirees who retired between September 1, 1996 and June 30, 2002, the School Corporation provides \$1,000 and for those who retired after June 30, 2002, the School Corporation provides \$1,500 annually toward the payment of each retiree's single health insurance premium for a maximum of 10 years or until the retiree reaches age 65. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$79,944 were recognized for postemployment benefits.

DUNELAND SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

E. Pension Plans

Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 274,668
Interest on net pension obligation	(29,766)
Adjustment to annual required contribution	33,921
Annual pension cost	278,823
Contributions made	364,208
Decrease in net pension obligation	(85,385)
Net pension obligation, beginning of year	(410,567)
Net pension obligation, end of year	\$ (495,952)

DUNELAND SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

	PERF
Contribution rates:	
School Corporation	6.82%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-04	\$ 376,857	96%	\$ (275,959)
	06-30-05	238,895	156%	(410,567)
	06-30-06	278,823	152%	(495,952)

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.

DUNELAND SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 contributes 3% of the members' salary to the members' annuity savings account and contributes 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 \$469,785, \$423,388, and \$387,462, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

DUNELAND SCHOOL CORPORATION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 6,813,737	\$ 6,371,156	\$ 442,581	107%	\$ 5,416,272	8%
07-01-04	6,934,366	6,724,379	209,987	103%	5,689,850	4%
07-01-05	7,221,365	7,958,529	(737,164)	91%	5,948,277	(12%)

DUNELAND 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	\$ 1,220,000
Buildings	11,122,854
Improvements other than buildings	23,327,850
Machinery and equipment	<u>100,791,667</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 136,462,371</u>

DUNELAND 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:		
Chesterton High School	\$ 73,266,150	\$ 3,705,000
Notes and Loans Payable	10,979,791	1,546,287
Bonds Payable:		
General Obligation Bonds:		
2001 Pension Bonds	7,305,000	750,000
2006 Pension Bonds	<u>6,125,000</u>	<u>-</u>
Total Governmental Activities Long-Term Debt	<u><u>\$ 97,675,940</u></u>	<u><u>\$ 6,001,287</u></u>

DUNELAND SCHOOL CORPORATION
OTHER REPORT

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

School Corporation Extra-Curricular Account

DUNELAND SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

TRANSFER TUITION AND FORM 515

The School Board has established set rates for transfer tuition since 2002 for students not residing in the Duneland School Corporation. School Officials did prepare Transfer Tuition Statement Form 515; however, the amounts calculated on the Form 515 were not used in the billings of the out-of-district students.

Indiana Code 20-26-11-6 states in part:

"(a) A school corporation may accept a transferring student without approval of the transferor corporation under section 5 of this chapter.

(b) 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)

TIMELINESS OF REPORTS

Three of the ten financial reports submitted to the Indiana Department of Education for the Title 1 grant were not submitted in a timely manner. Reports were filed two to eleven days after the due date.

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

CAPITAL ASSET RECORDS

Capital asset records have not been updated since June 30, 2004.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded on the applicable Capital Assets Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (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 30A, Report of Average Daily Membership (ADM) for State Support, were incorrect for the school years ending June 30, 2005 and June 30, 2006.

DUNELAND SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

The enrollment count dates for the 2004-2005 school year and the 2005-2006 school years were September 17, 2004 and September 16, 2005, respectively. 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 30A</u>	<u>Actual Enrollment Figures</u>	<u>Difference</u>
2004-2005	Kindergarten	182	180	2.0
2004-2005	1 through 12	5,176	5,162	14.0
2005-2006	Kindergarten	187.00	188.50	(1.5)
2005-2006	1 through 12	5,254	5,253	1.0

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)

CASH CHANGE FUND (Applies to Chesterton High School)

The Cash Change Fund was short \$358.90. The Treasurer does not keep a log of when or who has taken money out for change or when the cash change is returned from the various school activities. As a result, we were unable to determine if the money was deposited with a school activity receipt.

A Cash Change Fund may be established in any school corporation with the approval of the governing body (board of school trustees), where any officer or employee of the corporation is charged with the duty of collecting fees or other cash revenues. When authorized by the governing body, such Cash Change Fund shall be established by a check drawn on the General Fund (or other appropriate fund) of the school corporation in an amount to be determined by the governing body. The check is drawn in favor of the officer or employee who has been designated as custodian of the Cash Change Fund. The custodian shall convert same to cash and be held responsible for the safekeeping of such cash and the proper accounting thereof in the same manner as required for other funds of the school corporation. The governing board shall have authority to increase or decrease such fund and shall require the entire Cash Change Fund to be returned to the General Fund if and when it is no longer needed for the purpose established or when a change is made in the custodian of the fund [IC 36-1-8-2]. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

CORRECTION OF ERRORS (Applies to Chesterton Middle School)

Negative receipts were used for transfers and correction of errors.

Receipt and disbursement corrections or other errors should be corrected by memorandum entry with the issuance of a check and receipt to document the flow of the transactions. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE DUNELAND SCHOOL CORPORATION, PORTER COUNTY, INDIANA

Compliance

We have audited the compliance of the Duneland 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. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-2 and 2006-3.

Internal Control Over Compliance

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

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School Corporation's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-2 and 2006-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2006-2 to be a material weakness.

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

STATE BOARD OF ACCOUNTS

March 6, 2007

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

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 69,545	\$ 77,564
National School Lunch Program	10.555		<u>415,012</u>	<u>451,271</u>
Total for Federal Grantor Agency			<u>484,557</u>	<u>528,835</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010			
03-6470			33,520	-
04-6470			209,608	64,454
05-6470			<u>-</u>	<u>169,142</u>
Total for Program			<u>243,128</u>	<u>233,596</u>
Safe and Drug Free Schools and Communities - State Grants	84.186			
Title IV, Part A, Subpart 1 of ESEA				
01-237			5,154	-
02-126			30,000	-
03-276			<u>-</u>	<u>57,994</u>
Total for Program			<u>35,154</u>	<u>57,994</u>
Eisenhower Professional Development State Grants	84.281			
Title II, Part B of ESEA				
01-205			<u>508</u>	<u>-</u>
State Grants for Innovative Programs	84.298			
Title V, Part A of ESEA				
02-092			1,146	-
03-145			26,409	-
04-114			<u>-</u>	<u>23,737</u>
Total for Program			<u>27,555</u>	<u>23,737</u>
Education Technology State Grants	84.318			
Title II, Part D, Subparts 1 and 2 of ESEA				
02-03			1,103	-
03-04			-	7,528
04-05			<u>-</u>	<u>5,775</u>
Total for Program			<u>1,103</u>	<u>13,303</u>
Improving Teacher Quality State Grants	84.367			
Title II, Part A of ESEA				
02-298			99,044	-
03-259			<u>-</u>	<u>95,346</u>
Total for Program			<u>99,044</u>	<u>95,346</u>
Total for Federal Grantor Agency			<u>406,492</u>	<u>423,976</u>
Total Federal Awards Expended			<u>\$ 891,049</u>	<u>\$ 952,811</u>

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

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

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

II. Noncash Assistance

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

Program Title	Federal CFDA Number	2005	2006
Child Nutrition Cluster	10.555	\$ 81,992	\$ 154,941

DUNELAND SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	yes
Reportable conditions identified that are not considered to be material weaknesses?	yes

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	yes
Reportable conditions identified that are not considered to be material weaknesses?	yes

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Child Nutrition Cluster Title I Grants to Local Educational Agencies

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2006-1, INTERNAL CONTROLS OVER SCHOOL LUNCH AND TEXTBOOKS

The School Corporation maintains a central extra-curricular account primarily for the receipting and disbursing of school lunch and elementary textbook rental collections. The accounts had \$3,535,400 and \$489,307 of disbursements, respectively, during the audit period. The controls over the receipting and disbursing do not allow for effective segregation of duties. The Treasurer of the accounts does all of the receipting, depositing, disbursing, and posting to the ledger without any oversight. The checks processed from the accounts are required to have the signatures of the Bookkeeper and the School Corporation Treasurer. However, the Bookkeeper uses a signature stamp for the School Corporation Treasurer’s signature and the School Corporation Treasurer does not review the claims or the checks.

DUNELAND SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The bank reconciliation prepared by the School Corporation Extra-Curricular Treasurer indicated that the book balance reconciled to the bank balance at December 31, 2006. However, during our audit, we noted 10 checks totaling \$36,566 that were posted to the ledger that either did not clear the bank or cleared the bank for an amount different than the amount posted. None of these checks appeared on the School Corporation's outstanding check listing. The disbursements were posted to the School Lunch, Textbook Rental, Delinquent Textbook Rental, and School Lunch Payroll Withholding accounts, reducing the book balance by the \$36,566. No information was presented for audit to support documentation for the postings.

There were also ninety-five checks totaling \$52,700.79 that had cleared the bank but had not been posted. Eighty-four of the checks were payroll checks totaling \$35,399 that the Extra-Curricular Bookkeeper wrote to herself in addition to her approved compensation. The ninety-five checks were not supported by payroll claims, accounts payable vouchers (claims) or vendor invoices. The items also did not appear as reconciling items on the bank reconciliation.

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 Extra-Curricular Accounts, Chapter 7)

We recommended that School Corporation Officials establish and maintain controls for verifying the accuracy of all school lunch and textbook rental receipts and disbursements.

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-2, ALLOWABLE COSTS

Federal Agency: U.S. Department of Agriculture
Federal Program: Child Nutrition Cluster
CFDA Numbers: 10.553, 10.555
Pass-Through Entity: Indiana Department of Education

Our understanding of the internal control structure in existence for food service expenditures indicated that accounts payable vouchers (claims) are to be reviewed by the Food Service Director and the Bookkeeper prior to payment. The Food Service Director and the Bookkeeper are then to sign the claims to indicate that the claims have been properly reviewed. The checks issued are to be signed by the Bookkeeper and the School Corporation Treasurer.

Internal controls help ensure that the disbursements are charged to the correct fund, and are for allowable items. Therefore, when the controls are not adhered to, payments can be made for items which should be posted to another fund, or for items which are not allowable.

Claims initiated by the Bookkeeper at the administration building for miscellaneous expenditures (i.e. refunds, mileage); however, are not reviewed by the Food Service Director or anyone else. The claims examined that were initiated by the Bookkeeper contained no authorizing signatures and the checks were stamped with the School Corporation Treasurer's signature.

DUNELAND SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Three checks totaling \$25,392 were posted in the ledger from July 1, 2004 to December 31, 2006, to the School Lunch Fund that either did not clear the bank or cleared the bank for amount different than the amount posted. None of these checks appeared on the outstanding checklist, nor were any adjustments recorded to account for the difference. The disbursements subsequently reduced the book balance by \$25,392. No information was presented for audit to support documentation for the postings.

Additionally, two checks totaling \$14,392 cleared the bank, but had not been posted to the ledger. The checks were not supported by accounts payable vouchers (claims) and vendor invoices. The checks also did not appear as reconciling items on the School Corporation's bank reconciliation.

7CFR3016.20 (b) states in part:

"(3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes . . . (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

We recommended that School Corporation Officials establish and maintain controls for verifying the accuracy of all Child Nutrition Grant disbursements.

FINDING 2006-3, CASH MANAGEMENT

Federal Agency: U.S. Department of Education
Federal Programs: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Grant Numbers: 03-6470, 04-6470, 05-6470
Pass-through Entity: Indiana Department of Education

The School Corporation maintained cash balances in excess of current needs. Ending cash balances for the period July 1, 2004 to June 30, 2006, exceeded the following month's disbursements for 20 out of 24 months for the Title I grants. Officials use a system to project cash flow needs throughout the year; however, drawdowns are not modified when actual needs differentiate from the anticipated cash flows.

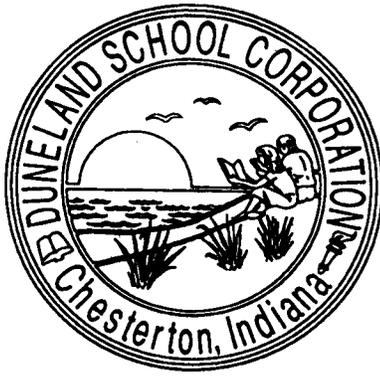
34 CFR § 80.20(b)(7) states in part: "Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. . . Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

The IASA, Title I Quarterly Monitoring Report states in part: "The Federal Government requires that the amount of Cash-on-Hand at each Local Educational Agency (LEA) be as near '0' as possible at the end of each month. . . Your cash balance at the end of each quarter should be zero (0) or as near zero (0) as possible."

School Corporation certified on the Title I Cash Requests that "the amount of the estimated cash request will not result in a cash surplus greater than the estimated expenditures."

Failure to comply with the Cash Management requirement could cause the School Corporation to be deemed ineligible to receive federal awards in the future.

We recommended School Officials design and properly monitor procedures that would ensure that federal funds are requested as needed and are disbursed in a timely manner.



Duneland School Corporation

ADMINISTRATION CENTER

601 West Morgan Avenue

Chesterton, Indiana 46304-2205

Phone: 219-983-3600 FAX: 219-983-3614

January 18, 2007

State Board of Accounts
Room E418 302 Washington Street
Indianapolis IN 46204-2765

To Whom It May Concern:

In response to what remediation has occurred to address two findings in the Federal portion of our 2004 audit, I would offer the following:

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding No. 2004 Cash Management

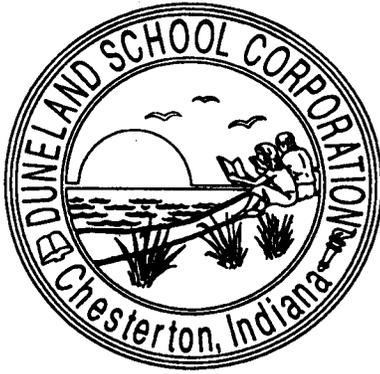
Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number 84010
Pass-through Entity: Indiana Department of Revenue

In regard to the concern of cash management, it still continues to be a problem controlling the cash available at the end of each quarter. Again, the effort will be made to have a lesser balance each quarter, with the assistance of the Title I Administrator.

Sincerely,

Bonita K. Gaston
Business Manager/Treasurer

BG/eh



Duneland School Corporation

ADMINISTRATION CENTER

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Phone: 219-983-3600 FAX: 219-983-3614

March 6, 2007

State Board of Accounts
Room E418 302 Washington Street
Indianapolis IN 46204-2765

Gentlemen:

**DUNELAND SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND
QUESTIONED COSTS
CORRECTIVE ACTION PLAN**

Section II- Financial Statement Findings

FINDING 2006-1 INTERNAL CONTROLS OVER SCHOOL LUNCH AND TEXTBOOKS

Efforts are in the process of closing the administration extra curricular account and moving the school lunch, textbook and other accounts to the Corporation accounting system. This will enable the proper controls to be in place for maintaining these funds.

Section III – Financial Statement Findings

FINDINGS 2006.2 ALLOWABLE COSTS

See above corrective action. Section II- Financial Statement Findings

FINDINGS 2006.3 CASH MANAGEMENT

Efforts will be made to request funds more accurately. When budgets are being prepared by the school administrator, the budget will be figured based on monthly expenditures. The Title I administrator will be involved in assisting the treasurer in allocation of funds.

Sincerely,

Bonita K. Gaston
Treasurer

DUNELAND SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 6, 2007, with Dr. Dirk E. Baer, Superintendent of Schools; Bonita K. Gaston, Treasurer; and Janice M. Custer, President of the School Board. The officials concurred with our audit findings.