

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

SCHOOL TOWN OF MUNSTER
LAKE COUNTY, INDIANA

July 1, 2011 to June 30, 2013



FILED
03/14/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Richard A. Sopko Janice Swanson	07-01-11 to 06-30-12 07-01-12 to 06-30-14
Superintendent of Schools	William Pfister Richard A. Sopko	07-01-11 to 06-30-12 07-01-12 to 06-30-14
President of the School Board	Paula Nellans John E. Friend Judith Florczak	07-01-11 to 12-31-12 01-01-13 to 12-31-13 01-01-14 to 12-31-14



INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE SCHOOL TOWN OF MUNSTER, LAKE COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the School Town of Munster (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2011 to June 30, 2013, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School Corporation's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the School Corporation prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the School Corporation for the period of July 1, 2011 to June 30, 2013.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the School Corporation for the period of July 1, 2011 to June 30, 2013, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated January 9, 2014, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Corporation's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

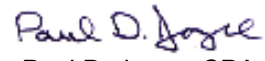
Our audit was conducted for the purpose of forming an opinion on the School Corporation's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the School Corporation's financial statement. The Combining Schedules of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances – Regulatory Basis, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

Other Information

The School Corporation's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.


Paul D. Joyce, CPA
State Examiner

January 9, 2014



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AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE SCHOOL TOWN OF MUNSTER, LAKE COUNTY, INDIANA

We have audited, 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, the financial statement of the School Town of Munster (School Corporation), which comprises the financial position and results of operations for the period of July 1, 2011 to June 30, 2013, and the related notes to the financial statement, and have issued our report thereon dated January 9, 2014, wherein we noted the School Corporation followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the School Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 and 2013-002 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Corporation's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material

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


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 or other matters that are required to be reported under *Government Auditing Standards*.

School Town of Munster's Response to Findings

The School Corporation's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

January 9, 2014

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the School Corporation. The financial statement and notes are presented as intended by the School Corporation.

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SCHOOL TOWN OF MUNSTER
STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Years Ended June 30, 2012 and 2013

	Cash and Investments 07-01-11	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-12	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-13
General	\$ (7,081,392)	\$ 26,929,548	\$ 29,165,071	\$ 2,300,000	\$ (7,016,915)	\$ 28,149,954	\$ 31,140,227	\$ -	\$ (10,007,188)
Debt Service	1,343,416	6,482,282	3,841,408	(24,000)	3,960,290	5,068,910	4,873,750	(18,891)	4,136,559
Exempt Debt	2,597,138	11,873,696	8,268,548	-	6,202,286	10,218,941	10,215,480	-	6,205,747
Exempt Retirement/Severance Bond Debt Service	189,284	1,194,462	1,130,672	-	253,074	905,360	1,122,257	-	36,177
Capital Projects	246,001	5,208,230	5,003,831	-	450,400	3,725,640	4,833,310	-	(657,270)
School Transportation	694,234	3,248,103	2,910,004	69,535	1,101,868	2,831,314	2,873,760	-	1,059,422
School Bus Replacement	169,488	833,537	678,124	-	324,901	387,307	535,973	-	176,235
Rainy Day	3,165,000	-	-	(2,300,000)	865,000	-	-	-	865,000
Retirement/Severance Bond	2,612,097	2,639,916	3,578,716	-	1,673,297	3,164,540	3,918,413	-	919,424
Construction	2,125,579	151,991	2,239,996	-	37,574	1	37,575	-	-
School Lunch	572,784	1,535,529	1,477,558	-	630,755	1,529,168	1,512,825	-	647,098
Textbook Rental	161,247	1,094,692	1,486,826	24,000	(206,887)	1,119,971	1,108,434	18,891	(176,459)
Self-Insurance	2,057,124	3,371,529	3,543,589	-	1,885,064	4,131,659	3,883,039	-	2,133,684
Levy Excess	69,535	-	-	(69,535)	-	-	-	-	-
Scholarships and Awards - Niksic	5,400	27	1,027	-	4,400	13	1,013	-	3,400
Scholarships and Awards - Underwood	2,530	11	500	-	2,041	6	250	-	1,797
Donation	-	106,948	74,103	(12,500)	20,345	92,984	86,953	(25,000)	1,376
High Ability Grant	-	41,313	35,453	-	5,860	44,024	42,680	-	7,204
Medicaid Reimbursement	-	3,294	-	-	3,294	7,832	10,566	-	560
Non-English Speaking Programs P.L. 273-1999	1,060	14,663	4,808	-	10,915	14,024	19,564	-	5,375
School Technology	9,100	37,456	37,522	-	9,034	35,082	44,116	-	-
Title I	3,689	209,824	243,272	18,000	(11,759)	265,595	290,487	18,000	(18,651)
Drug Free Schools	-	1,765	1,765	-	-	-	-	-	-
Medicaid Reimbursement - Federal	-	6,676	-	-	6,676	16,008	2,019	-	20,665
Improving Teaching Quality, No Child Left, Title II, Part A	4,814	63,383	50,908	(18,000)	(711)	68,223	52,263	(18,000)	(2,751)
Title III, Language Instruction	(558)	20,621	20,491	-	(428)	17,040	21,318	-	(4,706)
Education Jobs	(30,228)	460,297	495,081	-	(65,012)	142,939	77,927	-	-
Payroll Deductions	178,154	20,925,088	20,924,439	-	178,803	19,901,323	19,934,261	-	145,865
Totals	\$ 9,095,496	\$ 86,454,881	\$ 85,213,712	\$ (12,500)	\$ 10,324,165	\$ 81,837,858	\$ 86,638,460	\$ (25,000)	\$ 5,498,563

The notes to the financial statement are an integral part of this statement.

SCHOOL TOWN OF MUNSTER
NOTES TO FINANCIAL STATEMENT

Note 1. 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, co-operatives, educational service centers, community schools, community school corporations, and charter schools.

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

The accompanying financial statement presents the financial information for the School Corporation.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

The regulatory 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.

C. Cash and Investments

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

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Local sources which include taxes, revenue from local governmental units other than school corporations, transfer tuition, transportation fees, investment income, food services, School Corporation activities, revenue from community services activities, and other revenue from local sources.

Intermediate sources which include distributions from the County for fees collected for or on behalf of the School Corporation including educational license plate fees, congressional interest, riverboat distributions, and other similar fees.

SCHOOL TOWN OF MUNSTER
NOTES TO FINANCIAL STATEMENT
(Continued)

State sources include distributions from the State of Indiana and are to be used by the School Corporation for various purposes. Included in state sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

Federal sources include distributions from the federal government and are to be used by the School Corporation for various purposes. Included in federal sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

Temporary loans which include money received from a loan obtained to pay current expenses prior to the receipt of revenue from taxes levied for that purpose. These loans, sometimes designated tax anticipation warrants, must be repaid from the next semiannual distribution of local property taxes levied for such fund.

Interfund loans which include money temporarily transferred from one fund to a depleted fund for use in paying current operating expenses. Such advancement shall not be made for a period extending beyond the budget year.

Other receipts which include amounts received from various sources which include return of petty cash, return of cash change, insurance claims for losses, sale of securities, and other receipts not listed in another category above.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Instruction which includes outflows for regular programs, special programs, adult and continuing education programs, summer school programs, enrichment programs, remediation, and payments to other governmental units.

Support services which include outflows for support services related to students, instruction, general administration, and school administration. It also includes outflows for central services, operation and maintenance of plant services, and student transportation.

Noninstructional services which include outflows for food service operations and community service operations.

Facilities acquisition and construction which includes outflows for the acquisition, development, construction, and improvement of new and existing facilities.

Debt services which include fixed obligations resulting from financial transactions previously entered into by the School Corporation. It includes all expenditures for the reduction of the principal and interest of the School Corporation's general obligation indebtedness.

Nonprogrammed charges which include outflows for donations to foundations, securities purchased, indirect costs, scholarships, and self-insurance payments.

SCHOOL TOWN OF MUNSTER
NOTES TO FINANCIAL STATEMENT
(Continued)

Interfund loans which include money temporarily transferred from one fund to a depleted fund for use in paying current operating expenses. Such advancement shall not be made for a period extending beyond the budget year.

F. Other Financing Sources and Uses

Other financing sources and uses are presented in the aggregate on the face of the financial statement. The aggregate other financing sources and uses include the following:

Transfers in which includes money received by one fund as a result of transferring money from another fund. The transfers are used for cash flow purposes as provided by various statutory provisions.

Transfers out which includes money paid by one fund to another fund. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the School Corporation. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the School Corporation. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the School Corporation in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the School Corporation submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the School Corporation in June and December; however, situations can arise which would delay the distributions. 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 percent 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 normally become delinquent if not paid by May 10 and November 10, respectively.

SCHOOL TOWN OF MUNSTER
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the School Corporation to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The School Corporation may be 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; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the School Corporation to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is 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 this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) 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 members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS 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. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

SCHOOL TOWN OF MUNSTER
NOTES TO FINANCIAL STATEMENT
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

B. Teachers' Retirement Fund

Plan Description

The Indiana Teachers' Retirement Fund (TRF) is 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 Indiana Public Retirement System (INPRS) 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 members' contributions, set by state statute at 3 percent 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.

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

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 286-3544

Funding Policy and Annual Pension Cost

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.

Note 7. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of some funds being set up for reimbursable grants. The reimbursements for expenditures made by the School Corporation were not received by June 30, 2013. The cash deficits in the General Fund, Capital Projects Fund, and Textbook Rental Fund were the result of disbursements in excess of the receipts for those funds.

SCHOOL TOWN OF MUNSTER
NOTES TO FINANCIAL STATEMENT
(Continued)

The primary fund with cash deficits is the General Fund. The referendum approved by the local voters on May 7, 2013, which is expected to generate net revenue of \$3,400,000 annually over the seven year referendum cycle will go a long way toward resolving the deficit. In fact, with changes in our collective bargaining agreement and certain cuts in the budget, the deficit should be eliminated within the next five years. The deficit was caused by drastic changes in the school funding formula which cost the School Corporation over three million dollars per year in funding. When the complexity index for funding was reduced to the number of students eligible for free and reduced lunch, the School Corporation was hit with an undue hardship.

Note 8. *Holding Corporation*

The School Corporation has entered into a capital lease with the Munster 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 2012 and 2013 totaled \$9,246,548 and \$9,727,480, respectively.

Note 9. *Other Postemployment Benefits*

The School Corporation provides health care benefits to eligible retirees and their spouses. These benefits pose a liability to the School Corporation for this year and in future years. Information regarding the benefits can be obtained by contacting the School Corporation.

Note 10. *Subsequent Event – Referendum Levy Fund Note*

On September 11, 2013, the School Corporation issued a Referendum Levy Fund Note of \$1,400,000 with an interest rate of 0.97 percent. The note will be repaid with Referendum Tax receipts (see Note 7), beginning in June 2014 in four payments of \$350,000 plus interest through December 2015.

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SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the School Corporation's Financial Reports can be found on the Indiana Department of Education website: <http://mustang.doe.state.in.us/TRENDS/fin.cfm>. This website is maintained by the Indiana Department of Education. More current financial information is available from the School Corporation Treasurer's Office.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Financial Reports of the School Corporation which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the School Corporation. It is presented as intended by the School Corporation.

SCHOOL TOWN OF MUNSTER
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2012

	General	Debt Service	Exempt Debt	Exempt Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Rainy Day	Retirement/ Severance Bond	Construction
Cash and investments - beginning	\$ (7,081,392)	\$ 1,343,416	\$ 2,597,138	\$ 189,284	\$ 246,001	\$ 694,234	\$ 169,488	\$ 3,165,000	\$ 2,612,097	\$ 2,125,579
Receipts:										
Local sources	907,266	5,116,282	7,953,696	1,194,462	3,233,230	2,281,695	506,537	-	39,916	151,991
Intermediate sources	30	-	-	-	-	-	-	-	-	-
State sources	22,074,929	-	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-	-
Temporary loans	-	1,366,000	3,920,000	-	1,975,000	901,000	327,000	-	-	-
Interfund loans	2,600,000	-	-	-	-	-	-	-	2,600,000	-
Other	1,347,323	-	-	-	-	65,408	-	-	-	-
Total receipts	26,929,548	6,482,282	11,873,696	1,194,462	5,208,230	3,248,103	833,537	-	2,639,916	151,991
Disbursements:										
Current:										
Instruction	18,369,854	-	-	-	-	-	-	-	-	-
Support services	7,635,182	-	-	-	1,488,644	1,852,004	161,124	-	978,716	-
Noninstructional services	500,371	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	59,664	-	-	-	1,308,187	-	-	-	-	2,239,996
Debt services	-	3,841,408	8,268,548	1,130,672	2,207,000	1,058,000	517,000	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-	-
Interfund loans	2,600,000	-	-	-	-	-	-	-	2,600,000	-
Total disbursements	29,165,071	3,841,408	8,268,548	1,130,672	5,003,831	2,910,004	678,124	-	3,578,716	2,239,996
Excess (deficiency) of receipts over disbursements	(2,235,523)	2,640,874	3,605,148	63,790	204,399	338,099	155,413	-	(938,800)	(2,088,005)
Other financing sources (uses):										
Transfers in	2,300,000	-	-	-	-	69,535	-	-	-	63
Transfers out	-	(24,000)	-	-	-	-	-	(2,300,000)	-	(63)
Total other financing sources (uses)	2,300,000	(24,000)	-	-	-	69,535	-	(2,300,000)	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	64,477	2,616,874	3,605,148	63,790	204,399	407,634	155,413	(2,300,000)	(938,800)	(2,088,005)
Cash and investments - ending	\$ (7,016,915)	\$ 3,960,290	\$ 6,202,286	\$ 253,074	\$ 450,400	\$ 1,101,868	\$ 324,901	\$ 865,000	\$ 1,673,297	\$ 37,574

SCHOOL TOWN OF MUNSTER
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2012
 (Continued)

	School Lunch	Textbook Rental	Self-Insurance	Levy Excess	Scholarships and Awards - Niksic	Scholarships and Awards - Underwood	Donation	High Ability Grant	Medicaid Reimbursement	Non-English Speaking Programs P.L. 273-1999
Cash and investments - beginning	\$ 572,784	\$ 161,247	\$ 2,057,124	\$ 69,535	\$ 5,400	\$ 2,530	\$ -	\$ -	\$ -	\$ 1,060
Receipts:										
Local sources	1,053,612	1,037,456	3,371,529	-	27	11	106,948	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-	-
State sources	31,815	57,236	-	-	-	-	-	41,313	3,294	14,663
Federal sources	450,002	-	-	-	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-	-	-
Interfund loans	-	-	-	-	-	-	-	-	-	-
Other	100	-	-	-	-	-	-	-	-	-
Total receipts	1,535,529	1,094,692	3,371,529	-	27	11	106,948	41,313	3,294	14,663
Disbursements:										
Current:										
Instruction	-	-	-	-	-	-	7,656	35,453	-	1,060
Support services	51,459	1,486,826	31,298	-	-	-	53,947	-	-	3,748
Noninstructional services	1,426,099	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	3,512,291	-	1,027	500	12,500	-	-	-
Interfund loans	-	-	-	-	-	-	-	-	-	-
Total disbursements	1,477,558	1,486,826	3,543,589	-	1,027	500	74,103	35,453	-	4,808
Excess (deficiency) of receipts over disbursements	57,971	(392,134)	(172,060)	-	(1,000)	(489)	32,845	5,860	3,294	9,855
Other financing sources (uses):										
Transfers in	-	24,000	-	-	-	-	-	-	-	-
Transfers out	-	-	-	(69,535)	-	-	(12,500)	-	-	-
Total other financing sources (uses)	-	24,000	-	(69,535)	-	-	(12,500)	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	57,971	(368,134)	(172,060)	(69,535)	(1,000)	(489)	20,345	5,860	3,294	9,855
Cash and investments - ending	\$ 630,755	\$ (206,887)	\$ 1,885,064	\$ -	\$ 4,400	\$ 2,041	\$ 20,345	\$ 5,860	\$ 3,294	\$ 10,915

SCHOOL TOWN OF MUNSTER
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2012
 (Continued)

	School Technology	Title I	Drug Free Schools	Medicaid Reimbursement - Federal	Improving Teaching Quality, No Child Left, Title II, Part A	Title III, Language Instruction	Education Jobs	Payroll Deductions	Totals
Cash and investments - beginning	\$ 9,100	\$ 3,689	\$ -	\$ -	\$ 4,814	\$ (558)	\$ (30,228)	\$ 178,154	\$ 9,095,496
Receipts:									
Local sources	19,886	-	-	-	-	-	-	-	26,974,544
Intermediate sources	-	-	-	-	-	-	-	-	30
State sources	17,570	-	-	-	-	-	-	-	22,240,820
Federal sources	-	209,824	1,765	6,676	63,383	20,621	460,297	-	1,212,568
Temporary loans	-	-	-	-	-	-	-	-	8,489,000
Interfund loans	-	-	-	-	-	-	-	-	5,200,000
Other	-	-	-	-	-	-	-	20,925,088	22,337,919
Total receipts	<u>37,456</u>	<u>209,824</u>	<u>1,765</u>	<u>6,676</u>	<u>63,383</u>	<u>20,621</u>	<u>460,297</u>	<u>20,925,088</u>	<u>86,454,881</u>
Disbursements:									
Current:									
Instruction	-	186,081	1,522	-	-	20,491	416,915	-	19,039,032
Support services	37,522	57,191	243	-	49,345	-	78,166	-	13,965,415
Noninstructional services	-	-	-	-	-	-	-	-	1,926,470
Facilities acquisition and construction	-	-	-	-	-	-	-	-	3,607,847
Debt services	-	-	-	-	-	-	-	-	17,022,628
Nonprogrammed charges	-	-	-	-	1,563	-	-	20,924,439	24,452,320
Interfund loans	-	-	-	-	-	-	-	-	5,200,000
Total disbursements	<u>37,522</u>	<u>243,272</u>	<u>1,765</u>	<u>-</u>	<u>50,908</u>	<u>20,491</u>	<u>495,081</u>	<u>20,924,439</u>	<u>85,213,712</u>
Excess (deficiency) of receipts over disbursements	<u>(66)</u>	<u>(33,448)</u>	<u>-</u>	<u>6,676</u>	<u>12,475</u>	<u>130</u>	<u>(34,784)</u>	<u>649</u>	<u>1,241,169</u>
Other financing sources (uses):									
Transfers in	-	20,798	-	-	-	-	-	-	2,414,396
Transfers out	-	(2,798)	-	-	(18,000)	-	-	-	(2,426,896)
Total other financing sources (uses)	<u>-</u>	<u>18,000</u>	<u>-</u>	<u>-</u>	<u>(18,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,500)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(66)</u>	<u>(15,448)</u>	<u>-</u>	<u>6,676</u>	<u>(5,525)</u>	<u>130</u>	<u>(34,784)</u>	<u>649</u>	<u>1,228,669</u>
Cash and investments - ending	<u>\$ 9,034</u>	<u>\$ (11,759)</u>	<u>\$ -</u>	<u>\$ 6,676</u>	<u>\$ (711)</u>	<u>\$ (428)</u>	<u>\$ (65,012)</u>	<u>\$ 178,803</u>	<u>\$ 10,324,165</u>

SCHOOL TOWN OF MUNSTER
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2013

	General	Debt Service	Exempt Debt	Exempt Retirement/ Severance Bond Debt Service	Capital Projects	School Transportation	School Bus Replacement	Rainy Day	Retirement/ Severance Bond	Construction
Cash and investments - beginning	\$ (7,016,915)	\$ 3,960,290	\$ 6,202,286	\$ 253,074	\$ 450,400	\$ 1,101,868	\$ 324,901	\$ 865,000	\$ 1,673,297	\$ 37,574
Receipts:										
Local sources	746,354	3,457,910	7,173,941	905,360	2,387,312	1,881,554	134,307	-	39,540	1
State sources	22,264,409	-	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-	-
Temporary loans	-	1,611,000	3,045,000	-	1,315,000	910,000	253,000	-	-	-
Interfund loans	3,875,000	-	-	-	-	-	-	-	3,125,000	-
Other	1,264,191	-	-	-	23,328	39,760	-	-	-	-
Total receipts	28,149,954	5,068,910	10,218,941	905,360	3,725,640	2,831,314	387,307	-	3,164,540	1
Disbursements:										
Current:										
Instruction	19,135,014	-	-	-	-	-	-	-	-	-
Support services	7,569,811	-	-	-	1,625,035	1,972,760	208,973	-	793,413	-
Noninstructional services	497,356	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	63,046	-	-	-	1,233,275	-	-	-	-	37,575
Debt services	-	4,873,750	10,215,480	1,122,257	1,975,000	901,000	327,000	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-	-
Interfund loans	3,875,000	-	-	-	-	-	-	-	3,125,000	-
Total disbursements	31,140,227	4,873,750	10,215,480	1,122,257	4,833,310	2,873,760	535,973	-	3,918,413	37,575
Excess (deficiency) of receipts over disbursements	(2,990,273)	195,160	3,461	(216,897)	(1,107,670)	(42,446)	(148,666)	-	(753,873)	(37,574)
Other financing sources (uses):										
Transfers in	-	-	-	-	-	-	-	-	-	-
Transfers out	-	(18,891)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	(18,891)	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(2,990,273)	176,269	3,461	(216,897)	(1,107,670)	(42,446)	(148,666)	-	(753,873)	(37,574)
Cash and investments - ending	\$ (10,007,188)	\$ 4,136,559	\$ 6,205,747	\$ 36,177	\$ (657,270)	\$ 1,059,422	\$ 176,235	\$ 865,000	\$ 919,424	\$ -

SCHOOL TOWN OF MUNSTER
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2013
 (Continued)

	School Lunch	Textbook Rental	Self- Insurance	Levy Excess	Scholarships and Awards - Niksic	Scholarships and Awards - Underwood	Donation	High Ability Grant	Medicaid Reimbursement	Non-English Speaking Programs P.L. 273-1999
Cash and investments - beginning	\$ 630,755	\$ (206,887)	\$ 1,885,064	\$ -	\$ 4,400	\$ 2,041	\$ 20,345	\$ 5,860	\$ 3,294	\$ 10,915
Receipts:										
Local sources	1,048,258	1,062,089	3,381,659	-	13	6	92,984	-	-	-
State sources	30,462	57,882	-	-	-	-	-	44,024	7,832	14,024
Federal sources	450,348	-	-	-	-	-	-	-	-	-
Temporary loans	-	-	-	-	-	-	-	-	-	-
Interfund loans	-	-	750,000	-	-	-	-	-	-	-
Other	100	-	-	-	-	-	-	-	-	-
Total receipts	<u>1,529,168</u>	<u>1,119,971</u>	<u>4,131,659</u>	<u>-</u>	<u>13</u>	<u>6</u>	<u>92,984</u>	<u>44,024</u>	<u>7,832</u>	<u>14,024</u>
Disbursements:										
Current:										
Instruction	-	-	-	-	-	-	8,376	42,680	10,566	8,649
Support services	52,470	1,108,434	36,561	-	-	-	78,577	-	-	10,915
Noninstructional services	1,460,355	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-	-
Debt services	-	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	3,096,478	-	1,013	250	-	-	-	-
Interfund loans	-	-	750,000	-	-	-	-	-	-	-
Total disbursements	<u>1,512,825</u>	<u>1,108,434</u>	<u>3,883,039</u>	<u>-</u>	<u>1,013</u>	<u>250</u>	<u>86,953</u>	<u>42,680</u>	<u>10,566</u>	<u>19,564</u>
Excess (deficiency) of receipts over disbursements	<u>16,343</u>	<u>11,537</u>	<u>248,620</u>	<u>-</u>	<u>(1,000)</u>	<u>(244)</u>	<u>6,031</u>	<u>1,344</u>	<u>(2,734)</u>	<u>(5,540)</u>
Other financing sources (uses):										
Transfers in	-	18,891	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	(25,000)	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>18,891</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>16,343</u>	<u>30,428</u>	<u>248,620</u>	<u>-</u>	<u>(1,000)</u>	<u>(244)</u>	<u>(18,969)</u>	<u>1,344</u>	<u>(2,734)</u>	<u>(5,540)</u>
Cash and investments - ending	<u>\$ 647,098</u>	<u>\$ (176,459)</u>	<u>\$ 2,133,684</u>	<u>\$ -</u>	<u>\$ 3,400</u>	<u>\$ 1,797</u>	<u>\$ 1,376</u>	<u>\$ 7,204</u>	<u>\$ 560</u>	<u>\$ 5,375</u>

SCHOOL TOWN OF MUNSTER
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2013
 (Continued)

	School Technology	Title I	Drug Free Schools	Medicaid Reimbursement - Federal	Improving Teaching Quality, No Child Left, Title II, Part A	Title III, Language Instruction	Education Jobs	Payroll Deductions	Totals
Cash and investments - beginning	\$ 9,034	\$ (11,759)	\$ -	\$ 6,676	\$ (711)	\$ (428)	\$ (65,012)	\$ 178,803	\$ 10,324,165
Receipts:									
Local sources	(6,022)	-	-	-	-	-	-	-	22,305,266
State sources	41,104	-	-	-	-	13,932	-	-	22,473,669
Federal sources	-	265,595	-	16,008	68,223	3,108	142,939	-	946,221
Temporary loans	-	-	-	-	-	-	-	-	7,134,000
Interfund loans	-	-	-	-	-	-	-	-	7,750,000
Other	-	-	-	-	-	-	-	19,901,323	21,228,702
Total receipts	<u>35,082</u>	<u>265,595</u>	<u>-</u>	<u>16,008</u>	<u>68,223</u>	<u>17,040</u>	<u>142,939</u>	<u>19,901,323</u>	<u>81,837,858</u>
Disbursements:									
Current:									
Instruction	-	241,859	-	646	-	21,318	77,927	-	19,547,035
Support services	44,116	48,628	-	1,373	50,756	-	-	-	13,601,822
Noninstructional services	-	-	-	-	-	-	-	-	1,957,711
Facilities acquisition and construction	-	-	-	-	-	-	-	-	1,333,896
Debt services	-	-	-	-	-	-	-	-	19,414,487
Nonprogrammed charges	-	-	-	-	1,507	-	-	19,934,261	23,033,509
Interfund loans	-	-	-	-	-	-	-	-	7,750,000
Total disbursements	<u>44,116</u>	<u>290,487</u>	<u>-</u>	<u>2,019</u>	<u>52,263</u>	<u>21,318</u>	<u>77,927</u>	<u>19,934,261</u>	<u>86,638,460</u>
Excess (deficiency) of receipts over disbursements	<u>(9,034)</u>	<u>(24,892)</u>	<u>-</u>	<u>13,989</u>	<u>15,960</u>	<u>(4,278)</u>	<u>65,012</u>	<u>(32,938)</u>	<u>(4,800,602)</u>
Other financing sources (uses):									
Transfers in	-	18,000	-	-	-	-	-	-	36,891
Transfers out	-	-	-	-	(18,000)	-	-	-	(61,891)
Total other financing sources (uses)	<u>-</u>	<u>18,000</u>	<u>-</u>	<u>-</u>	<u>(18,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,000)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(9,034)</u>	<u>(6,892)</u>	<u>-</u>	<u>13,989</u>	<u>(2,040)</u>	<u>(4,278)</u>	<u>65,012</u>	<u>(32,938)</u>	<u>(4,825,602)</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ (18,651)</u>	<u>\$ -</u>	<u>\$ 20,665</u>	<u>\$ (2,751)</u>	<u>\$ (4,706)</u>	<u>\$ -</u>	<u>\$ 145,865</u>	<u>\$ 5,498,563</u>

SCHOOL TOWN OF MUNSTER
SCHEDULE OF LEASES AND DEBT
June 30, 2013

Lessor	Purpose	Annual Lease Payment **	Lease Beginning Date	Lease Ending Date
Governmental activities:				
U.S. Bank - 2003A Elliott	New Building	\$ 930,505	07-17-03	12-31-28
U.S. Bank - 2003B WW Classroom	Building Addition	166,500	11-26-03	12-31-28
U.S. Bank - 2004 Service Center	New Building	247,000	11-24-04	12-31-28
U.S. Bank - 2005 WWMS Gym	Building Addition	130,850	12-15-05	12-31-28
U.S. Bank - 2005 Eads Refinance	Refinance of debt	1,035,822	09-07-05	12-30-26
U.S. Bank - 2007	Roofs & Parking Lots	241,000	12-19-07	12-31-17
Peoples Bank - 1998 Refinance	Refinance of debt	3,530,500	05-15-08	01-05-21
Peoples Bank - Eads/MHS	Eads School demolition/MHS Fields/renovations	508,000	12-23-08	12-30-23
Peoples Bank - 2009 MHS	Pool	2,707,000	07-09-09	12-30-20
Peoples Bank - 2011A MHS	Pool demolition/classrooms	423,000	06-14-11	12-31-20
Peoples Bank - 2011B WWMS	Pool demolition/classrooms	<u>86,000</u>	06-14-11	06-30-21
Total of annual lease payments		<u>\$ 10,006,177</u>		

**Annual lease payments vary each year so the amount listed is due in the 2013-2014 School Year.

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year ***
Governmental activities:			
Notes and loans payable	Referendum Anticipation Levy Note	\$ -	\$ 360,864
General obligation bonds	2002 Pension Bonds	240,000	246,576
General obligation bonds	2006 Pension Bonds	5,745,000	639,775
Tax anticipation warrants		<u>7,134,000</u>	<u>7,194,260</u>
Totals		<u>\$ 13,119,000</u>	<u>\$ 8,441,475</u>

*** - Includes the Referendum Anticipation Levy Note, which was not issued until September 11, 2013.

SCHOOL TOWN OF MUNSTER
SCHEDULE OF CAPITAL ASSETS
June 30, 2013

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>Ending Balance</u>
Governmental activities:	
Buildings	\$ 60,148,750
Improvements other than buildings	3,684,577
Machinery, equipment, and vehicles	<u>11,463,549</u>
Total capital assets	<u>\$ 75,296,876</u>

SCHOOL TOWN OF MUNSTER
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statement presented in this report included the following funds with overdrawn cash balances as of June 30, 2013:

Fund	Amount Overdrawn
General	\$ 10,007,203
Capital Projects	657,270
Textbook Rental	176,459

Over four of the past five years, the General Fund has had increasing negative cash balances at June 30. The following table presents the overdrawn cash balance of the General Fund as of June 30 for the last five years:

Date	Amount Overdrawn
June 30, 2009	\$ 1,150,206
June 30, 2010	4,856,913
June 30, 2011	7,081,392
June 30, 2012	7,016,924
June 30, 2013	10,007,203

All the other funds of the School Corporation are restricted funds and can be used only for specific purposes, such as debt service, construction, school lunch, internal service, pension debt, or specific grant purposes. The General Fund, Capital Projects Fund, and Textbook Rental Fund cash deficits have been covered by these restricted funds in total, so as to not overdraw bank accounts. Decreased state funding has contributed to this problem.

In addition, the School Corporation has current (due within one year) debt obligations totaling \$18,447,652 including principal and interest on capital leases (\$10,006,177), pension bonds (\$886,351), tax anticipation warrants (\$7,194,260), and referendum levy note payable (\$360,864). In May 2013, the voters approved a referendum to increase the taxes collected for the General Fund by \$0.199 per \$100 of assessed valuation for the next seven years. The School Corporation has also implemented some General Fund cost saving measures.

A similar comment appeared in prior Report B40058.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

FUND SOURCES AND USES

The School Corporation transferred \$2,300,000 on June 29, 2012, from its Rainy Day Fund to the General Fund. The transfer was not an approved use of Rainy Day funds for school corporations. The documentation attached to the transfer claim referenced Indiana Code 36-1-8-5.1.

SCHOOL TOWN OF MUNSTER
 AUDIT RESULTS AND COMMENTS
 (Continued)

Indiana Code 36-1-8-5.1(g) states:

"A county, city, or town may at any time, by ordinance or resolution, transfer to:

- (1) its general fund; or
- (2) any other appropriated funds of the county, city, or town; money that has been deposited in the rainy day fund of the county, city, or town."

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

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations, for the years ending December 31:

Fund	Years	Excess Amount Expended
General	2012	\$10,644,655
Debt Service	2011	3,210
Debt Service	2012	3,998
Capital Projects	2011	869,321
Capital Projects	2012	1,157,407

The General Fund's approved 2011 and 2012 budgets were \$25,818,130 and \$14,769,758, respectively. The Department of Local Government Finance decreased the 2012 General Fund budget, as compared to the 2011 budget, due to the \$7,081,392 cash deficit balance in the General Fund as of June 30, 2011. The School Corporation did not record the 2012 approved budget amount for the General Fund in its disbursement ledger but relied upon an internally determined budget of \$22,890,000 instead.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

TRANSFER TUITION

The School Corporation completes a transfer tuition form (Form 515, Transfer Tuition Statement) that has been developed for school corporations to use to compute the amount charged for transfer tuition in accordance with State statute. However, the School Corporation is also charging an annual \$700 assessment for capital costs concerning technology and computers. Per transfer tuition memos, dated March 8, 2011, and April 2, 2012, "This fee includes computers, fiber optic lines, and phone lines associated with providing these sources through local property taxes as well as the costs associated with recent bond construction projects."

A similar comment appeared in prior Report B40058.

SCHOOL TOWN OF MUNSTER
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 20-26-11-6(b) states:

"A transfer may be accepted regardless of whether, as a condition of the transfer, the transferee school requires the requesting parents or student to pay transfer tuition in an amount determined under the formula established in section 13 of this chapter for the payment of transfer tuition by a transferor school corporation. However, if the transferee school elects to charge transfer tuition, the transferee school may not offset the amounts described in section 13(b) STEP TWO (B) through section 13(b) STEP TWO (D) of this chapter from the amount charged to the requesting parents or student."

Indiana Code 20-26-11-13(c) states in part:

"Operating costs shall be determined for each class of school where a transfer student is enrolled. The operating cost for each class of school is based on the total expenditures of the transferee corporation for the class of school from its general fund expenditures as specified in the classified budget forms prescribed by the state board of accounts. This calculation excludes:

- (1) capital outlay; . . ."

AVERAGE DAILY MEMBERSHIP (ADM) – LACK OF RECORDS

The designated building level personnel did not provide written certification that the detailed student records maintained to support the Average Daily Membership claimed was accurate.

Indiana Code 5-15-6-3(f), concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Officials shall maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM.

The building level official (Principal, Assistant Principal, etc.) is responsible for reporting ADM to the School Corporation Central Office, should provide a written certification of ADM to properly document responsibility. The certification should at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

CASH DISBURSEMENTS (Applies to Wilbur Wright Middle School)

The transactions tested identified cash payments were made to volleyball tournament workers, totaling \$1,205 for the 2011-2012 and 2012-2013 school years. The Extra-Curricular Treasurer wrote a check and then cashed it to obtain the cash to pay the workers. A listing of what workers were paid was not maintained for audit.

Disbursements, other than proper petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

SCHOOL TOWN OF MUNSTER
AUDIT RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROLS OVER ATHLETIC CONCESSIONS (Applies to Munster High School)

Internal controls over the receipting, disbursing, recording, and accounting for the Athletic Concessions financial activities were insufficient as follows:

1. The Athletic Concessions had an approximated loss of \$6,800 in the 2012-2013 school year (when comparing collections from sales to disbursements for supplies). The Athletic Director (who was new in 2012-2013) was not aware of the results of concession activity for the period. A review or comparison of purchases and sales activity of concessions to determine how the concessions were doing financially was not performed.
2. The Athletic Director (AD) and the Assistant Superintendent both indicated that the expiration dates on canned drinks is now shorter and Pepsi will not take back or give a credit for expired canned drinks. The AD stated that due to the shorter shelf life for canned drinks, several cans could not be sold and were thrown away. No records were kept to support the disposals.
3. An increase in instances of food prepared that could not be reused (pretzels, hot dogs) after games due to weather delays or for certain types of events where they did not sell as well. Adequate records of disposals were not maintained.
4. An increase in the cost of Pepsi of two dollars per case that was not passed on to customers.
5. Many of the games that draw a larger numbers of fans were away games and not home games for 2012-2013 season since the location of the games alternate each year. Food purchases did not appear to be reduced to adjust for this situation.

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)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE SCHOOL TOWN OF MUNSTER, LAKE COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the School Town of Munster's (School Corporation) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the period of July 1, 2011 to June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School Corporation's compliance.

Basis for Qualified Opinion on Child Nutrition Cluster

As described in item 2013-004 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding Suspension and Debarment and Special Tests and Provisions - Paid Lunch Equity that are applicable to its Child Nutrition Cluster. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Qualified Opinion on Child Nutrition Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* paragraph, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Child Nutrition Cluster for the period of July 1, 2011 to June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the School Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal program identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the period of July 1, 2011 to June 30, 2013.

Other Matters

The School Corporation's response to the noncompliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

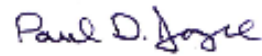
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2013-003, 2013-004, and 2013-005 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

The School Corporation's response to the internal control over compliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The School Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Paul D. Joyce, CPA
State Examiner

January 9, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the School Corporation. The schedule and notes are presented as intended by the School Corporation.

SCHOOL TOWN OF MUNSTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Years Ended June 30, 2012 and 2013

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-12	Total Federal Awards Expended 06-30-13
<u>Department of Agriculture</u>					
Child Nutrition Cluster School Breakfast Program	Indiana Department of Education	10.553	FY2012 FY2013	\$ 47,231 -	\$ - 59,129
Total - School Breakfast Program				<u>47,231</u>	<u>59,129</u>
National School Lunch Program	Indiana Department of Education	10.555	FY2012 FY2013	521,091 -	- 510,512
Total - National School Lunch Program				<u>521,091</u>	<u>510,512</u>
Total - Department of Agriculture				<u>568,322</u>	<u>569,641</u>
<u>Department of Education</u>					
Title I, Part A Cluster Title I Grants to Local Educational Agencies	Indiana Department of Education	84.010	FY2010/11 FY2011/12 FY2012/13	31,624 178,200 -	- 43,840 221,755
Total - Title I, Part A Cluster				<u>209,824</u>	<u>265,595</u>

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

SCHOOL TOWN OF MUNSTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Years Ended June 30, 2012 and 2013
(Continued)

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-12	Total Federal Awards Expended 06-30-13
<u>Department of Education (continued)</u>					
Career and Technical Education - Basic Grants to States	School City of Hammond	84.048	4708-4710	-	2,194
Safe and Drug Free Schools and Communities - State Grants	Indiana Department of Education	84.186	FY2010/11	1,765	-
English Language Acquisition State Grants	Indiana Department of Education	84.365	FY2010/11	2,216	-
			FY2011/12	18,404	3,108
			FY2012/13	-	13,932
Total English Language Acquisition State Grants				20,620	17,040
Improving Teacher Quality State Grants	Indiana Department of Education	84.367	09-4740	2,732	-
			10-4740	51,301	12,769
			11-4740	9,350	48,438
			12-4740	-	7,016
Total Improving Teacher Quality State Grants				63,383	68,223
Education Jobs Fund	Indiana Department of Education	84.410	11-4740	460,297	-
			12-4740	-	142,939
Total Education Jobs Fund				460,297	142,939
Total - Department of Education				755,889	495,991
Total federal awards expended				<u>\$ 1,324,211</u>	<u>\$ 1,065,632</u>

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

SCHOOL TOWN OF MUNSTER
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the School Town of Munster (School Corporation) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

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 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.

Note 2. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2012 and 2013. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	2012	2013
School Breakfast Program	\$ 9,833	\$ 12,382
National School Lunch Program	108,486	106,910

SCHOOL TOWN OF MUNSTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	no
Significant deficiencies identified?	yes
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none noted
Type of auditor's report issued on compliance for major programs:	Unmodified for Title I, Part A Cluster Qualified for Child Nutrition Cluster.

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

Identification of Major Programs:

Name of Federal Program or Cluster

Child Nutrition Cluster
Title I, Part A Cluster

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

Auditee qualified as low-risk auditee?	no
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Section II – Financial Statement Findings

FINDING 2013-001 – INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

Management of the School Corporation did not have a proper system of internal controls in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The School Corporation should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without an effective system of internal control in place, misstatements of the SEFA could remain undetected.

SCHOOL TOWN OF MUNSTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The internal controls established by the School Corporation over the preparation and review of the SEFA report were not properly established. The School Corporation did not have the SEFA reviewed by someone other than the preparer. A proper system of internal controls would include segregation of duties by having a proper oversight, review or approval process and would allow the School Corporation to prevent, detect, or correct errors on the SEFA in a timely manner.

We noted the following deficiencies in the School Corporation's SEFA initially presented for audit:

1. The amounts reported for Title I Grants to Local Educational Agencies were overstated by \$20,798 in FY 2011/12 and \$18,000 in FY 2012/13 for transfers which were determined to not be grant disbursements.
2. The following grant activity for FY 2011/12 was not properly reported on the SEFA:
 - a. \$2,216 for English Language Acquisition State Grants program (CFDA 84.365)
 - b. \$2,732 for Improving Teacher Quality State Grants program (CFDA 84.367)
 - c. \$1,765 for the Safe and Drug Free Schools and Communities State Grants program (CFDA 84.186)

The omission of these grants resulted in the understatement of the SEFA by \$6,713.

The combination of the lack of separation of duties over the preparation and review of the SEFA, and the errors that were noted on the initially presented SEFA, is considered a significant deficiency.

Audit adjustments were proposed, accepted by the School Corporation, and made to the SEFA presented in this report.

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with Circular A-133 for the preparation of the SEFA will be prevented or detected and corrected, on a timely basis.

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.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

FINDING 2013-002 – INTERNAL CONTROLS OVER RECEIPTS

Management of the School Corporation has not established an effective internal control system separating incompatible activities related to the receipts area of the financial statement. The failure to establish an effective internal control system over receipts could enable misstatements or irregularities to remain undetected.

SCHOOL TOWN OF MUNSTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Proper internal controls should include: (1) a separation of the duties of issuing, recording, and depositing receipts, and (2) a separation of the duties of preparation and review/approval. Control activities should be selected and developed to provide reasonable assurance that the controls will prevent, or detect and correct, errors in a timely manner.

The School Corporation had the same individual issuing, recording, and depositing receipts. We believe the lack of the segregation of duties over the receipts area is a significant deficiency.

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.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Section III – Federal Award Findings and Questioned Costs

FINDING 2013-003 – INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT ON THE CHILD NUTRITION CLUSTER PROGRAMS

Federal Agency: Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553, 10.555
Federal Award Year: FY 2012, FY 2013
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the compliance requirements for Eligibility and Procurement that have a direct and material effect on the Child Nutrition Cluster programs. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

Eligibility

For both school years, the food service director performed the eligibility determinations and approved the applications for free and reduced price meals. The School Corporation did not have a review or oversight process to ensure accurate eligibility determinations and application approvals.

Procurement

For the 2012-2013 school year, quotes were sought for bread products by the food service director; three quotes were received. In accordance with the School Corporation's purchasing policy, the award of the quote to the winning vendor was made by the food service director without School Board approval. The bid conditions in the quote package noted that the awards would be made by July 25, 2012, and confirmed at the

SCHOOL TOWN OF MUNSTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

August 2012 School Board meeting. A confirmation of the award at the August 2012 meeting or any other meeting of the School Board was not noted in the minutes. The food service director was solely responsible for the procurement process. Segregation of duties, such as an oversight or approval process, has not been established.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect on the program could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements noted above that have a direct and material effect on the program.

FINDING 2013-004 – INTERNAL CONTROLS AND COMPLIANCE OVER SUSPENSION AND DEBARMENT AND SPECIAL TESTS AND PROVISIONS OF PAID LUNCH EQUITY RELATED TO THE CHILD NUTRITION CLUSTER PROGRAMS

Federal Agency: Department of Agriculture
Federal Program: School Breakfast Program, National School Lunch Program
CFDA Number: 10.553, 10.555
Federal Award Year: FY 2012, FY 2013
Pass-Through Entity: Indiana Department of Education

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Suspension and Debarment and Special Tests and Provision - Paid Lunch Equity compliance requirements that have a direct and material effect on the Child Nutrition Cluster programs. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the Suspension and Debarment and Special Tests and Provision - Paid Lunch Equity compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with the compliance requirement and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

SCHOOL TOWN OF MUNSTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

Suspension and Debarment

For the 2012-2013 school year, the food service director sought quotes for bread and milk products. The general bid conditions for the quotes stated that "prior to an award being made, the School Town of Munster (STM) is required to check the GSA Excluded Parties List System to verify that the bidder is not currently debarred. The STM cannot make an award to a bidder that is currently debarred by any Federal department or agency." Review of the bid documents and inquiry of the current food service director revealed no evidence that the EPLS or its replacement (SAM) was checked as stated in the bid conditions. No other evidence was provided to document compliance with the Suspension and Debarment requirement.

Special Tests and Provision – Paid Lunch Equity

Effective with the 2011-2012 school year, school corporations were required to calculate a weighted average lunch price from the price they charged for paid students (excluding free and reduced students). If the calculated weighted average was below the amount required by the Department of Agriculture, the School Corporation was required to increase the paid lunch price. The maximum price increase required was not to exceed ten cents.

For the 2012-2013 and the 2013-2014 school years, the Indiana Department of Education (IDOE) sent emails to the food service director (Director) which provided the actual weighted and the required weighted lunch prices, and what was required if the actual was below the required. For both years, the actual weighted lunch price for the School Corporation (as calculated by IDOE) was below the price required to be charged. Therefore the School Corporation was required to raise their prices not more than ten cents.

The Director was responsible for making recommendations for meal prices to the School Board which they did adopt. The following were the price recommendations made:

1. 2011-2012: The Director's recommendation was to hold prices at their current rates, with no price increase. The recommendation advised the School Board although the Federal program "has schools increasing their rates slowly over the next years"; the Director felt that any price increase would decrease participation. Documentation of the calculation of the weighted average lunch price by the food service director was not provided for audit.
2. 2012-2013: The Director's recommendation was a ten cent rate increase. This agreed to the increase required by the IDOE.
3. 2013-2014: This rate was adopted during the audit period for the next school year. The Director's recommendation was that prices stay the same (no increase) which did not comply with the required increase as directed in an IDOE email in March 2013.

From the recommendations and emails observed, the Director had full knowledge of the required price increases but did not recommend these increases to the School Board.

SCHOOL TOWN OF MUNSTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

7 CFR §3016.35 Subawards to debarred and suspended parties states:

"Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, 'Debarment and Suspension.'"

7 CFR 210.14(e) states in part:

"Pricing paid lunches. For each school year beginning July 1, 2011, school food authorities shall establish prices for paid lunches in accordance with this paragraph . . .

(3) *Average lunch price is lower than the reimbursement difference.* When the average price from the prior school year is lower than the difference in reimbursement rates as determined in paragraph (e)(1)(iii) of this section, the school food authority shall establish an average price for the current school year that is not less than the average price charged in the previous school year as adjusted by a percentage equal to the sum obtained by adding:

(i) 2 percent; and

(ii) The percentage change in the Consumers Price Index for All Urban Consumers used to increase the Federal reimbursement rate under section 11 of the Act for the most recent school year for which data are available. The percentage to be used is found in the annual notice published in the FEDERAL REGISTER announcing the national average payment rates, from the prior year.

(4) *Price Adjustments.* (i) *Maximum required price increase.* The maximum annual average price increase required under this paragraph shall not exceed ten cents."

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance with the compliance requirements that have a direct and material effect on the program could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, to ensure compliance with the Suspension and Debarment, and Special Tests and Provisions - Paid Lunch Equity compliance requirements that have a direct and material effect on the program.

FINDING 2013-005 – INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT ON THE TITLE I, PART A CLUSTER

Federal Agency: Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Year: FY2010/11, FY2011/12, FY2012/13
Pass-Through Entity: Indiana Department of Education

SCHOOL TOWN OF MUNSTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Management of the School Corporation has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the compliance requirements of Cash Management, Reporting, and Special Tests and Provisions - Highly Qualified Teachers and Paraprofessionals that have a direct and material effect on the Title I, Part A Cluster programs. The failure to establish an effective internal control system places the School Corporation at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

Cash Management and Reporting

To ensure accurate reimbursement requests are made, the School Corporation has implemented the control that the Title I Director (Director) review the supporting documentation of ledger reports prepared by the Treasurer. The control was not effective for the 3 reimbursement requests tested. The Director's files contained two of the three supporting ledger reports, but there was no evidence that a review was performed by the Director. For the third reimbursement request tested, the Director's files did not contain the supporting ledger report. Therefore, written evidence was unavailable to indicate that the Title I Director performed a review to ensure accurate reimbursement requests. A total of 20 reimbursement requests were prepared during the audit period.

The Annual Performance Report was prepared by the Director of Human Resources. School Corporation personnel stated that the internal control over the preparation of the Annual Performance Report consisted of review by the Superintendent. Written evidence was unavailable to indicate that the review was performed by the Superintendent for both school years. Although properly designed, the control was not implemented properly.

The ineffective internal controls over cash management and reporting are considered material weaknesses.

Special Tests and Provisions – Highly Qualified Teachers and Paraprofessionals

The School Corporation does not have a system of internal controls in place to ensure that highly qualified teacher and paraprofessional documentation is obtained and retained. The School Corporation is required to hire only highly qualified teachers to teach core academic subjects in general and is hiring only qualified paraprofessionals in programs supported with Title I funds. The files did not initially contain written documentation to support compliance. The School Corporation, when made aware of missing documentation, did obtain the requested information from the individuals in question.

The lack of internal controls in place to ensure the documentation requirements of the special test and provision of highly qualified teachers and paraprofessionals were met is considered a material weakness.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

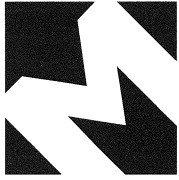
SCHOOL TOWN OF MUNSTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect on the program could result in the loss of federal funds to the School Corporation.

We recommended that the School Corporation's management establish controls, including segregation of duties, related to the grant agreement and the compliance requirements regarding cash management, reporting, and special tests and provisions – highly qualified teachers and paraprofessionals.



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDING

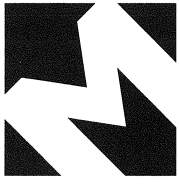
FINDING 2011-1, CASH MANAGEMENT, ARRA – TITLE I

Original SBA Audit Report Number:	<u>B40058</u>
Fiscal Year	July 1, 2009 – June 30, 2010
Auditee Contact Person	Janice Swanson
Title of Contact Person	Treasurer
Phone Number	219-836-9111, ext. 1024

Since we will not be receiving these funds in the future and the entire process of receiving federal funds through the Indiana Department of Education has changed to a reimbursement procedure, the situation will not be repeated and has been corrected.

Signed: Janice Swanson
Janice Swanson, Treasurer

Dated: November 25, 2013



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CORRECTIVE ACTION PLAN

Section II, Financial Statement Findings:

FINDING 2013-001 – INTERNAL CONTROLS AND COMPLIANCE OVER GRANT SCHEDULE

Auditee Contact Person: Janice Swanson
Title of Contact Person: Treasurer
Phone Number: 219-836-9111, ext. 1024

Correction Action Plan

The deficiencies reported in this finding were from lack of familiarity in preparing a SEFA for the auditor’s review. In prior audits, the SEFA was prepared by the auditors or with the auditor’s assistance. As we move forward, we have been informed by Indiana State Board of Accounts; the information included in the SEFA will be gathered annually, on a fiscal basis and submitted in an Annual Financial Report.

It is my intention to utilize greater care in compiling the necessary information to eliminate the errors that occurred in the current audit. I will also work with our Director of Instructional Programs and Assessment and our Director of Student Nutrition and Food Services to verify the information that is prepared and submitted.

The Annual Financial Report is to be prepared after the end of the fiscal year, June 30 and will be due about September 1st of each year. This will be my first opportunity to make the noted changes to our procedures.

Signed Janice Swanson
Date 1/7/2014



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CORRECTIVE ACTION PLAN

Section II, Financial Statement Findings:

FINDING 2013-002 – INTERNAL CONTROLS OVER RECEIPTS

Auditee Contact Person: Janice Swanson
Title of Contact Person: Treasurer
Phone Number: 219-836-9111, ext. 1024

Correction Action Plan

School Town of Munster currently has three employees in their business office. Duties have been segregated to the best of our ability within our small department. The treasurer does account for all deposits and necessary balances in appropriate banks, but our payroll specialist handles all bank reconciliation. Our accounts payable clerk handles all purchase orders and most bill payments. Our business office team works together effectively to ensure that minimal errors occur and those that do occur are taken care of immediately.

Management understands that there are limitations with a small staff, but also feels comfortable with the competent staff it has. Management does realize the exposed risk of their internal controls, but does not feel it can afford additional personnel.

Management will continue to monitor and evaluate its internal controls to see if any changes can be made.

Signed Janice Swanson
Date 1/7/2014



8808 Columbia Avenue ❖ Munster, IN 46321 ❖ 219.836.3204

CORRECTIVE ACTION PLAN

Section III – Federal Awards Findings and Questioned Costs

FINDING 2013-003 INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT ON THE CHILD NUTRITION CLUSTER

Federal Agency: U.S. Department of Agriculture

Federal Program: School Breakfast Program, National School Lunch Program

CFDA Number: 10.553, 10.555

Federal Award Year: FY 2012, FY 2013

Pass-Through Entity: Indiana Department of Education

Auditee Contact Person: Martha J. Silverthorn

Title of Contact Person: Director of Student Nutrition and Food Services

Phone Number: 219.836.3204

Eligibility Corrective Action Plan

The School Town of Munster Food Service Department will be purchasing the application processing component to our current food service point of sale software system to begin the 2014-15 school year. The Food Service Director will complete a second review of the computer processed free and reduced price meal applications. The Food Service Department Central Kitchen Manager will be trained to process free and reduced price meal applications. She will be the third check of all applications.

The new software program will be our first check of applications, the Food Service Director will be the second check of applications and the Central Kitchen Manager will be a third check.

The software program will be implemented by August 2014. The above corrective action will be implemented by August 2014.

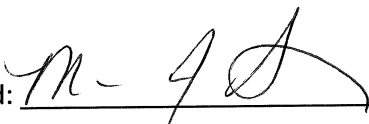
The immediate action that will be taken is the Central Kitchen Manager will be checking all free and reduced applications that have been processed by the Director for this school year as a second check. This corrective action will be implemented immediately.

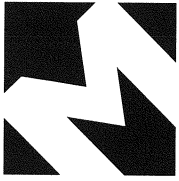
CORRECTIVE ACTION PLAN CONTINUED

Procurement Corrective Action Plan

All future quotes and bids will be reviewed by the School Town of Munster Food Service Director as well as the Treasurer for completeness, compliance and board approval. This will add a second check to future quotes and bids for the School Town of Munster Food Service Department.

This corrective action plan will be implemented by January 1, 2014

Signed:  Date: 12/17/2013



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CORRECTIVE ACTION PLAN
School Town of Munster

Section III-Federal Awards Findings and Questioned Costs

FINDING 2013-005

Federal Agency: U.S. Department of Education
Federal Program: Title I Grants to Local Educational Agencies Program
CFDA Number: 84.010
Pass-Through: Indiana Department of Education
Federal Award Year: FY2011, FY 2012, FY 2013
Auditee Contact Person: Dr. Phyllis Gilworth
Title of Contact Person: Director of Instructional Programs and Assessment
Phone Number: 219-836-9111, ext. 1021

Cash Management Reporting:

To ensure accurate reimbursement requests are being made and fund transactions and balances are in check, the Director will review the ledger documents as soon as they are received from the treasurer. Once this has been completed, the Director will sign and date each page of the ledger. In the event that the Director requires clarification, verification or assistance in translating the documents, the treasurer will also sign and date the ledger documents. The verified and signed and dated ledger documents will remain in the title I folder for the appropriate fiscal year in question.

The Annual Performance Report, completed by the Assistant Superintendent, and reviewed by the Superintendent will be signed and dated by both individuals to indicate that the report has been reviewed by both. A copy will be provided to the Director of Instructional Programs and Assessment and will be kept in the Title I file in order to demonstrate compliance.

The expected date of implementation is January 6, 2014.

Signed Dr. Phyllis Gilworth, Director of Instructional Programs
Date 12/20/13



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CORRECTIVE ACTION PLAN
School Town of Munster

Section III-Federal Awards Findings and Questioned Costs

FINDING 2013-005

Federal Agency: U.S. Department of Education
Federal Program: Title I Grants to Local Educational Agencies Program
CFDA Number: 84.010
Pass-Through: Indiana Department of Education
Federal Award Year: FY2011, FY 2012, FY 2013
Auditee Contact Person: Dr. Phyllis Gilworth
Title of Contact Person: Director of Instructional Programs and Assessment
Phone Number: 219-836-9111, ext. 1021

Special Tests and Provisions-Highly Qualified Teachers and Paraprofessionals

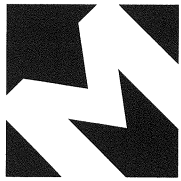
When individuals are hired, School Town of Munster obtains any licenses, transcripts or certifications necessary for the position to ensure that only highly qualified teachers or paraprofessionals are hired. Prior to any interview, the building administrators review the documentation to ensure that the individual is highly qualified. All paperwork is kept at Central Office. The Administrative Assistant for Curriculum and Human Resources holds the files for certified people only. The payroll specialist holds the files for non-certified staff. Presently, all files are up to date. Files will be reviewed again in August to ensure that the files of any new hires have all required documentation

The expected date of implementation is August 12, 2014.

Signed Dr. Phyllis Gilworth, Dir. of Instructional Programs
Date 12/20/13

SCHOOL TOWN OF MUNSTER
EXIT CONFERENCE

The contents of this report were discussed on January 9, 2014, with Richard A. Sopko, Superintendent of Schools; Janice Swanson, Treasurer; and John E. Friend, Board member. The Official Response has been made a part of this report and may be found on page 58.



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Official Response

January 21, 2014

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

To Whom it May Concern:

This letter is in response to the exit interview for the audit period of July 1, 2011 to June 30, 2013. The School Town of Munster wishes to respond to each of the items which were discussed at the exit interview. In addition, the School Town of Munster expresses its gratitude and appreciation for a thorough and professional audit conducted by the SBA personnel.

The audit expresses ongoing concern over the increasing negative cash balance for the General Fund. In May, 2013 the supporters of School Town of Munster were able to pass a General Fund referendum, which, with further spending reductions, will be a significant resource to the General Fund for the next seven years.

The school corporation transferred funds from its Rainy Day Fund to the General Fund in June 2012 by school board resolution, which was thought to be the proper procedure, when in fact, as noted in the audit comments; the school corporation should have made expenditures from the Rainy Day Fund, instead of transferring funds to the General Fund.

The Transfer Tuition comment relates to voluntary transfer tuition students that are charged an assessment for capital costs of \$700. This charge is in addition to the Form 515 calculation for students and this charge is removed for any court ordered transfers. The charge is clearly stated as voluntary in order that these students might pay their fair share for technology and facility cost not included in the Form 515 calculations.

Cash Disbursements at Wilbur Wright Middle School and Internal Controls relating to Athletic Concessions at Munster High School will be addressed by review and modification of current and past procedures with the newer personnel in the various affected positions. An updating of procedures, with more attention to detail, should resolve the situations noted in the audit comments.

Sincerely,

Janice Swanson
Treasurer

CC Richard Sopko, Superintendent