

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

AUDIT REPORT

OF

NORTH LAWRENCE COMMUNITY SCHOOLS

LAWRENCE COUNTY, INDIANA

July 1, 2004 to June 30, 2006



**FILED**

03/07/2007



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Nancy R. Lumley Debra L. Ryan (Interim)	07-01-04 to 01-26-07 01-27-07 to 02-08-07
Superintendent of Schools	Dr. Dennis D. Turner	07-01-04 to 06-30-09
President of the School Board	L. Tom Harrell Gary Holmes J. Scott Gillespie	01-01-04 to 12-31-04 01-01-05 to 01-10-07 01-11-07 to 12-31-07



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE NORTH LAWRENCE COMMUNITY  
SCHOOLS, LAWRENCE COUNTY, INDIANA

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

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

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

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

In accordance with Government Auditing Standards, we have also issued a report dated January 26, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

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

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

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

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

STATE BOARD OF ACCOUNTS

January 26, 2007



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ROOM E418  
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Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

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

TO: THE OFFICIALS OF THE NORTH LAWRENCE COMMUNITY  
SCHOOLS, LAWRENCE COUNTY, INDIANA

We have audited the financial statements of the North Lawrence Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

STATE BOARD OF ACCOUNTS

January 26, 2007

NORTH LAWRENCE COMMUNITY SCHOOLS  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 4,317,302
Restricted assets:	
Cash and investments	-
Total assets	\$ 4,317,302
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ -
Unrestricted	4,317,302
Total net assets	\$ 4,317,302

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 9,898,954
Restricted assets:	
Cash and investments	<u>262,877</u>
Total assets	<u>\$ 10,161,831</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 262,877
Unrestricted	<u>9,898,954</u>
Total net assets	<u>\$ 10,161,831</u>

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
STATEMENT OF CASH ACTIVITIES  
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 20,420,621	\$ -	\$ 224,947	\$ (20,195,674)
Support services	25,565,065	1,573,697	772,338	(23,219,030)
Community services	273,727	-	-	(273,727)
Nonprogrammed charges	4,312,107	-	-	(4,312,107)
Debt service	19,865,125	-	-	(19,865,125)
Total governmental activities	\$ 70,436,645	\$ 1,573,697	\$ 997,285	(67,865,663)
General receipts:				
Property taxes				24,070,078
Other local sources				5,055,413
State aid				21,629,909
Grants and contributions not restricted				4,547,783
Bonds and loans				9,600,000
Sale of property, adjustments, and refunds				1,571,242
Investment earnings				41,788
Intergovernmental transfers				5,215,606
Total general receipts and intergovernmental transfers				71,731,819
Change in cash and investments				3,866,156
Net assets - beginning				451,146
Net assets - ending				\$ 4,317,302

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
STATEMENT OF CASH ACTIVITIES  
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 20,870,485	\$ -	\$ 179,542	\$ (20,690,943)
Support services	30,165,334	1,584,893	869,422	(27,711,019)
Community services	284,722	-	-	(284,722)
Nonprogrammed charges	5,242,148	-	-	(5,242,148)
Debt service	5,929,331	-	-	(5,929,331)
Total governmental activities	\$ 62,492,020	\$ 1,584,893	\$ 1,048,964	(59,858,163)
General receipts:				
Property taxes				19,144,726
Other local sources				4,592,273
State aid				23,327,610
Grants and contributions not restricted				3,696,043
Bonds and loans				500,000
Sale of property, adjustments, and refunds				8,386,205
Investment earnings				297,673
Intergovernmental transfers				5,758,162
Total general receipts and intergovernmental transfers				65,702,692
Change in cash and investments				5,844,529
Net assets - beginning				4,317,302
Net assets - ending				\$ 10,161,831

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2005

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Construction	Other	Totals
<b>Receipts:</b>								
Local sources	\$ 12,809,475	\$ 4,324,580	\$ 6,852,957	\$ 4,550,221	\$ 280,035	\$ -	\$ 1,913,039	\$ 30,730,307
Intermediate sources	1,147	-	-	-	-	-	-	1,147
State sources	21,749,665	-	-	-	-	-	751,721	22,501,386
Federal sources	327	-	-	-	-	-	4,673,266	4,673,593
Bonds and loans	9,600,000	-	-	-	-	-	-	9,600,000
Sale of property, adjustments and refunds	172,412	10,119	-	4,000	-	-	53,555	240,086
Intergovernmental transfers	213,453	300,983	-	-	-	-	2,518,948	3,033,384
<b>Total receipts</b>	<b>44,546,479</b>	<b>4,635,682</b>	<b>6,852,957</b>	<b>4,554,221</b>	<b>280,035</b>	<b>-</b>	<b>9,910,529</b>	<b>70,779,903</b>
<b>Disbursements:</b>								
<b>Current:</b>								
Instruction	16,328,980	-	-	-	-	-	4,091,641	20,420,621
Support services	10,324,356	2,933,606	-	2,670,746	158,865	814,589	4,754,092	21,656,254
Community services	266,345	-	-	-	-	-	7,382	273,727
Nonprogrammed charges	3,543,212	21,175	300,000	29,412	-	-	418,308	4,312,107
Debt services	14,350,000	-	5,515,125	-	-	-	-	19,865,125
<b>Total disbursements</b>	<b>44,812,893</b>	<b>2,954,781</b>	<b>5,815,125</b>	<b>2,700,158</b>	<b>158,865</b>	<b>814,589</b>	<b>9,271,423</b>	<b>66,527,834</b>
Excess (deficiency) of total receipts over (under) total disbursements	(266,414)	1,680,901	1,037,832	1,854,063	121,170	(814,589)	639,106	4,252,069
Cash and investments - beginning	(999,617)	(1,613,776)	(1,610,122)	817,481	(36,148)	2,206,164	655,316	(580,702)
Cash and investments - ending	<u>\$ (1,266,031)</u>	<u>\$ 67,125</u>	<u>\$ (572,290)</u>	<u>\$ 2,671,544</u>	<u>\$ 85,022</u>	<u>\$ 1,391,575</u>	<u>\$ 1,294,422</u>	<u>\$ 3,671,367</u>

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

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

Net change in fund balances - total governmental funds	\$ 4,252,069
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>(385,913)</u>
Change in cash and investments of governmental activities	<u>\$ 3,866,156</u>

NORTH LAWRENCE COMMUNITY SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2006

	<u>General</u>	<u>Transportation Operating</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>School Bus Replacement</u>	<u>Construction</u>	<u>Elementary Construction</u>	<u>Other</u>	<u>Totals</u>
<b>Receipts:</b>									
Local sources	\$ 9,973,871	\$ 3,593,484	\$ 5,911,367	\$ 3,239,758	\$ 154,608	\$ 6,249	\$ 108,074	\$ 2,627,801	\$ 25,615,212
Intermediate sources	382	-	-	-	-	-	-	-	382
State sources	23,402,984	-	-	-	-	-	-	466,611	23,869,595
Federal sources	-	-	-	-	-	-	-	4,203,023	4,203,023
Bonds and loans	250,000	-	-	-	-	-	-	-	250,000
Sale of property, adjustments and refunds	158,514	8,940	-	739,947	-	-	5,929,615	51,942	6,888,958
Intergovernmental transfers	<u>254,847</u>	<u>338,242</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,691,538</u>	<u>3,284,627</u>
Total receipts	<u>34,040,598</u>	<u>3,940,666</u>	<u>5,911,367</u>	<u>3,979,705</u>	<u>154,608</u>	<u>6,249</u>	<u>6,037,689</u>	<u>10,040,915</u>	<u>64,111,797</u>
<b>Disbursements:</b>									
Current:									
Instruction	16,579,720	-	-	-	-	-	-	4,290,765	20,870,485
Support services	11,092,716	3,042,542	-	4,577,628	62,012	1,274,832	653,331	5,276,537	25,979,598
Community services	280,585	-	-	-	-	-	-	4,137	284,722
Nonprogrammed charges	4,125,759	45,386	444,903	36,223	2,046	-	-	587,831	5,242,148
Debt services	-	-	<u>4,654,083</u>	-	-	-	-	<u>1,025,248</u>	<u>5,679,331</u>
Total disbursements	<u>32,078,780</u>	<u>3,087,928</u>	<u>5,098,986</u>	<u>4,613,851</u>	<u>64,058</u>	<u>1,274,832</u>	<u>653,331</u>	<u>11,184,518</u>	<u>58,056,284</u>
Excess (deficiency) of total receipts over (under) total disbursements	1,961,818	852,738	812,381	(634,146)	90,550	(1,268,583)	5,384,358	(1,143,603)	6,055,513
Cash and investments - beginning	<u>(1,266,031)</u>	<u>67,125</u>	<u>(572,290)</u>	<u>2,671,544</u>	<u>85,022</u>	<u>1,391,575</u>	<u>-</u>	<u>1,294,422</u>	<u>3,671,367</u>
Cash and investments - ending	<u>\$ 695,787</u>	<u>\$ 919,863</u>	<u>\$ 240,091</u>	<u>\$ 2,037,398</u>	<u>\$ 175,572</u>	<u>\$ 122,992</u>	<u>\$ 5,384,358</u>	<u>\$ 150,819</u>	<u>\$ 9,726,880</u>

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

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

Net change in fund balances - total governmental funds	\$ 6,055,513
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>(210,984)</u>
Change in cash and investments of governmental activities	<u>\$ 5,844,529</u>

NORTH LAWRENCE COMMUNITY SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH AND INVESTMENTS  
PROPRIETARY FUND  
For The Year Ended June 30, 2005

	Internal Service Fund
Receipts:	
Local sources	\$ 9,520
Sale of property, adjustments and refunds	1,331,156
Transfers	2,182,222
Total receipts	3,522,898
Disbursements:	
Support services	3,908,811
Changes in cash and investments	(385,913)
Cash and investments - beginning	1,031,848
Cash and investments - ending	\$ 645,935

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH AND INVESTMENTS  
PROPRIETARY FUND  
For The Year Ended June 30, 2006

	Internal Service Fund
Receipts:	
Local sources	\$ 3,970
Bonds and loans	250,000
Sale of property, adjustments and refunds	1,497,247
Transfers	2,473,535
Total receipts	4,224,752
Disbursements:	
Support services	4,185,736
Debt services	250,000
Total disbursements	4,435,736
Changes in cash and investments	(210,984)
Cash and investments - beginning	645,935
Cash and investments - ending	\$ 434,951

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
For The Year Ended June 30, 2005

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Additions:		
Local sources	\$ -	\$ 122,665
State sources	-	3,340
Bonds and loans	10,500,000	-
Sale of property, adjustments and refunds	<u>-</u>	<u>49</u>
 Total additions	 <u>10,500,000</u>	 <u>126,054</u>
Deductions:		
Instruction	-	2,975
Support services	8,120,958	134,480
Nonprogrammed charges	<u>-</u>	<u>71,625</u>
 Total deductions	 <u>8,120,958</u>	 <u>209,080</u>
 Excess (deficiency) of total additions over (under) total deductions	 2,379,042	 (83,026)
 Cash and investments - beginning	 <u>-</u>	 <u>229,511</u>
 Cash and investments - ending	 <u>\$ 2,379,042</u>	 <u>\$ 146,485</u>

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
For The Year Ended June 30, 2006

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ 72,288	\$ 127,444
State sources	-	3,816
Federal sources	-	10,000
Sale of property, adjustments and refunds	-	54
	72,288	141,314
Deductions:		
Instruction	-	7,959
Support services	140,083	97,987
Nonprogrammed charges	-	70,922
	140,083	176,868
Deficiency of total additions under total deductions	(67,795)	(35,554)
Cash and investments - beginning	2,379,042	146,485
Cash and investments - ending	\$ 2,311,247	\$ 110,931

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
STATEMENT OF CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ 2,379,042	\$ 146,485
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 2,379,042	\$ 146,485

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
 STATEMENT OF CASH AND INVESTMENTS  
 FIDUCIARY FUNDS  
 June 30, 2006

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ 2,311,247	\$ 110,931
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 2,311,247	\$ 110,931

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Primary Government: North Lawrence Community Schools

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

Joint Venture

The School Corporation is a participant with Brownstown Central Community Schools, Eastern School District of Green County, Medora Community School Corporation, Mitchell Community Schools, Orleans Community Schools and Shoals Community Schools in a joint venture to operate the Orange, Lawrence, Jackson, Martin, Green, Joint Services Agreement in Special Education (Co-op), which was created to provide instruction to handicapped children. Each year every school in the Co-op is billed a percentage of the Co-op's total cost based on each school's (ADM) count. The Co-op has no surplus and creates no debts. Complete financial statements for the Orange, Lawrence, Jackson, Martin, Green, Joint Services Agreement in Special Education can be obtained from North Lawrence Community Schools.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The School Corporation has no business-type activities at this time.

Fund Financial Statements

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The School Corporation reports the following major governmental funds:

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

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

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

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

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

The construction fund is used to account for receipts and disbursements concerning construction of new facilities.

The elementary construction fund is used to account for the receipts and disbursements concerning construction of new elementary facilities.

Additionally, the School Corporation reports the following fund types:

The internal service fund accounts for medical insurance provided to other departments on a cost-reimbursement basis.

The pension trust funds account for the activities of the pension buy out, which accumulate resources for pension benefit payments.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the various scholarship funds.

C. Measurement Focus and Basis of Accounting

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

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

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

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

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Property Taxes

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

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 3 days to 16 days per school year. Unused sick leave may be accumulated to a maximum of 245 days. Accumulated sick leave is paid to employees through cash payments upon retirement.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 15 days per school year based upon the number of years of service. Vacation leave must be taken by August 31 of the year in which said vacation is earned. Accumulated vacation leave is paid to employees through cash payments upon termination.

c. Personal Leave

School Corporation employees earn personal leave at the rate of three days per school year. Personal leave does not accumulate from year to year. Unused personal leave remaining at the end of the year is converted to sick leave.

NORTH LAWRENCE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

4. Capital Assets

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

5. Long-Term Debt

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

6. Equity Classification

Government-Wide Statements

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

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

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

Fund Financial Statements

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

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

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

F. Internal and Interfund Balances and Activities

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Fund Financial Statements

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

Government-Wide Financial Statements

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

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

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

B. Cash and Investment Balance Deficits

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Fund	June 30, 2005 Amount	June 30, 2006 Amount
General	\$ 1,266,031	\$ -
Debt Service	572,290	-
Joint Service	270,026	372,446
Alternative Education Grant	-	17,154
Alternative Service - Mitchell	-	6,321
Part B, IDEA 05-06	-	294,485
Part B Co 05-06	-	19,121
Preschool 05-06	-	3,572
Drug Grant 04-05	1,749	-
Drug Grant 05-06	-	4,203
Carl Perkins 04-05	19,701	-
Carl Perkins 05-06	-	26,372
Career Majors Grant	-	492
Class Reduction 04-05	10,394	3,466
GED	424	2,394
Cultural Arts	596	-
Totals	<u>\$ 2,141,211</u>	<u>\$ 750,026</u>

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

III. Detailed Notes on All Funds

A. Deposits

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

B. Interfund Transfers

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Transfer From</u>	<u>Transfer To</u>	<u>2004</u>	<u>2005</u>
General Fund	Other governmental	\$ 1,415,520	\$ 1,600,022
General Fund	Internal Service	1,815,609	2,037,120
Debt Service	Transportation	300,000	337,283
Debt Service	Other governmental	-	47,026
Transportation Operating	Internal Service	21,175	22,920
Capital Projects	Internal Service	29,412	31,601
Debt Service	Other governmental	-	60,594
Capital Projects	Other governmental	-	4,622
Transportation Operating	Other governmental	-	22,466
Other governmental	General Fund	11,536	12,000
Other governmental	Other governmental	93,984	188,143
Other governmental	Internal Service	<u>316,026</u>	<u>381,895</u>
Totals		<u>\$ 4,003,262</u>	<u>\$ 4,745,692</u>

The School Corporation typically uses transfers for cash flow purposes as provided by various statutory provisions.

IV. Other Information

A. Risk Management

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

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

Group Medical Benefits

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

B. Holding Corporations

The School Corporation has entered into capital leases with North Lawrence School Improvement Corporation and the North Lawrence Multi School Building Corporation (the lessors). The lessors were organized as not-for-profit corporations pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessors have been determined to be related parties of the School Corporation. Lease payments during the audit period totaled \$7,377,402.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health and life benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 55 with at least 20 years of service. Currently, 46 retirees meet these eligibility requirements. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$68,103 were recognized for postemployment benefits. The School Corporation also set aside \$140,116 for incentive payments and the School Corporations share of insurance for future retirees.

D. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 172,031
Interest on net pension obligation	(27,642)
Adjustment to annual required contribution	31,500
Annual pension cost	175,889
Contributions made	210,092
Decrease in net pension obligation	(34,203)
Net pension obligation, beginning of year	(381,270)
Net pension obligation, end of year	\$ (415,473)

Contribution rates:	
School Corporation	5%
Plan members	3%
Actuarial valuation date	07-01-5
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 195,258	106%	\$ (320,738)
	06-30-04	145,789	142%	(381,270)
	06-30-05	175,889	144%	(415,473)

NORTH LAWRENCE COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

Teachers' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Costs

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

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$410,477, \$357,696, and \$315,761, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

NORTH LAWRENCE COMMUNITY SCHOOLS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 4,809,000	\$ 4,117,421	\$ 691,579	117%	\$ 3,985,793	17%
07-01-04	4,852,785	4,458,574	394,211	109%	4,128,546	10%
07-01-05	5,018,709	4,791,513	227,196	105%	4,289,346	5%

NORTH LAWRENCE COMMUNITY SCHOOLS  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CAPITAL ASSETS

June 30, 2006

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

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 20,391
Buildings	44,491,406
Improvements other than buildings	1,538,264
Machinery and equipment	<u>14,327,644</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 60,377,705</u>

NORTH LAWRENCE COMMUNITY SCHOOLS  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Capital leases:		
Buildings	\$ 56,935,000	\$ 2,355,000
Notes and loans payable	1,573,266	525,003
Bonds payable:		
General obligation bonds:		
Pension Bonds	<u>10,340,000</u>	<u>330,000</u>
Total long-term debt	<u>\$ 68,848,266</u>	<u>\$ 3,210,003</u>

NORTH LAWRENCE COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS

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

The information presented for audit indicates enrollment figures on Form Number 30A, Report of Average Daily Membership (ADM) for State Support, were incorrect for the school year ending June 30, 2005.

The enrollment count dates for 2004-2005 school year was September 17, 2004. The difference between the count reported on the ADM and the verified figures are shown below:

School Year	Grade	Count as Reported on Form Number 30A	Actual Enrollment Figures	Difference
2004-2005	Kindergarten	200	200	-
2004-2005	1 Through 12	5,057	5,052	5

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

PAYROLL DISBURSEMENTS

A payroll test found a 5.50 hour overpayment to one employee. The employee's time sheet documented the arrival and departure times correctly; however, the total hours were calculated incorrectly. The error resulted in a \$47.35 overpayment. The error was corrected on the January 19, 2007, payroll by deducting the \$47.35 from the gross pay.

We also discovered that there were payments being made to employees that were not included in the salary schedule for the support staff, the master contract, or the board minutes.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

OVERDRAWN CASH BALANCES

The cash balance of several funds were overdrawn at the end of each year. The funds were as follows:

NORTH LAWRENCE COMMUNITY SCHOOLS  
 AUDIT RESULTS AND COMMENTS  
 (Continued)

Fund	June 30, 2005 Amount	June 30, 2006 Amount
General	\$ 1,266,031	\$ -
Debt Service	572,290	-
Joint Service	270,026	372,446
Alternative Education Grant	-	17,154
Alternative Service Mitchell	-	6,321
Part B, IDEA 05-06	-	294,485
Part B Co 05-06	-	19,121
Preschool 05-06	-	3,572
Drug Grant 04-05	1,749	-
Drug Grant 05-06	-	4,203
Carl Perkins 04-05	19,701	-
Carl Perkins 05-06	-	26,372
Career Majors Grant	-	492
Class Reduction 04-05	10,394	3,466
GED	424	2,394
Cultural Arts	596	-
Totals	<u>\$ 2,141,211</u>	<u>\$ 750,026</u>

The 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)

TRANSFER TUITION – CASH TRANSFERS

Transfer tuition was being charged based on an estimated amount instead of determining the amount using form 515.

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

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

"(b) A transfer may not be accepted unless the requesting parents or student pays transfer tuition in an amount determined under the formula established . . ."

NORTH LAWRENCE COMMUNITY SCHOOLS  
AUDIT RESULTS AND COMMENTS  
(Continued)

LAWRENCE COUNTY EDUCATIONAL ALTERNATIVE PROGRAM INTERLOCAL AGREEMENT

The North Lawrence Community Schools, Lawrence County Office of Family and Children, and the Lawrence County Commissioners entered into an interlocal agreement in 1999 to operate an alternative school. The Lawrence County Probation Department provided \$10,000 annually, Lawrence County provided classroom space, and the Lawrence County Office of Family and Children provided \$20,000 annually. North Lawrence Community Schools provided the curriculum, the teachers, and implemented and conducted the educational program.

Indiana Code 36-1-7-2 (a) states: "A power that may be exercised by an Indiana political subdivision and by one (1) or more other governmental entities may be exercised: (1) by one (1) or more entities on behalf of others; or (2) jointly by the entities. Entities that want to do this must, by ordinance or resolution, enter into a written agreement under section 3 or 9 of this chapter."

ECA DEPOSITS (Bedford Middle School)

Receipts were not always deposited within a reasonable time. Receipts for May 2006 were deposited on two days. A deposit of \$9,732.25 was made on May 3 and deposits totaling \$11,930.02 were deposited on May 16.

Indiana Code 20-41-1-9 states in part: ". . . receipts shall be deposited without unreasonable delay."

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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

TO: THE OFFICIALS OF THE NORTH LAWRENCE COMMUNITY  
SCHOOLS, LAWRENCE COUNTY, INDIANA

Compliance

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

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

As described in item 2006-1 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding Cash Management that are applicable to its Special Education-Grants to States Programs. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to those programs.

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

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

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School Corporation's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

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

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

STATE BOARD OF ACCOUNTS

January 26, 2007

NORTH LAWRENCE COMMUNITY SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 128,563	\$ 151,740
National School Lunch Program	10.555		616,201	675,987
Special Milk Program for Children	10.556		<u>10,862</u>	<u>11,201</u>
Total for cluster			<u>755,626</u>	<u>838,928</u>
Team Nutrition Grants FY 05-06	10.574		<u>-</u>	<u>344</u>
Total for federal grantor agency			<u>755,626</u>	<u>839,272</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Pass-Through Indiana Department of Education				
Special Education Cluster				
Special Education - Grants to States	84.027			
		14203-049-DY08	4	-
		14204-049-PY02	704,488	-
		14205-049-PN01	1,605,246	516,876
		14205-049-SN01	35,979	3,820
		14205-049-DY01	-	22,404
		14205-049-PY02	-	376,160
		14206-049-PN01	<u>-</u>	<u>1,824,930</u>
Total for program			<u>2,345,717</u>	<u>2,744,190</u>
Special Education - Preschool Grants	84.173			
		45704-049-PY02	20,649	-
		45705-049-PN01	95,707	20,984
		45705-049-PY02	-	577
		45706-049-PN01	<u>-</u>	<u>83,572</u>
Total for program			<u>116,356</u>	<u>105,133</u>
Total for cluster			<u>2,462,073</u>	<u>2,849,323</u>
Title I Grants to Local Educational Agencies	84.010			
FY 03-04		04-5075	78,529	-
FY 04-05		05-5075	595,418	77,212
FY 05-06		06-5075	<u>-</u>	<u>614,957</u>
Total for program			<u>673,947</u>	<u>692,169</u>
Vocational Education - Basic Grants to States	84.048			
		03-04	327	-
		04-4700-5075	22,833	-
		05-4700-5075	152,733	24,643
		06-4700-5075	<u>-</u>	<u>150,577</u>
Total for program			<u>175,893</u>	<u>175,220</u>

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended June 30, 2005 and 2006  
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<b>U.S. DEPARTMENT OF EDUCATION (continued)</b>				
Pass-Through Indiana Department of Education (continued)				
Safe and Drug Free Schools and Communities - State Grants	84.186			
SY03-04		04-07	236	265
SY04-05		03-022	10,077	-
SY05-06		04-002	6,749	18,609
		05-033	-	8,203
Total for program			<u>17,062</u>	<u>27,077</u>
Pass-Through Indiana Department of Workforce Development Tech-Prep Education	84.243	TP5268	-	7,310
Pass-Through Indiana Department of Education Twenty-First Century Community Learning Centers	84.287		-	-
		03-04	60,811	-
		04-05	65,488	67,362
		06-07	-	18,233
Total for program			<u>126,299</u>	<u>85,595</u>
State Grants for Innovative Programs	84.298			
SY 03-04			18,565	-
SY 04-05			18,144	10,338
SY 05-06			-	9,552
Total for program			<u>36,709</u>	<u>19,890</u>
Education Technology State Grants	84.318			
SY 02-03			108	-
SY 04-05		S318X040014	15,073	10,228
Total for program			<u>15,181</u>	<u>10,228</u>
Reading Excellence	84.338			
		338A010016A	4,757	-
Improving Teacher Quality State Grants	84.367			
03-056		S376A030013	87,376	-
04-028		S376A040013	176,394	58,061
05-030		S367A050013	-	176,401
Total for program			<u>263,770</u>	<u>234,462</u>
Total for federal grantor agency			<u>3,775,691</u>	<u>4,101,274</u>
Total federal awards expended			<u>\$ 4,531,317</u>	<u>\$ 4,940,546</u>

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

NORTH LAWRENCE COMMUNITY SCHOOLS  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

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

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

II. Noncash Assistance

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

Program Title	Federal CFDA Number	2004-2005	2005-2006
Child Nutrition Cluster			
Food Commodities			
School Breakfast Program	10.553	\$ 11,039	\$ 17,670
National School Lunch Program	10.555	44,954	63,172

NORTH LAWRENCE COMMUNITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	yes

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

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

Identification of Major Programs:

Name of Federal Program or Cluster

Special Education Cluster

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable

NORTH LAWRENCE COMMUNITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-1. CASH MANAGEMENT

Federal Agency: U.S. Department of Education  
Federal Program: Special Education – Grants to States  
CFDA Number: 84.027  
Federal Award Numbers: 14204-049-PY02, 14205-049-PN01,  
14205-049-SN01, 14205-049-DY01  
Pass-through Entity: Indiana Department of Education

North Lawrence Community Schools has not implemented adequate internal controls to minimize the time elapsing between the transfer of funds and their disbursement. The drawdown amounts included in the Special Education – Grants to States grant application were not accurate calculations of actual monthly disbursements, which resulted in large month-end cash balances.

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

Failure to adhere to this requirement could cause the School Corporation to be deemed ineligible to receive federal awards in the future.

We recommended that the School Corporation design and properly monitor procedures to try to match their budgeted expenditures with the drawdown requests included in the grant applications.

NORTH LAWRENCE COMMUNITY SCHOOLS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable



# NORTH LAWRENCE COMMUNITY SCHOOLS

460 W Street • P.O. Box 729 • Bedford, IN 47421-0729  
(812) 279-3521

## SCHOOLS

Bedford North Lawrence High School  
Bedford Junior High School  
Dollens Elementary School  
Englewood School  
Fayetteville Elementary School  
Heltonville Elementary School  
Lincoln Elementary School  
Needmore Elementary School  
Oolitic Junior High School  
Parkview Primary Elementary School  
Parkview Intermediate Elementary School  
Shawswick Elementary/Middle School  
Springville Elementary School  
Stalker Elementary School  
North Lawrence Vocational Technical Center

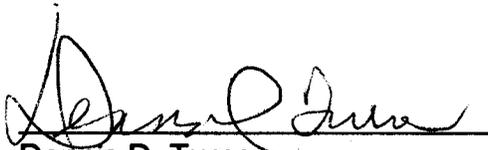
## CORRECTIVE ACTION PLAN

### **FINDING NO. 2006-1, SPECIAL EDUCATION CLUSTER - CASH MANAGEMENT**

**Federal Agency: US Department of Education**  
**Federal Program: Special Education - Grants to States**  
**CFDA Number: 84.027**  
**Federal Award Numbers: 14204-049-PY02, 14205-049-PN01, 14205-049-SN01, 14205-049-DY01**  
**Pass-through Entity: Indiana Department of Education**  
**Auditee Contact Person: Dr. Dennis Turner**  
**Title of Contact Person: Superintendent**  
**Phone Number: 812-279-3521**  
**Expected Completion Date: August 2007**

#### **Corrective Action:**

NLCS has begun with the 2006-2007 school year to complete the Indiana DOE form "Project Cash Request" for the various special education grants specifying varying amounts per month based on anticipated cash needs. Further, in compliance with new Indiana DOE regulations, the "Quarterly Project Expenditures Report" for Part B, IDEA is being submitted.

  
Dennis D. Turner  
Superintendent

February 8, 2007  
Date

NORTH LAWRENCE COMMUNITY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on February 8, 2007, with Nancy R. Lumley, former Treasurer, Debra L. Ryan, Interim Treasurer; J. Scott Gillespie, President of the School Board; Dr. Dennis D. Turner, Superintendent of Schools; and Gary D. Conner, Assistant Superintendent of Schools. The official response has been made a part of this report and may be found on page 46.



# NORTH LAWRENCE COMMUNITY SCHOOLS

460 W Street • P.O. Box 729 • Bedford, IN 47421-0729  
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## SCHOOLS

Bedford North Lawrence  
High School  
Bedford Junior High School  
Dollens Elementary School  
Englewood School  
Fayetteville Elementary School  
Heltonville Elementary School  
Lincoln Elementary School  
Needmore Elementary School  
Oolitic Junior High School  
Parkview Primary  
Elementary School  
Parkview Intermediate  
Elementary School  
Shawswick Elementary/  
Middle School  
Springville Elementary School  
Stalker Elementary School  
North Lawrence Vocational  
Technical Center

February 8, 2007

**STATE BOARD OF ACCOUNTS**  
302 West Washington Street  
4<sup>th</sup> Floor, Room #418  
Indianapolis, IN 46204-2765

Education does not occur in a vacuum. It takes place in a community. Other governmental entities must cooperate with the school system in many ways. The LEAP program is an example of necessary cooperation to meet specific mutual goals as set forth in the Agreement. Education of the children targeted by the LEAP program is consistent with the County's goal of reducing the cost of juvenile justice. Assisting these children with education requirements (that are often a part of probation or other juvenile justice remediation) in advance, is believed to lead to less crime, less future expense and to provide better future citizens.

Sincerely

**Dennis D. Turner**  
Superintendent

cc: Duane Martin