

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

AUDIT REPORT

OF

SOUTH BEND COMMUNITY SCHOOL CORPORATION

ST. JOSEPH COUNTY, INDIANA

July 1, 2003 to June 30, 2005



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SCHOOL CORPORATION OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Robert M. Orłowski	07-01-03 to 06-30-06
Superintendent of Schools	Dr. Joan M. Raymond	07-01-03 to 06-30-07
President of the School Board	Marcia M. Hummel Dawn M. Jones	01-01-03 to 12-31-05 01-01-06 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE SOUTH BEND COMMUNITY SCHOOL
CORPORATION, ST. JOSEPH COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Bend Community School Corporation (School Corporation), as of and for the years ended June 30, 2004 and 2005, as listed in the table of contents, which collectively comprise the School Corporation's basic financial statements. 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. 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 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, 2004 and 2005, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

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 the Governmental Accounting Standards Board. 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 Discussion and Analysis, or Budgetary Comparison Schedules, that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

In accordance with Government Auditing Standards, we have also issued a report dated December 20, 2005, 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. This separate report is an integral part of an audit performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and, in considering the results of the audit, this report should be read along with the auditor's report on the 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 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 statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

STATE BOARD OF ACCOUNTS

December 20, 2005



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

TO: THE OFFICIALS OF THE SOUTH BEND COMMUNITY SCHOOL
CORPORATION, ST. JOSEPH COUNTY, INDIANA

We have audited the financial statements of the South Bend Community School Corporation (School Corporation), as of and for the years ended June 30, 2004 and 2005, and have issued our report thereon dated December 20, 2005. 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

December 20, 2005

SOUTH BEND COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2004

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 40,005,263
Restricted assets:	
Cash and investments	<u>459,602</u>
Total assets	<u>\$ 40,464,865</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 459,602
Unrestricted	<u>40,005,263</u>
Total net assets	<u>\$ 40,464,865</u>

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

SOUTH BEND COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2004

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 78,592,965	\$ -	\$ 1,511,778	\$ (77,081,187)
Support services	171,735,108	3,136,633	5,950,728	(162,647,747)
Community services	2,159,296	-	-	(2,159,296)
Nonprogrammed charges	444,541	-	-	(444,541)
Debt service	65,408,694	-	-	(65,408,694)
Total governmental activities	\$ 318,340,604	\$ 3,136,633	\$ 7,462,506	(307,741,465)
General receipts:				
Property taxes				65,154,686
Other local sources				33,123,067
State aid				91,050,102
Grants and contributions not restricted				18,653,432
Bonds and loans				37,906,379
Sale of property, adjustments, and refunds				18,878,105
Investment earnings				1,001,869
Total general receipts				265,767,640
Change in cash and investments				(41,973,825)
Net assets - beginning				82,438,690
Net assets - ending				\$ 40,464,865

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

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

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 85,492,631	\$ -	\$ 1,158,629	\$ (84,334,002)
Support services	157,648,563	2,905,945	6,791,836	(147,950,782)
Community services	2,227,280	-	-	(2,227,280)
Nonprogrammed charges	594,185	-	-	(594,185)
Debt service	55,989,915	-	-	(55,989,915)
Total governmental activities	\$ 301,952,574	\$ 2,905,945	\$ 7,950,465	(291,096,164)
General receipts:				
Property taxes				78,918,275
Other local sources				38,149,701
State aid				93,397,815
Grants and contributions not restricted				24,920,249
Bonds and loans				41,807,025
Sale of property, adjustments, and refunds				15,780,291
Investment earnings				903,587
Total general receipts				293,876,943
Change in cash and investments				2,780,779
Net assets - beginning				40,464,865
Net assets - ending				\$ 43,245,644

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

SOUTH BEND COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2004

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Construction	Other	Totals
Receipts:								
Local sources	\$ 32,589,000	\$ 9,012,230	\$ 14,197,706	\$ 13,121,146	\$ 791,419	\$ 466,177	\$ 5,015,649	\$ 75,193,327
Intermediate sources	327,608	-	-	-	-	-	-	327,608
State sources	91,967,024	213,417	-	-	-	-	4,023,595	96,204,036
Federal sources	137,573	-	-	-	-	-	20,824,430	20,962,003
Bonds and loans	31,480,540	4,573,670	1,157,105	-	695,064	-	-	37,906,379
Sale of property, adjustments and refunds	332,419	301,713	-	28,206	-	15,845,467	1,127,707	17,635,512
Interfund transfers	-	213,417	-	-	-	-	267,896	481,313
Total receipts	156,834,164	14,314,447	15,354,811	13,149,352	1,486,483	16,311,644	31,259,277	248,710,178
Disbursements:								
Current:								
Instruction	67,658,588	-	-	-	-	-	10,934,377	78,592,965
Support services	57,560,773	11,051,888	-	12,616,060	2,114,620	43,733,962	17,711,719	144,789,022
Community services	1,069,072	-	-	-	-	-	1,090,224	2,159,296
Nonprogrammed charges	204,670	-	-	213,417	-	-	507,767	925,854
Debt services	35,740,996	5,019,119	21,599,023	2,440,175	609,381	-	-	65,408,694
Total disbursements	162,234,099	16,071,007	21,599,023	15,269,652	2,724,001	43,733,962	30,244,087	291,875,831
Excess (deficiency) of total receipts over (under) total disbursements	(5,399,935)	(1,756,560)	(6,244,212)	(2,120,300)	(1,237,518)	(27,422,318)	1,015,190	(43,165,653)
Cash and investments - beginning	6,826,843	2,754,761	6,703,814	9,056,932	845,513	47,111,333	(1,185,174)	72,114,022
Cash and investments - ending	<u>\$ 1,426,908</u>	<u>\$ 998,201</u>	<u>\$ 459,602</u>	<u>\$ 6,936,632</u>	<u>\$ (392,005)</u>	<u>\$ 19,689,015</u>	<u>\$ (169,984)</u>	<u>\$ 28,948,369</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	\$(43,165,653)
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>1,191,828</u>
Change in cash and investments of governmental activities.	<u><u>\$(41,973,825)</u></u>

SOUTH BEND COMMUNITY SCHOOL CORPORATION
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
Receipts:								
Local sources	\$ 40,843,559	\$ 10,979,624	\$ 16,950,529	\$ 15,336,194	\$ 1,400,515	\$ 134,554	\$ 5,465,341	\$ 91,110,316
Intermediate sources	283,379	-	-	-	-	-	-	283,379
State sources	94,126,148	-	-	-	-	-	3,384,086	97,510,234
Federal sources	175,377	-	-	-	-	-	28,582,918	28,758,295
Bonds and loans	28,123,713	3,763,803	26,352	-	-	12,843,157	2,950,000	47,707,025
Sale of property, adjustments and refunds	210,249	668,037	-	3,656	-	13,028,388	676,237	14,586,567
Interfund transfers	-	426,834	-	-	-	-	-	426,834
Total receipts	<u>163,762,425</u>	<u>15,838,298</u>	<u>16,976,881</u>	<u>15,339,850</u>	<u>1,400,515</u>	<u>26,006,099</u>	<u>41,058,582</u>	<u>280,382,650</u>
Disbursements:								
Current:								
Instruction	69,791,340	-	-	-	-	-	15,701,291	85,492,631
Support services	60,073,311	11,447,708	-	18,204,913	111,325	16,045,757	20,481,354	126,364,368
Community services	1,136,281	-	-	-	-	-	1,090,999	2,227,280
Nonprogrammed charges	2,647,713	500,000	-	426,834	-	-	3,346,462	6,921,009
Debt services	31,480,540	4,611,202	17,598,693	-	657,532	-	1,641,948	55,989,915
Total disbursements	<u>165,129,185</u>	<u>16,558,910</u>	<u>17,598,693</u>	<u>18,631,747</u>	<u>768,857</u>	<u>16,045,757</u>	<u>42,262,054</u>	<u>276,995,203</u>
Excess (deficiency) of total receipts over (under) total disbursements	(1,366,760)	(720,612)	(621,812)	(3,291,897)	631,658	9,960,342	(1,203,472)	3,387,447
Cash and investments - beginning	1,426,908	998,201	459,602	6,936,632	(392,005)	19,689,015	(169,984)	28,948,369
Cash and investments - ending	<u>\$ 60,148</u>	<u>\$ 277,589</u>	<u>\$ (162,210)</u>	<u>\$ 3,644,735</u>	<u>\$ 239,653</u>	<u>\$ 29,649,357</u>	<u>\$ (1,373,456)</u>	<u>\$ 32,335,816</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	\$ 3,387,447
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>(606,668)</u>
Change in cash and investments of governmental activities.	<u>\$ 2,780,779</u>

SOUTH BEND COMMUNITY SCHOOL CORPORATION
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN CASH AND INVESTMENTS
 PROPRIETARY FUND
 For The Year Ended June 30, 2004

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 26,895,319
Sale of property, adjustments and refunds	<u>1,242,595</u>
Total receipts	<u>28,137,914</u>
Disbursements:	
Support services	<u>26,946,086</u>
Changes in cash and investments	1,191,828
Cash and investments - beginning	<u>10,324,668</u>
Cash and investments - ending	<u><u>\$ 11,516,496</u></u>

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

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

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 29,363,833
Sale of property, adjustments and refunds	<u>1,313,694</u>
Total receipts	<u>30,677,527</u>
Disbursements:	
Support services	<u>31,284,195</u>
Changes in cash and investments	(606,668)
Cash and investments - beginning	<u>11,516,496</u>
Cash and investments - ending	<u><u>\$ 10,909,828</u></u>

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

SOUTH BEND COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2004

	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Fund</u>
Additions:		
Local sources	\$ 159,965	\$ 151,395
Sale of property, adjustments and refunds	<u>-</u>	<u>250</u>
Total additions	<u>159,965</u>	<u>151,645</u>
Deductions:		
Instruction	-	103,431
Support services	848,595	48,151
Debt services	<u>1,300,000</u>	<u>-</u>
Total deductions	<u>2,148,595</u>	<u>151,582</u>
Excess (deficiency) of total additions over (under) total deductions	(1,988,630)	63
Cash and investments - beginning	<u>17,021,562</u>	<u>108,436</u>
Cash and investments - ending	<u>\$ 15,032,932</u>	<u>\$ 108,499</u>

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

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

	Pension Trust Fund	Private-Purpose Trust Fund
Additions:		
Local sources	\$ 283,856	\$ 212,235
Deductions:		
Instruction	-	182,010
Support services	1,123,732	46,470
Total deductions	1,123,732	228,480
Deficiency of total additions under total deductions	(839,876)	(16,245)
Cash and investments - beginning	15,032,932	108,499
Cash and investments - ending	\$ 14,193,056	\$ 92,254

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

SOUTH BEND COMMUNITY SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 June 30, 2004

<u>Assets</u>	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Fund</u>	<u>Agency Funds</u>
Cash and investments	\$ 15,032,932	\$ 108,499	\$ 1,027,394
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 15,032,932	\$ 108,499	

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

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

<u>Assets</u>	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Fund</u>	<u>Agency Funds</u>
Cash and investments	\$ 14,193,056	\$ 92,254	\$ 1,104,251
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 14,193,056	\$ 92,254	

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

SOUTH BEND COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

These financial statements present the School Corporation (primary government). There are no significant component units which require inclusion.

Joint Venture

The School Corporation is a participant with eleven other school corporations of Elkhart and St. Joseph Counties in a joint venture to operate a Head Start Consortium (Consortium) which was created to develop, operate, participate and supervise a Head Start Program to serve the preschool student populations of the participating corporations. The Consortium's continued existence depends on continued funding through a federal grant program. Participating school corporations are required to provide 'in-kind' services (transportation and classroom, gymnasium and playground space) to meet the grant requirements. No fees are assessed the school corporation for the operation of this program. The School Corporation may be obligated for the debts of the Consortium should they not be covered by the grant. The School Corporation is the Treasurer for the Consortium and the Consortium's financial transactions are included in the other governmental funds of the School Corporation.

B. Government-Wide and Fund Financial Statements

Government-wide financial statements, (i.e., the Statement of Cash and Investments and the Statement of Cash Activities) report information on all of the nonfiduciary activities of the School Corporation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. However, there are no business-type activities to report at this time.

The Statement of Cash Activities demonstrates the degree to which direct disbursements of a given function or segment are offset by program receipts. Direct disbursements are clearly identifiable with a specific function or segment. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program receipts are reported instead as general receipts.

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.

SOUTH BEND COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the basis of accounting that demonstrates compliance with the cash 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. Receipts are recorded when received and disbursements are recorded when paid.

Governmental fund financial statements are reported using the basis of cash receipts and disbursements. Operating receipts are presented by source and operating disbursements are presented by functional purpose on the financial statements.

The cash 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.

The School Corporation reports the following major governmental funds:

The general fund is the School Corporation's primary operating fund and accounts for all financial resources of the School Corporation, 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 disbursements for capital outlay from receipts derived from the sale of general obligation bonds or other outside sources.

Additionally, the School Corporation reports the following fund types:

The internal service fund is used to account for employee/retiree medical benefits financed by payroll deductions and employer share transferred from other funds.

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

Pension trust funds account for bonds and payments anticipated to be made to employees on or after the termination of employment or to pay post-retirement or severance benefits held by the School Corporation in a trustee capacity.

SOUTH BEND COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

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

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any enterprise funds. There is one internal service fund for self-insurance. This fund is supported by a payroll deductions and employer share from all funds that incur a salary expense.

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 Net Assets or Equity

1. Deposits and Investments

State statute (IC 5-13-9) authorizes 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.

Investments are stated at cost. Any changes in the 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 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% (as of March 1, 2001) of the true tax value (determined in accordance with rules and regulations adopted by the 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.

SOUTH BEND COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 10 to 12 days per year based on months of service. Unused sick leave may be accumulated indefinitely, except for paraprofessionals who accumulate to a maximum of 235 days. Accumulated sick leave is paid to employees upon retirement.

b. Vacation Leave

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

c. Personal Leave

School Corporation employees earn personal leave at the rate of 2 or 3 days per year based upon job classification. Unused personal leave may be accumulated indefinitely to a maximum of 5 days for certified personnel and 3 days for all other personnel. Unused personal leave in excess of these limits are credited to the employee's sick leave at year end.

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. Annual appropriations lapse at calendar year end unless otherwise provided by statute or following proper encumbrance procedures.

The School Board considers a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the School Board to obtain taxpayer comments. No later than September 20th of each year, the School Board, through the passage of a resolution, adopts the budget for the next year. Copies of the budget resolution and the advertisement for funds for which property taxes are levied are sent to the Department of Local Government Finance. The budget becomes effective after the School Corporation receives notice from of the Department of Local Government Finance.

The School Corporation's management may not transfer budgeted appropriations without approval of the School Board. The Department of Local Government Finance must approve any revisions to the total appropriations for any budgeted fund. The legal level of budgetary control is by function for other budgeted funds.

B. Cash and Investment Balance Deficits

Cash and Investment balance deficits for governmental and fiduciary funds arise primarily from disbursements exceeding receipts due to the underestimate of current requirements. These deficits are to be repaid from future receipts. Material cash and investment balance deficits at June 30, 2005, are:

SOUTH BEND COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund	Amount
Major governmental funds:	
Debt Service	\$ (162,210)
Other governmental funds:	
Textbook Rental	(5,611,263)
School Lunch	(2,368,912)
Building Corporation Bond	(1,535,747)
Pre-School	(154,920)
Total	\$ (9,833,052)

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

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

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of June 30, 2005, the School Corporation had the following investments:

Investment Type	Primary Government	Investment Maturities (in Years)		
	Market Value	Less Than 1	1-2	More Than 2
U.S. Treasuries and Securities	\$ 9,575,924	\$ 7,579,284	\$ 1,996,640	\$ -

Investment Policies

Indiana Code 5-13-9 authorizes the School Corporation to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

SOUTH BEND COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of or interest in an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the School Corporation and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise; or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of or interest in an investment company or investment trust must be rated as AAAM, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the School Corporation may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The School Corporation does not have a formal investment policy for custodial credit risk for investments. At June 30, 2005, the School Corporation held investments in U.S. Treasuries and Securities with a market value of \$9,575,924. All of these investments were held by the counterparty's trust department or agent but not in the School Corporation's name.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The School Corporation must follow state statute and limit the stated final maturities of the investments to no more than two years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. U.S. Treasury securities are guaranteed by the full faith and credit of the U.S. government and are recognized as the safest investment available.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The School Corporation does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

SOUTH BEND COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Foreign Currency Risk

The School Corporation does not have a formal policy in regards to foreign currency risk. The School Corporation does not have any foreign currency.

B. Capital Assets

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.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) are as follows:

	Capitalization Threshold
Land	\$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Machinery and equipment	5,000

Capital asset balances as of June 30, 2005, are as follows:

Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 1,940,190
Buildings	590,589,497
Machinery and equipment	100,026,501
Construction in progress	5,830,630
Total governmental activity, capital assets not being depreciated	\$ 698,386,818

C. Construction Commitments

Construction work in progress is composed of the following:

SOUTH BEND COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to June 30, 2005</u>	<u>Committed</u>	<u>Required Future Funding</u>
Governmental funds:				
Washington High Renovations	\$ 4,804,707	\$ 1,948,984	\$ 2,855,723	\$ -
Lafayette Preschool Renovations	3,498,043	2,015,642	1,482,401	-
New Lincoln School	13,000,000	498,919	12,501,081	-
New Education Center	<u>6,608,061</u>	<u>1,367,085</u>	<u>5,240,976</u>	<u>-</u>
Totals	<u>\$ 27,910,811</u>	<u>\$ 5,830,630</u>	<u>\$ 22,080,181</u>	<u>\$ -</u>

D. Interfund Transfers

Interfund transfers at June 30, 2005, were as follows:

<u>Transfer From</u>	<u>Transfer To Transportation Operating</u>
Capital Projects	<u>\$ 426,834</u>

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

E. Leases

1. Operating Leases

The School Corporation has entered into an operating lease having initial or remaining non-cancelable terms exceeding one year for copiers. Rental expenditures for this lease for the years ended June 30, 2004 and 2005, were \$555,567 and \$558,835, respectively. The following is a schedule by years of future minimum rental payments as of June 30, 2005:

2006	\$ 558,835
2007	558,835
2008	<u>46,570</u>
Total	<u>\$ 1,164,240</u>

2. Capital Leases

The School Corporation has entered into various capital leases for school construction and renovations. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of June 30, 2005, for the years ended June 30, are as follows:

SOUTH BEND COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

2006	\$	16,244,500
2007		16,262,500
2008		16,279,000
2009		16,310,500
2010		16,322,500
2011-2015		77,809,000
2016-2020		67,288,500
2021-2025		<u>31,853,000</u>
Total minimum lease payments		258,369,500
Less amount representing interest		<u>81,789,500</u>
Present value of net minimum lease payments		<u>\$ 176,580,000</u>

The assets acquired through capital leases still in effect are as follows:

	Governmental Activities <u>Capital Assets</u>
Buildings	<u>\$ 198,030,000</u>

F. Short-Term Liabilities

Tax Anticipation Warrants

The School Corporation issues tax anticipation warrants for cash flow purposes in advance of property tax collections and/or state tuition support distributions, depositing the proceeds in the appropriate fund.

Short-term debt activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Issued/ Draws</u>	<u>Redeemed Repayments</u>	<u>Ending Balance</u>
Tax anticipation warrants	<u>\$ 37,906,379</u>	<u>\$ 28,937,516</u>	<u>\$ 37,906,379</u>	<u>\$ 28,937,516</u>

G. Long-Term Liabilities

1. General Obligation Bonds

The School Corporation issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities or to finance retirement/severance liabilities.

SOUTH BEND COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

General obligation bonds are direct obligations and pledge the full faith and credit of the School Corporation. General obligation bonds currently outstanding at year end are as follows:

Purpose	Interest Rates	Amount
2003 General obligation taxable pension	1.7% to 5.07%	\$ 16,085,000
2005 General obligation Lincoln school construction	3.25% to 4.5%	<u>13,000,000</u>
Total General obligation bonds		<u>\$ 29,085,000</u>

Annual debt service requirements to maturity for general obligation bonds, for the years ended June 30, are as follows:

Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 995,000	\$ 648,356
2007	1,135,000	1,505,057
2008	1,510,000	1,119,156
2009	1,560,000	1,072,057
2010	1,605,000	1,018,835
2011-2015	9,095,000	4,181,704
2016-2020	7,940,000	1,839,455
2021-2025	4,260,000	759,437
2026-2030	<u>985,000</u>	<u>33,413</u>
Totals	<u>\$ 29,085,000</u>	<u>\$ 12,177,470</u>

2. Loans Payable

The School Corporation has entered into various loans. Annual debt service requirements to maturity for the loans, including interest of \$13,964, as of June 30, 2005, for the years ended June 30, are as follows:

2006	\$ 593,651
2007	383,486
2008	<u>130,303</u>
Total	<u>\$ 1,107,440</u>

SOUTH BEND COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Changes in Long-Term Debt

Long-term debt activity for the years ended June 30, 2004 and 2005, was as follows:

<u>Fiscal Year 2003-2004</u>	<u>Balance July 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
General obligation	\$ 21,195,000	\$ -	\$ 4,495,000	\$ 16,700,000	\$ 615,000
Capital leases	182,010,929	22,136,018	21,351,947	182,795,000	6,215,000
Loans payable	<u>1,129,659</u>	<u>470,000</u>	<u>466,668</u>	<u>1,132,991</u>	<u>543,048</u>
Total governmental activities long-term liabilities	<u>\$ 204,335,588</u>	<u>\$ 22,606,018</u>	<u>\$ 26,313,615</u>	<u>\$ 200,627,991</u>	<u>\$ 7,373,048</u>
 <u>Fiscal Year 2004-2005</u>					
Governmental activities:					
Bonds payable:					
General obligation	\$ 16,700,000	\$ 13,000,000	\$ 615,000	\$ 29,085,000	\$ 995,000
Capital leases	182,795,000	-	6,215,000	176,580,000	8,085,000
Loans payable	<u>1,132,991</u>	<u>503,533</u>	<u>543,048</u>	<u>1,093,476</u>	<u>584,177</u>
Total governmental activities long-term liabilities	<u>\$ 200,627,991</u>	<u>\$ 13,503,533</u>	<u>\$ 7,373,048</u>	<u>\$ 206,758,476</u>	<u>\$ 9,664,177</u>

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; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees, Retirees, and Dependents

The School Corporation has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents. The risk financing fund is accounted for in the Self-Insurance 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 \$250,000 per year.

SOUTH BEND COMMUNITY SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all funds with payrolls 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 fund's gross wages, and are reported as quasi-external interfund transactions.

Job Related Illnesses or Injuries to Employees

The School Corporation has chosen to establish a risk financing fund for risks associated with job related illnesses or injuries to employees. This risk financing fund is accounted for in the General Fund where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$225,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Theft of, Damage To, and Destruction of Assets

The School Corporation has chosen to establish a risk financing fund for risks associated with theft of, damage to, and destruction of assets. The risk financing fund is accounted for in the General 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.

B. Holding Corporations

The School Corporation has entered into capital leases with the holding corporations shown in the schedule below (the lessor). 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 government. Lease payments during the school year are shown in the schedule.

<u>Lessor</u>	<u>Lease Payments</u>	
	<u>2003-2004</u>	<u>2004-2005</u>
SBCSC Edison School Building Corporation	\$ 2,089,500	\$ 1,396,000
SBCSC School Building Corporation	917,000	922,000
SBSC Riley School Building Corporation	3,565,500	3,565,000
SBCSC 2000 School Building Corporation	4,750,000	5,325,000
SBCSC 2002 Building Corporation	2,931,500	4,118,500

Abbreviations:

SBCSC - South Bend Community School Corporation
 SBSC - South Bend School Corporation

C. Postemployment Benefits

In addition to the pension benefits described in Note 3, the School Corporation provides postemployment medical benefits, which includes medical, dental and vision, as authorized by IC 5-10-8, to all employees who retire from the School Corporation that are eligible to receive benefits under the Indiana State Teachers' Retirement Fund and under the Indiana Public Employees Retirement Fund.

SOUTH BEND COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Currently, there are 159 retirees under medical, 275 retirees under dental, and 139 retirees under vision, that meet these eligibility requirements. The School Corporation and certified retirees provide approximately 89% and 11%, respectively, of the medical postemployment benefits. Noncertified retirees pay 100% of the medical benefits. All retirees pay 100% of the dental and vision benefits. Disbursements for these postemployment benefits are recognized on a pay-as-you-go basis. Disbursements for postemployment benefits cannot be reasonably estimated.

These funds are held in reserve to pay health insurance premiums of qualified retirees for a limited time, in accordance with various governmental regulations.

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.

SOUTH BEND COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 1,329,165
Interest on net pension obligation	(105,415)
Adjustment to annual required contribution	120,129
Annual pension cost	1,343,879
Contributions made	1,874,929
Decrease in net pension obligation	(531,050)
Net pension obligation, beginning of year	(1,454,006)
Net pension obligation, end of year	\$ (1,985,056)

Contribution rates:

School Corporation	6.88%
Plan members	3%
Actuarial valuation date	07-01-04
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	4 year smoothed market

Actuarial Assumptions

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-02	\$ 1,594,795	117%	\$ (1,505,933)
	06-30-03	1,807,675	97%	(1,454,006)
	06-30-04	1,343,879	140%	(1,985,056)

SOUTH BEND COMMUNITY SCHOOL CORPORATION
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 rate during the 2003-2004 and 2004-2005 years 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, 2003, 2004, and 2005, were \$2,240,107, \$1,971,834, and \$2,273,681, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

SOUTH BEND COMMUNITY SCHOOL CORPORATION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-02	\$ 25,275,318	\$ 30,228,778	\$ (4,953,460)	84%	\$ 26,026,038	(19%)
07-01-03	25,922,410	26,909,763	(987,353)	96%	25,651,529	(4%)
07-01-04	26,761,958	29,682,413	(2,920,455)	90%	26,504,712	(11%)

SOUTH BEND COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The School Corporation had sixteen funds with negative cash balances as of June 30, 2005. A similar comment was included in the previous Audit Report B22386.

The cash balances in the School Lunch and Textbook Rental Funds were overdrawn \$(1,965,583) and \$(6,071,361), respectively, as of November 30, 2005. The following schedule shows the past ten year-end cash balances in these two funds:

<u>Date</u>	<u>School Lunch</u>	<u>Textbook Rental</u>
06-30-96	\$ (189,214)	\$ (852,230)
06-30-97	(178,578)	(1,970,041)
06-30-98	(1,025,768)	(2,385,743)
06-30-99	(1,156,030)	(2,271,663)
06-30-00	(1,195,615)	(2,386,902)
06-30-01	(1,508,304)	(2,858,303)
06-30-02	(1,802,523)	(2,490,593)
06-30-03	(1,153,920)	(4,020,389)
06-30-04	(2,443,979)	(5,166,906)
06-30-05	(2,368,912)	(5,611,263)

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)

CAPITAL ASSET RECORDS

The capital asset records had several deficiencies:

1. No detail of additions or deletions was presented for audit. Reports presented showed no disposals for the two years. However, review of other records indicated disposals.
2. Purchase dates were missing from numerous capital assets and some purchase dates were years in the future, which were then not included in the computerized capital asset listing.
3. Due to improper dates only 75 of the 252 school buses were included in the capital asset records, with an estimated value of over \$11,000,000 not included.
4. Twenty buses were purchased in 2004, but only nine buses were added to the capital asset report.
5. Ten buses were traded in for the twenty buses acquired in 2004 but only six were removed from the capital asset report.

SOUTH BEND COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

6. Work in Progress shows a \$6,500,000 project for the renovation of the new Education Center. However, the \$6,500,000 was the contractual total, not the monies spent to date.

The School Corporation presented corrected capital asset records as of December 30, 2005.

Every governmental unit should have a complete inventory of all fixed assets owned which reflect their acquisition value. Such inventory should be recorded on the applicable General Fixed Asset Account Group Form. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

BANK ELECTRONIC FUNDS TRANSFER

A June 29, 2005, payment of \$271,957, to the School Corporation's health insurance administrator for medical claims was not posted to the School Corporation records as a disbursement until July 6, 2005. The payment was made using an electronic funds transfer. School Corporation Officials agreed to adjust the School Corporation's reported disbursements and the June 30, 2005 cash balance.

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

RECEIPT ISSUANCE (Applies to Darden, Hamilton, Hay, Harrison, Coquillard, Marquette, McKinley, Lafayette Elementary Schools, Swanson Highland Primary Center; Edison, Brown, Jackson, Greene, Navarre, John Marshall, Dickinson, Jefferson Intermediate Schools, LaSalle Academy, Clay, Riley High Schools; and Adult Education)

Receipts were not always issued timely when money was received. Examples include some schools issuing receipts on the date of the deposit or after the deposit. One school had only 1 deposit in a month, but 20 receipts were issued.

IC 20-26-6-6 states in part: ". . . receipts shall be deposited without unreasonable delay."

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

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

SOUTH BEND COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

ECA DEPOSITS (Applies to Wilson Primary Center; Greene, Jackson Intermediate Schools, Adams High School; and Adult Education)

Receipts were not always deposited within a reasonable time. At one school, Greene Intermediate, receipts, in some instances, were held for periods in excess of four months before being deposited. Receipts, in some cases, accumulated to over \$1,096 before a deposit was made. Greene's Athletic Coordinator held ticket sale money from games held through November 30, 2004 to March 16, 2005 (totaling twelve games) and deposited with the Extra-Curricular Treasurer on April 20, 2005. Concession collections were also deposited in a lump sum on April 20, 2005, totaling \$867. At another School, Adams High, we found instances where receipts were held for periods in excess of six months before being deposited.

IC 20-26-6-6 states in part: ". . . receipts shall be deposited without unreasonable delay."

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)

DEPOSITS (Applies to Marquette Primary Center; Brown and Dickinson Intermediate Schools)

Some schools did not always deposit money in the form received. Cash and check determination on receipts did not always agree with the deposit slip.

IC 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

BANK ACCOUNT RECONCILIATIONS (Applies to Adams High School)

Depository reconciliations of the fund balances to the bank account balances were not performed on a monthly basis.

IC 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

SOUTH BEND COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

FUNDRAISERS (Applies to Adams and Washington High Schools)

The controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient. The High School does not maintain any records regarding the sales, collections, and disposition of inventory related to fundraising events.

Internal controls over vending operations, concessions or other sales should include, at a minimum, a regular reconciliation of the beginning inventory, purchases, distributions, items sold and ending inventory to the amount received. Any discrepancies noted should be immediately documented in writing to proper officials. The reconciliation should provide an accurate accounting. Persons with access to vending should be properly designated and access should be limited to those designated. (Accounting and Uniform Accounting Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

SUPPORTING DOCUMENTATION (Applies to Jefferson Intermediate, Clay High School, and Adult Education)

Several payments were observed which did not contain adequate supporting documentation, such as receipts, invoices, and other public records. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

PRESCRIBED FORMS (Applies to Studebaker Primary Center, Greene, Jefferson Intermediate Schools and Clay High School)

Purchase Order and Accounts Payable Vouchers SA-1 were not filled out completely. Proper signatures and dates were lacking from the purchase orders. Forms were not maintained in proper order.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

After payment is made, the check number and date the voucher is paid are entered on the duplicate copy before filing. The duplicate may be filed in a Vendor's file if desired. The date and check number must also be entered on the file copy (triplicate). The file copy must then be removed from the obligation file and placed in a numerical file along with the vendor invoice. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

SOUTH BEND COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

PRENUMBERED TICKETS NOT USED (Applies to Brown, Clay, Dickinson, Greene Intermediate Schools, and LaSalle Academy)

Prenumbered tickets were not used for all events. Ticket sale reports were not always filled out completely with beginning and ending ticket numbers.

We noted at one school when two events were conducted at the same time, one event did not sell tickets. Ticket sale reports were adjusted at another school to reflect the amount of cash turned in rather than the number of tickets sold. All ticket sale reports balanced exactly to the money received. Also, if adult tickets sold were from number 425 to 508, student tickets sold were from numbers 509 to 548 and the pattern was the same on all games.

Ticket sale reports were not always filled out completely with beginning and ending ticket numbers.

Ticket sales conducted by any activity should be accounted for as follows:

The treasurer should be responsible for the proper accounting for all tickets and should keep a record of the number purchased, the number issued for sale, and the number returned. The treasurer should see that proper accounting is made for the cash received from those sold. All tickets shall be prenumbered, with a different ticket color and numerical series for each price group. When cash for ticket sales is deposited with the treasurer, the treasurer's receipt issued therefore should show the number of tickets issued to the seller, the number returned unsold and the balance remitted in cash. All tickets (including free or reduced) must be listed and accounted for on the SA-4. (Accounting and Uniform Compliance Guidelines Manual Extra-Curricular Accounts, Chapter 2)

Serially prenumbered tickets by the printing supplier should be used for all athletic and other extra-curricular activities and events for which admission is charged. Part of the prenumbered ticket should be given to the person paying for the ticket upon admission to the event. The other part of the ticket (which should also be prenumbered, referred to as the stub) should be retained. All tickets (unused tickets and stubs) should be retained for audit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

Tickets for each price group should be different colors and/or different in their series number. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

PERSONAL CHECKS CASHED (Applies to Adams, Clay, Riley, and Washington High Schools)

Some personal checks were cashed by the Extra-Curricular Treasurer from daily cash collections. As a result, cash collections were not deposited in the same form as the collections were received.

IC 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."

SOUTH BEND COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

CONDITION OF RECORDS (Applies to Adams High School)

The following deficiencies relating to the recordkeeping were noted.

- (1) There were a considerable number of posting errors. These errors included deposits not received, checks and receipts not recorded in the proper amounts.

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 Extra-Curricular Accounts, Chapter 7)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

- (2) Some transactions were recorded as "negative" receipts and disbursements.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

- (3) The source of numerous receipts was noted as received from "Non-specific Sources."

The extra-curricular treasurer is required to keep an accurate account of all money received and expended, showing the source of each receipt, the purpose of each disbursement and the overall balance on hand, which is the control account for all of the activity funds. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts Chapter 1)

- (4) Receipts were filed loose leaf and out of sequence.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

OVERDRAWN FUND BALANCES (Applies to Unified Athletics)

The Riley High School Fund in the Unified Athletics Extra-Curricular Account was overdrawn in the 2003-2004 and 2004-2005 school years. The balance was overdrawn at June 30, 2004, and June 30, 2005, \$11,574.05 and \$26,688.55, respectively. A similar comment was included in the prior Audit Report B22386.

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 Extra-Curricular Accounts, Chapter 7)

SOUTH BEND COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

INVESTMENT MATURITY LIMITATIONS (Applies to Riley High School)

Riley High School purchased several Certificates of Deposit, which have a stated maturity in excess of two years.

IC 5-13-9-5.6 states in part:

" . . . investments made under this chapter must have a stated final maturity of not more than . . . (3) two (2) years . . . after the date of purchase or entry into a repurchase agreement."

PUBLIC RECORDS RETENTION (Applies to Warren Primary Center)

Deposit tickets were not presented for audit.

IC 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."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

SA-3 (EXTRA-CURRICULAR RECEIPT) (Applies to Darden, Harrison, Hamilton, Hay, Coquillard, Madison, Marquette, Kennedy, Lincoln, Lafayette, Muessel, Swanson, Tarkington, and Wilson Elementary Schools; and Studebaker Primary Centers)

Duplicate receipts were not kept in sequence and were filed loose leaf in a folder as a permanent record.

The receipt form is to be prenumbered and printed in duplicate, three receipts to the page if bound and five receipts to the page if printed loose-leaf. If printed loose-leaf, the duplicate shall be contained in a post binder as a permanent record. (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 WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE SOUTH BEND COMMUNITY SCHOOL
CORPORATION, ST. JOSEPH COUNTY, INDIANA

Compliance

We have audited the compliance of the South Bend Community School Corporation (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2004 and 2005. 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 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. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2004 and 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-1 and 2005-2.

Internal Control Over Compliance

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

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

STATE BOARD OF ACCOUNTS

December 20, 2005

SOUTH BEND COMMUNITY SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2004 and 2005

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 06-30-04	Total Federal Awards Expended 06-30-05
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 1,000,181	\$ 1,307,810
National School Lunch Program	10.555		3,816,734	4,464,155
Summer Food Service Program for Children	10.559		<u>324,393</u>	<u>230,968</u>
Total for federal grantor agency			<u>5,141,308</u>	<u>6,002,933</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>				
Direct Grant				
Junior Reserve Officer Training Corp.	12.999		<u>119,455</u>	<u>106,785</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Special Education Cluster				
Special Education - Grants to States	84.027			
		14203-055-PN01	74,097	-
		14204-055-PN01	4,574,260	272,482
		14205-055-PN01	-	5,522,357
		14203-055-SN01	1,965	-
		14204-055-SN01	110,010	-
		14205-055-SN01	-	95,583
		14201-055-PY02	55	-
		14202-055-PY02	9,049	-
		14203-055-PY02	203,869	-
		14204-055-PY02	-	296,746
		14202-055-DY07	19,737	-
		14203-055-DY08	21,225	11,280
		14202-086-DY04	1,500	-
		14203-090-DY05	9,023	2,011
		14204-023-DY06	-	<u>10,545</u>
Total for program			<u>5,024,790</u>	<u>6,211,004</u>
Special Education - Preschool Grants	84.173			
		45702-055-PY02	2,944	-
		45703-055-PN01	3,024	-
		45704-055-PN01	382,567	-
		45705-055-PN01	-	<u>452,449</u>
Total for program			<u>388,535</u>	<u>452,449</u>
Total for cluster			<u>5,413,325</u>	<u>6,663,453</u>
Direct Grant				
Magnet Schools Assistance	84.165			
		FY 04-05	-	<u>1,161,557</u>
Direct Grant				
Education for Homeless Children and Youth	84.196		<u>47,898</u>	<u>39,701</u>
Direct Grant				
Fund for the Improvement of Education	84.215			
		FY 04-05	-	<u>128,633</u>
Direct Grant				
Twenty-First Century Community Learning Centers	84.287			
		S287A001922.01	<u>79,907</u>	-
Pass-Through Indiana Department of Education				
Adult Education - State Grant Program	84.002			
		FY2001-8407	521	-
		FY2002-8407	15,091	-

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

SOUTH BEND COMMUNITY SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2004 and 2005
(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 06-30-04	Total Federal Awards Expended 06-30-05
<u>U.S. DEPARTMENT OF EDUCATION (Continued)</u>				
Pass-Through Indiana Department of Education (continued)				
Adult Education - State Grant Program (continued)				
	84.002			
		FY2004-8407	23,336	9,664
		FY2005-8407	-	28,633
		FY2004-8129	27,958	42
		FY05-8129	-	24,185
		FY2001-8032	256	-
		FY2002-8032	4,550	-
		FY2003-8032	44,178	-
		FY2004-8032	266,242	51,272
		FY2005-8032	-	258,985
			<u>382,132</u>	<u>372,781</u>
Total for program				
Title I Grants to Local Educational Agencies	84.010			
		03-7205	601,654	-
		04-7205	3,888,704	2,786,087
		05-7205	-	5,531,409
		03-7205 Capital	1,150	-
		03-7205 Improvement	4,326	-
		04-7205 Improvement	2,119	4,302
		03-7205 Delinquent	48,730	-
		04-7205 Delinquent	78,896	56,261
			<u>4,625,579</u>	<u>8,378,059</u>
Total for program				
Migrant Education - State Grant Program	84.011			
		FY02/03/RM-23	5,319	-
		FY03/04/RM-21	173,593	1,362
		FY04/05/FM-19	-	181,143
		FY03-04/SM-3	82,432	-
		FY04-05/SM-7	-	73,405
			<u>261,344</u>	<u>255,910</u>
Total for program				
Vocational Education - Basic Grants to States	84.048			
		03-4700-07-7205	261,190	-
		04-4700-07-7205	194,089	309,710
		05-4700-07-7205	-	257,962
			<u>455,279</u>	<u>567,672</u>
Total for program				
Safe and Drug Free Schools and Communities - State Grants	84.186			
		00-124	5,906	427
		01-113	22,938	1,150
		02-043	7,636	84,155
		03-077	87,873	72,289
			<u>124,353</u>	<u>158,021</u>
Total for program				
Eisenhower Professional Development State Grants	84.281			
		00-130	406	62
		01177	116,694	1,633
			<u>117,100</u>	<u>1,695</u>
Total for program				
State Grants for Innovative Programs	84.298			
		01-228	2,682	13,648
		02265	157,040	-
		02295	24,875	154,542
		03303	-	56,769
			<u>184,597</u>	<u>224,959</u>
Total for program				

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

SOUTH BEND COMMUNITY SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2004 and 2005
(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 06-30-04	Total Federal Awards Expended 06-30-05
<u>U.S. DEPARTMENT OF EDUCATION (Continued)</u>				
Pass-Through Indiana Department of Education (continued)				
Education Technology State Grants	84.318			
		S318X020014	56,863	14,920
			-	24,207
		S318X990014	<u>122,320</u>	<u>119,528</u>
Total for program			<u>179,183</u>	<u>158,655</u>
Reading Excellence	84.338			
Local Reading Improvement Program			109,369	486,840
Tutorial Assistance Subgrant			<u>204,950</u>	<u>163,390</u>
Total for program			<u>314,319</u>	<u>650,230</u>
School Renovation Grants	84.352			
School IDEA			<u>53,871</u>	-
English Language Acquisition Grants	84.365			
		FY 01-02	8,679	-
		FY 02-03	149,042	-
		FY 03-04	247,742	104,440
		FY 04-05	<u>-</u>	<u>355,060</u>
Total for program			<u>405,463</u>	<u>459,500</u>
Improving Teacher Quality State Grants	84.367			
		02-267	1,299,212	242,419
		03-291	-	600,083
		6000/182500	<u>-</u>	<u>21,079</u>
Total for program			<u>1,299,212</u>	<u>863,581</u>
Total for federal grantor agency			<u>13,943,562</u>	<u>20,084,407</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Direct Grant				
Headstart	93.600			
07-27-04 to 10-31-04 Startup			-	1,015,989
11-1-04 to 10-31-05			<u>-</u>	<u>2,977,149</u>
Total for federal grantor agency			<u>-</u>	<u>3,993,138</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>				
Direct Grant				
Learn and Serve America - School and Community Based Programs	94.004			
9-1-98 to 9-1-99			-	314
9-1-00 to 9-1-01			71	-
9-1-02 to 9-1-03			328	-
9-1-04 to 9-1-05			<u>-</u>	<u>1,435</u>
			<u>4,726</u>	<u>762</u>
Total for federal grantor agency			<u>5,125</u>	<u>2,511</u>
Total federal awards expended			<u>\$ 19,209,450</u>	<u>\$ 30,189,774</u>

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

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

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

Note 2. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2004 and 2005. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2004	2005
School Breakfast Program	10.553	\$ 61,813	\$ 42,251
National School Lunch Program	10.555	205,655	368,249

SOUTH BEND COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

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

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies
84.367	Improving Teacher Quality State Grants
93.600	Headstart

Dollar threshold used to distinguish between Type A and Type B programs: \$1,481,977

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable

Section III – Federal Award Findings and Questioned Costs

FINDING 2005-1, ALLOWABLE COSTS

Federal Agency: U.S. Department of Health and Human Services
Federal Program: Headstart
CFDA Number: 93.600

SOUTH BEND COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Expenditures were paid from the Headstart program for cash advances from a credit card in the amount of \$1,126. Also, credit card charges for travel costs were not adequately supported by an invoice or receipt in the amount of \$3,382. The credit card was in the name of the Headstart Consortium. Parents were not required to keep or turn in receipts to support their travel expenditures when the Headstart program began. Additionally, the Business Manager did not always require employees incurring travel expenses to keep or turn in receipts to support their expenses.

OMB Circular A-87, "Costs Principals for State, Local and Indian Tribal Governments" Attachment A, Section C 1 states: "Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: . . . e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit, and . . . j. Be adequately documented."

IC 5-11-10-1.6c states in part: "The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: (1) there is a fully itemized invoice or bill for the claim; . . ."

Failure to require adequate documentation for expenditures may result in improper expenditures, improper expenditures charged to the federal program, or payments made that do not match the actual costs.

We recommended that the School Corporation require fully itemized documentation of expenditures before payments are made. If credit card charges continue to not be supported by invoices or receipts, then credit card use should cease.

FINDING 2005-2, CASH MANAGEMENT

Federal Agency: U.S. Department of Education
Federal Program: Improving Teacher Quality State Grants
CFDA Number: 84.367
Pass-Through Entity: Indiana Department of Education

Month end cash balances, from February 28, 2005 to July 31, 2005, exceeded 10% of the grant award. The largest excesses were July 31, 2005, \$529,817 or 33% of the grant award; and June 30, 2005, \$415,201 or 26% of the grant award.

The cash request form shows that the School Corporation is requesting equal monthly draws from the Indiana Department of Education from December 2004 through September 2005. School Officials requested no adjustments to the original cash request schedule

Circular A-102 (the Common Rule) subpart C20(b)(7) states in part: "Procedures for minimizing the time elapsing between the transfer of funds from the U.S. treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used . . . Grantees must monitor cash draw downs by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

Failure to minimize the cash on hand may cause future funding to be reduced by the pass-through agency. We recommend that the School Corporation analyze their cash needs for the grant and request cash draws in a manner that more closely matches the anticipated expenditures. If more expenditures are expected later in the grant period, cash requests would be greater then and smaller amounts would be requested earlier in the grant period.

SOUTH BEND COMMUNITY SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



SOUTH BEND COMMUNITY SCHOOL CORPORATION

635 SOUTH MAIN STREET SOUTH BEND, INDIANA 46601
TELEPHONE: (574) 283-8000

January 10, 2006

Finding No. 2005-1, Allowable Costs

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Head Start
CFDA Number:	93.600
Auditee Contact Person:	Robert M. Orlowski
Title of Contact Person:	Assistant Superintendent of Administrative Services
Phone Number:	574-283-8111
Completion Date:	December, 2005

Corrective Action Plan

Meetings between the South Bend Community School Corporation and the Head Start Administration took place in March, 2005. Head Start Administration was informed that cash advances on the credit card were not allowed. Guidelines and procedures were developed for travel reimbursement that would meet the State Board of Account Standards.

Robert M. Orlowski
Assistant Superintendent Financial Services



SOUTH BEND COMMUNITY SCHOOL CORPORATION

635 SOUTH MAIN STREET SOUTH BEND, INDIANA 46601
TELEPHONE: (574) 283-8000

January 10, 2006

Finding No. 2005-2, Cash Management

Federal Agency:	U.S. Department of Education
Federal Program:	Improving Teacher Quality State Grant
CFDA Number:	84.367
Pass-Through Entity:	Indiana Department of Education
Auditee Contact Person:	Robert M. Orlowski
Title of Contact Person:	Assistant Superintendent of Administrative Services
Phone Number:	574-283-8111
Completion Date:	January, 2006

Corrective Action Plan

The South Bend Community School Corporation will review and revise the current Improving Teacher Quality State Grant to meet Federal Cash Management guidelines. Cash flows and cost projections will be analyzed on a monthly basis. A revised cash request form will be sent to the State in January, 2006. All future grant applications will be monitored to maintain a fund balance below the allowable 10% amount.

Robert M. Orlowski
Assistant Superintendent Financial Services

SOUTH BEND COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on January 31, 2006, with Dr. Joan M. Raymond, Superintendent of Schools; Robert M. Orłowski; Assistant Superintendent of Schools; and Dawn M. Jones, President of the School Board. The officials concurred with our audit findings.