

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

AUDIT REPORT

OF

MIDDLEBURY COMMUNITY SCHOOLS

ELKHART COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED

01/09/2007

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OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|--|--|
| Treasurer | Shirley A. Meyer | 07-01-04 to 06-30-07 |
| Superintendent of Schools | Dr. Timothy L. Ogle James K. Connor | 07-01-04 to 12-31-04 01-01-05 to 06-30-10 |
| President of the School Board | Kent Yoder Timothy L. Weadick Delores K. Merrick | 07-01-04 to 06-30-05 07-01-05 to 06-30-06 07-01-06 to 06-30-07 |



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 MIDDLEBURY COMMUNITY SCHOOLS, ELKHART COUNTY, INDIANA

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

We conducted our audit in accordance with auditing standards generally accepted in the United States 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, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated October 18, 2006, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

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

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

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

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

STATE BOARD OF ACCOUNTS

October 18, 2006



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

TO: THE OFFICIALS OF THE MIDDLEBURY COMMUNITY SCHOOLS, ELKHART COUNTY, INDIANA

We have audited the financial statements of the Middlebury Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated October 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

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

October 18, 2006

MIDDLEBURY COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

| <u>Assets</u> | <u>Governmental Activities</u> |
|----------------------|------------------------------------|
| Current assets: | |
| Cash and investments | \$ 6,776,659 |
| Restricted assets: | |
| Cash and investments | <u>2,008,996</u> |
| Total assets | <u>\$ 8,785,655</u> |
| <u>Net Assets</u> | |
| Restricted for: | |
| Debt service | \$ 2,008,996 |
| Unrestricted | <u>6,776,659</u> |
| Total net assets | <u>\$ 8,785,655</u> |

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

MIDDLEBURY COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

| <u>Assets</u> | <u>Governmental Activities</u> |
|-----------------------|------------------------------------|
| Current assets: | |
| Cash and investments | \$ 5,369,591 |
| Restricted assets: | |
| Cash and investments | <u>2,028,911</u> |
| Total assets | <u>\$ 7,398,502</u> |
| <u>Net Assets</u> | |
| Restricted for: | |
| Debt service | \$ 2,028,911 |
| Unrestricted | <u>5,369,591</u> |
| Total net assets | <u>\$ 7,398,502</u> |

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

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

| Functions/Programs | Disbursements | Program Receipts | | Net (Disbursement) Receipts |
|--|-----------------------------|----------------------------|--|-----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Total |
| Governmental activities: | | | | |
| Instruction | \$ 10,964,315 | \$ - | \$ 179,648 | \$ (10,784,667) |
| Support services | 16,148,212 | 1,023,897 | 376,493 | (14,747,822) |
| Community services | 229,014 | - | - | (229,014) |
| Nonprogrammed charges | 835,757 | - | - | (835,757) |
| Debt service | <u>11,531,076</u> | <u>-</u> | <u>-</u> | <u>(11,531,076)</u> |
| Total governmental activities | <u>\$ 39,708,374</u> | <u>\$ 1,023,897</u> | <u>\$ 556,141</u> | <u>(38,128,336)</u> |
| General receipts: | | | | |
| Property taxes | | | | 21,075,655 |
| Other local sources | | | | 2,962,871 |
| State aid | | | | 11,628,142 |
| Grants and contributions not restricted | | | | 1,343,445 |
| Bonds and loans | | | | 2,586,266 |
| Sale of property, adjustments, and refunds | | | | 885 |
| Investment earnings | | | | <u>104,634</u> |
| Total general receipts | | | | <u>39,701,898</u> |
| Change in cash and investments | | | | 1,573,562 |
| Net assets - beginning | | | | <u>7,212,093</u> |
| Net assets - ending | | | | <u>\$ 8,785,655</u> |

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

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

| Functions/Programs | Disbursements | Program Receipts | | Net (Disbursement) Receipts |
|--|----------------------|-------------------------|--|-----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Total |
| Governmental activities: | | | | |
| Instruction | \$ 11,441,120 | \$ - | \$ 125,460 | \$ (11,315,660) |
| Support services | 15,740,914 | 1,025,626 | 405,866 | (14,309,422) |
| Community services | 231,116 | - | - | (231,116) |
| Nonprogrammed charges | 1,330,910 | - | - | (1,330,910) |
| Debt service | 7,285,113 | - | - | (7,285,113) |
| Total governmental activities | \$ 36,029,173 | \$ 1,025,626 | \$ 531,326 | (34,472,221) |
| General receipts: | | | | |
| Property taxes | | | | 15,447,992 |
| Other local sources | | | | 2,508,749 |
| State aid | | | | 12,688,948 |
| Grants and contributions not restricted | | | | 1,105,898 |
| Bonds and loans | | | | 1,087,487 |
| Sale of property, adjustments, and refunds | | | | 280 |
| Investment earnings | | | | 245,714 |
| | | | | 33,085,068 |
| | | | | (1,387,153) |
| | | | | 8,785,655 |
| | | | | \$ 7,398,502 |

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

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

| | General | Transportation Operating | Debt Service | Capital Projects | School Bus Replacement | Other | Totals |
|---|--------------------------|-----------------------------|-------------------------|-------------------------|---------------------------|-------------------------|--------------------------|
| Receipts: | | | | | | | |
| Local sources | \$ 11,102,470 | \$ 2,066,311 | \$ 6,034,951 | \$ 4,226,280 | \$ 400,426 | \$ 1,335,038 | \$ 25,165,476 |
| Intermediate sources | 436 | - | - | - | - | 1,144 | 1,580 |
| State sources | 11,747,964 | - | - | - | - | 296,614 | 12,044,578 |
| Federal sources | 594,270 | 5,360 | - | - | - | 883,521 | 1,483,151 |
| Bonds and loans | 2,070,801 | 211,211 | - | 304,254 | - | - | 2,586,266 |
| Sale of property, adjustments and refunds | 569 | 316 | - | - | - | - | 885 |
| Interfund transfers | - | 51,820 | - | - | - | 36,399 | 88,219 |
| Total receipts | <u>25,516,510</u> | <u>2,335,018</u> | <u>6,034,951</u> | <u>4,530,534</u> | <u>400,426</u> | <u>2,552,716</u> | <u>41,370,155</u> |
| Disbursements: | | | | | | | |
| Current: | | | | | | | |
| Instruction | 10,409,602 | - | - | - | - | 554,713 | 10,964,315 |
| Support services | 8,771,790 | 1,551,866 | - | 2,571,308 | 289,289 | 3,272,012 | 16,456,265 |
| Community services | 227,280 | - | - | - | - | 1,734 | 229,014 |
| Nonprogrammed charges | 778,573 | - | 51,820 | - | - | 93,583 | 923,976 |
| Debt services | 5,832,862 | 510,065 | 4,317,365 | 708,404 | 162,380 | - | 11,531,076 |
| Total disbursements | <u>26,020,107</u> | <u>2,061,931</u> | <u>4,369,185</u> | <u>3,279,712</u> | <u>451,669</u> | <u>3,922,042</u> | <u>40,104,646</u> |
| Excess (deficiency) of total receipts over (under) total disbursements | (503,597) | 273,087 | 1,665,766 | 1,250,822 | (51,243) | (1,369,326) | 1,265,509 |
| Cash and investments - beginning | <u>2,045,656</u> | <u>398,836</u> | <u>343,230</u> | <u>758,273</u> | <u>209,598</u> | <u>2,718,321</u> | <u>6,473,914</u> |
| Cash and investments - ending | <u>\$ 1,542,059</u> | <u>\$ 671,923</u> | <u>\$ 2,008,996</u> | <u>\$ 2,009,095</u> | <u>\$ 158,355</u> | <u>\$ 1,348,995</u> | <u>\$ 7,739,423</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 | \$ 1,265,509 |
| 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>308,053</u> |
| Change in cash and investments of governmental activities | <u>\$ 1,573,562</u> |

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

| | General | Transportation Operating | Debt Service | Capital Projects | School Bus Replacement | Other | Totals |
|---|--------------------------|-----------------------------|-------------------------|-------------------------|---------------------------|-------------------------|--------------------------|
| Receipts: | | | | | | | |
| Local sources | \$ 8,085,494 | \$ 1,623,943 | \$ 4,657,479 | \$ 3,357,539 | \$ 348,847 | \$ 1,153,494 | \$ 19,226,796 |
| Intermediate sources | 290 | - | - | - | - | 994 | 1,284 |
| State sources | 12,751,693 | - | - | - | - | 285,724 | 13,037,417 |
| Federal sources | 482,680 | 15,634 | - | - | - | 790,442 | 1,288,756 |
| Bonds and loans | 699,549 | 193,662 | - | - | 194,276 | - | 1,087,487 |
| Sale of property, adjustments and refunds | - | 20 | 260 | - | - | - | 280 |
| Interfund transfers | 259,421 | 25,909 | - | - | - | 33,517 | 318,847 |
| Total receipts | <u>22,279,127</u> | <u>1,859,168</u> | <u>4,657,739</u> | <u>3,357,539</u> | <u>543,123</u> | <u>2,264,171</u> | <u>34,960,867</u> |
| Disbursements: | | | | | | | |
| Current: | | | | | | | |
| Instruction | 10,940,319 | - | - | - | - | 500,801 | 11,441,120 |
| Support services | 8,683,547 | 1,605,035 | - | 3,511,395 | 295,496 | 1,684,653 | 15,780,126 |
| Community services | 228,915 | - | - | - | - | 2,201 | 231,116 |
| Nonprogrammed charges | 1,249,830 | - | 25,909 | - | - | 374,018 | 1,649,757 |
| Debt services | 2,070,801 | 211,211 | 4,611,915 | 304,254 | 86,932 | - | 7,285,113 |
| Total disbursements | <u>23,173,412</u> | <u>1,816,246</u> | <u>4,637,824</u> | <u>3,815,649</u> | <u>382,428</u> | <u>2,561,673</u> | <u>36,387,232</u> |
| Excess (deficiency) of total receipts over (under) total disbursements | (894,285) | 42,922 | 19,915 | (458,110) | 160,695 | (297,502) | (1,426,365) |
| Cash and investments - beginning | 1,542,059 | 671,923 | 2,008,996 | 2,009,095 | 158,355 | 1,348,995 | 7,739,423 |
| Cash and investments - ending | <u>\$ 647,774</u> | <u>\$ 714,845</u> | <u>\$ 2,028,911</u> | <u>\$ 1,550,985</u> | <u>\$ 319,050</u> | <u>\$ 1,051,493</u> | <u>\$ 6,313,058</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 | \$ (1,426,365) |
| 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>39,212</u> |
| Change in cash and investments of governmental activities | <u>\$ (1,387,153)</u> |

MIDDLEBURY COMMUNITY SCHOOLS
 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 | <u>\$ 2,278,240</u> |
| Disbursements: | |
| Support services | <u>1,970,187</u> |
| Changes in cash and investments | 308,053 |
| Cash and investments - beginning | <u>738,179</u> |
| Cash and investments - ending | <u><u>\$ 1,046,232</u></u> |

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

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

| | <u>Internal Service Fund</u> |
|----------------------------------|--------------------------------------|
| Receipts: | |
| Local sources | <u>\$ 2,604,147</u> |
| Disbursements: | |
| Support services | <u>2,564,935</u> |
| Changes in cash and investments | 39,212 |
| Cash and investments - beginning | <u>1,046,232</u> |
| Cash and investments - ending | <u><u>\$ 1,085,444</u></u> |

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

MIDDLEBURY COMMUNITY SCHOOLS
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 | \$ 11,727 | \$ - |
| Deductions: | | |
| Support services | 149,782 | - |
| Deficiency of total additions under total deductions | (138,055) | - |
| Cash and investments - beginning | 1,038,716 | 47 |
| Cash and investments - ending | \$ 900,661 | \$ 47 |

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

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

| | Pension Trust Fund | Private-Purpose Trust Fund |
|---|-----------------------|-------------------------------|
| Additions: | | |
| Local sources | \$ 7,805 | \$ - |
| Deductions: | | |
| Instruction | - | 47 |
| Support services | 146,166 | - |
| Total deductions | 146,166 | 47 |
| Deficiency of total additions under total deductions | (138,361) | (47) |
| Cash and investments - beginning | 900,661 | 47 |
| Cash and investments - ending | \$ 762,300 | \$ - |

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

MIDDLEBURY COMMUNITY SCHOOLS
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 | \$ 900,661 | \$ 47 | \$ 164,470 |
| | | | |
| <u>Net Assets</u> | | | |
| Held in trust for employee benefits and other purposes | <u>\$ 900,661</u> | <u>\$ 47</u> | |

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

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

| <u>Assets</u> | <u>Pension Trust Fund</u> | <u>Agency Funds</u> |
|--|-------------------------------|-------------------------|
| Cash and investments | \$ 762,300 | \$ 180,828 |
| | | |
| <u>Net Assets</u> | | |
| Held in trust for employee benefits and other purposes | \$ 762,300 | |

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

MIDDLEBURY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Joint Ventures

The School Corporation is a participant with Baugo Community Schools, Concord Community Schools, Fairfield Community Schools, Goshen Community Schools, and Wa-Nee Community Schools in a joint venture to operate the Elkhart County Special Education Cooperative (ECSEC) which was created to provide services to handicapped students of the six school corporations in the most efficient manner possible (Special Education Program). The School Corporation also is a participant with Baugo Community Schools, Concord Community Schools, Fairfield Community Schools, and Goshen Community Schools in a joint venture to operate the Elkhart County Education Interlocal which was created to provide educational programs for students who have difficulty learning in a traditional setting (Alternative School Program). The Special Education Program's and the Alternative School Program's continued existence depends on continued funding by the participating school corporations. Complete financial statements for the Special Education Program and the Alternative School Program can be obtained from the administering school corporation, Goshen Community Schools, 613 East Purl Street, Goshen, Indiana, 46526-4044. During the 2005-2006 school year, the School Corporation's share of the Special Education Program and Alternative School Program expenditures totaled \$1,209,107 and \$66,008, respectively.

The School Corporation is a participant with eleven other school corporations in 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 school 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 corporations 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. Complete financial statements for the Head Start Consortium can be obtained from South Bend Community School Corporation at 215 S. St. Joseph Street, South Bend, Indiana, 46601.

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. The School Corporation has no business-type activities.

MIDDLEBURY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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

The government-wide, governmental fund, proprietary fund and fiduciary 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.

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.

Additionally, the School Corporation reports the following fund types:

The internal service fund is used to account for the funding and the payment of medical and dental claims.

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

MIDDLEBURY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

The pension trust fund accounts 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.

Agency funds account for assets held by the School Corporation as an agent for its employees.

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). There is one internal service fund for self-insurance. This fund is supported by a workers' compensation rate charged to all funds that incur a payroll expense and from amounts withheld from employees for insurance. The School Corporation does not have any enterprise funds.

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

D. Assets and Cash 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 Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to December 31 of the year collected.

MIDDLEBURY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 4 to 10 days per year based on months of service. Unused sick leave may be accumulated to a maximum of 30 to 180 days. Accumulated sick leave is not paid to employees.

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 to 3 days per year. Personal leave does not accumulate from year to year.

II. Stewardship, Compliance and Accountability

Budgetary Information

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

On or before September 10, the fiscal officer of the School Corporation submits to the School Board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the 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 Indiana Department of Local Government Finance. The budget becomes effective after the School Corporation receives notice from of the Indiana Department of Local Government Finance.

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.

MIDDLEBURY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of June 30, 2006, the School Corporation had the following investments:

| Investment Type | Primary Government Market Value | Investment Maturities Less Than 1 Year |
|------------------------|--|---|
| Repurchase Agreements | \$ 3,007,877 | \$ 3,007,877 |
| Money Market Funds | 1,108,278 | 1,108,278 |
| U.S. Agency Securities | 498,280 | 498,280 |
| Totals | \$ 4,614,435 | \$ 4,614,435 |

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 School Corporation to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

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

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

MIDDLEBURY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, 2006, the School Corporation held investments in repurchase agreements in the amount of \$3,007,877. Of these investments all were held by the counterparty's trust department or agent but not in the School Corporation's name.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below.

| <u>Standard and Poor's Rating</u> | <u>Moody's Rating</u> | <u>School Corporation's Investments</u> <u>Government Sponsored Enterprise</u> |
|---|---------------------------|---|
| AAA | Aaa | <u>\$ 498,280</u> |

B. Capital Assets

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

C. Interfund Transfers

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

| <u>Transfer From</u> | <u>Transfer To</u> | <u>2005</u> | <u>2006</u> |
|-----------------------|-------------------------------|-------------------------|--------------------------|
| General Fund | Nonmajor governmental | \$ 2,131 | \$ 1,793 |
| Debt Service Fund | Transportation Operating Fund | 51,820 | 25,909 |
| Nonmajor governmental | General Fund | - | 259,421 |
| Nonmajor governmental | Nonmajor governmental | <u>34,268</u> | <u>31,724</u> |
| Totals | | <u><u>\$ 88,219</u></u> | <u><u>\$ 318,847</u></u> |

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

MIDDLEBURY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Debt

Debt proceeds are reported as cash receipts in the appropriate funds. Payments of principal and interest on debt are reported as disbursements in the appropriate funds.

IV. Other Information

A. Risk Management

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

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

Medical Benefits to Employees, Retirees, and Dependents

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 Medical Benefit Trust Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$60,000 per person and \$1,000,000 in the aggregate per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based primarily upon the percentage of each fund's current year payroll as it relates to total payroll.

B. Holding Corporations

The School Corporation has entered into capital leases with the Middlebury Elementary Schools Building Corporation, Middlebury Elementary/Middle School Building Corporation, and Northridge High School Additions Building Corporation (lessors). The lessors were organized as for profit holding corporations pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. Lease payments during the year ended June 30, 2006, totaled \$3,164,286.

C. Subsequent Events

In August 2006, the newly formed Middlebury Schools Building Corporation (a not-for-profit holding corporation) issued Series A Bonds totaling \$63,365,000 for the purpose of financing and constructing a new high school. Sometime after December 19, 2006, the Middlebury Schools Building Corporation will issue Series B Bonds totaling \$16,595,000 to provide additional financing for the completion of the new high school. The School Corporation will lease the new high school from the holding corporation with lease payments to begin in July 2008. Semiannual lease payments will be made to the holding corporation from the School Corporation Debt Service Fund. The new high school should be available for use and occupancy by August 2008.

MIDDLEBURY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

On August 24, 2006, the School Corporation received \$5,408,000 from the sale of land and other property to the newly formed Middlebury Schools Building Corporation. This money was deposited in a Trust Account established in the School Corporation's name to be used for future purchase of technology and other equipment for the new high school. This trust account is not accounted for on the School Corporation financial records.

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.

MIDDLEBURY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

| | PERF |
|--|---|
| Annual required contribution | \$ 206,105 |
| Interest on net pension obligation | (17,145) |
| Adjustment to annual required contribution | 19,538 |
| Annual pension cost | 208,498 |
| Contributions made | 255,250 |
| Decrease in net pension obligation | (46,752) |
| Net pension obligation, beginning of year | (236,485) |
| Net pension obligation, end of year | \$ (283,237) |
| Contribution rates: | |
| School Corporation | 6.75% |
| Plan members | 3% |
| Actuarial valuation date | 07-01-05 |
| Actuarial cost method | Entry age |
| Amortization method | Level percentage of projected payroll, closed |
| Amortization period | 40 years |
| Amortization period (from date) | 07-01-97 |
| Asset valuation method | 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 | 06-30-03 | \$ 229,217 | 112% | \$ (183,313) |
| | 06-30-04 | 202,452 | 126% | (236,485) |
| | 06-30-05 | 208,498 | 126% | (283,237) |

MIDDLEBURY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Teachers' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Costs

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

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 7% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$372,413, \$319,025, and \$302,926, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

MIDDLEBURY COMMUNITY SCHOOLS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (a-b) | Funded Ratio (a/b) | Covered Payroll (c) | Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c) |
|--------------------------------|--|---|--------------------------|--------------------------|---------------------------|--|
| 07-01-03 | \$ 2,634,094 | \$ 2,922,487 | \$ (288,393) | 90% | \$ 3,494,846 | (8%) |
| 07-01-04 | 2,769,578 | 3,060,925 | (291,347) | 90% | 3,513,421 | (8%) |
| 07-01-05 | 2,975,829 | 3,675,689 | (699,860) | 81% | 3,714,631 | (19%) |

MIDDLEBURY COMMUNITY SCHOOLS
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended June 30, 2006

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

| <u>Primary Government</u> | <u>Ending Balance</u> |
|--|---------------------------|
| Governmental activities: | |
| Capital assets, not being depreciated: | |
| Land | \$ 1,908,794 |
| Buildings | 47,264,601 |
| Improvements other than buildings | 2,908,575 |
| Machinery and equipment | <u>11,119,256</u> |
| Total governmental activities, capital assets not being depreciated | <u>\$ 63,201,226</u> |

MIDDLEBURY COMMUNITY SCHOOLS
SUPPLEMENTARY INFORMATION
SCHEDULE OF DEBT
For The Year Ended June 30, 2006

The School Corporation has entered into the following debt:

| Description of Debt | Ending Balance | Principal Due Within One Year | |
|---|-------------------|-------------------------------------|-----------------------------|
| Governmental activities short-term | | | |
| Loans payable: | | | |
| Tax anticipation warrants: | | | |
| General fund | \$ 699,549 | \$ | 699,549 |
| Transportation - operating | 193,662 | | 193,662 |
| Transportation - school bus replacement | 107,344 | | 107,344 |
| Total governmental activities short-term debt | 1,000,555 | | 1,000,555 |
| Governmental activities long-term: | | | |
| Capital leases: | | | |
| Northridge High School | 3,895,000 | | 1,245,000 |
| Orchard View Elementary School | 2,051,764 | | 570,000 |
| Jefferson/York/Middlebury Elementary Schools | 10,320,000 | | 640,000 |
| Technology | 1,054,935 | | 126,762 |
| Loans payable: | | | |
| Common school fund loans | 936,388 | | 167,132 |
| Bonds payable: | | | |
| General obligation bonds: | | | |
| Pension | 4,015,000 | | 270,000 |
| Construction | 1,345,000 | | 660,000 |
| Total governmental activities long-term debt | 23,618,087 | | 3,678,894 |
| Total debt | \$ 24,618,642 | \$ | 4,679,449 |
| Debt service requirements to maturity: | | | |
| Year ended June 30 | Capital Leases | Common School Fund Loans | General Obligation Bonds |
| 2007-11 | \$ 14,169,100 | \$ 843,270 | \$ 3,755,815 |
| 2012-16 | 6,363,000 | 252,031 | 2,369,390 |
| 2017-18 | 2,299,500 | - | 714,649 |
| Total | 22,831,600 | 1,095,301 | 6,839,854 |
| Less interest | 5,509,901 | 158,913 | 1,479,854 |
| Total principal | \$ 17,321,699 | \$ | 5,360,000 |

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE MIDDLEBURY COMMUNITY SCHOOLS, ELKHART COUNTY, INDIANA

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States 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, 2005 and 2006.

Internal Control Over Compliance

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

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

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

October 18, 2006

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

| Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title | Federal CFDA Number | Pass-Through Entity (or Other) Identifying Number | Total Federal Awards Expended 06-30-05 | Total Federal Awards Expended 06-30-06 |
|---|---------------------------|--|---|---|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | | |
| Pass-Through Indiana Department of Education | | | | |
| Child Nutrition Cluster | | | | |
| School Breakfast Program | 10.553 | | \$ 15,542 | \$ 17,681 |
| National School Lunch Program | 10.555 | | 268,237 | 318,914 |
| Special Milk Program for Children | 10.556 | | 5,033 | 3,949 |
| | | | <u>288,812</u> | <u>340,544</u> |
| Total for federal grantor agency | | | | |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | |
| Pass-Through Goshen Community Schools | | | | |
| Special Education Cluster | | | | |
| Special Education - Grants to States | 84.027 | 2004-05 2005-06 | 587,171 | - |
| | | | <u>-</u> | <u>475,581</u> |
| Total for cluster | | | <u>587,171</u> | <u>475,581</u> |
| Pass-Through Indiana Department of Education | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 04-2275 05-2275 06-2275 | 53,694 | - |
| | | | 317,960 | 28,970 |
| | | | <u>-</u> | <u>252,494</u> |
| Total for program | | | <u>371,654</u> | <u>281,464</u> |
| Pass-Through Elkhart Community Schools | | | | |
| Vocational Education - Basic Grants to States | 84.048 | 2004-05 2005-06 | 7,099 | - |
| | | | <u>-</u> | <u>7,099</u> |
| Total for program | | | <u>7,099</u> | <u>7,099</u> |
| Pass-Through Indiana Department of Education | | | | |
| Safe and Drug Free Schools and Communities - States Grants | 84.186 | 04-009 05-022 05-047 | 8,940 | 6,561 |
| | | | - | 3,289 |
| | | | <u>-</u> | <u>14,831</u> |
| Total for program | | | <u>8,940</u> | <u>24,681</u> |
| State Grants for Innovative Programs | 84.298 | 02-184 03-170 04-134 05-090 | 4,009 | - |
| | | | 3,570 | 5,533 |
| | | | 7,311 | 4,572 |
| | | | <u>-</u> | <u>3,138</u> |
| Total for program | | | <u>14,890</u> | <u>13,243</u> |
| Education Technology State Grants | 84.318 | 2003-04 2004-05 2005-06 | 1,130 | - |
| | | | 4,022 | 670 |
| | | | <u>-</u> | <u>3,064</u> |
| Total for program | | | <u>5,152</u> | <u>3,734</u> |
| English Language Acquisition Grants | 84.365 | 2003-04 2004-05 2005-06 | 1,204 | - |
| | | | 18,464 | - |
| | | | <u>-</u> | <u>48,039</u> |
| Total for program | | | <u>19,668</u> | <u>48,039</u> |
| Improving Teacher Quality State Grants | 84.367 | 02-224 03-167 04-334 05-090 | 1,203 | - |
| | | | 59,110 | - |
| | | | 139,134 | 3,560 |
| | | | <u>-</u> | <u>92,739</u> |
| Total for program | | | <u>199,447</u> | <u>96,299</u> |
| Total for federal grantor agency | | | <u>1,214,021</u> | <u>950,140</u> |
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | | |
| Pass-Through South Bend Community School Corporation | | | | |
| Head Start | 93.600 | 2004-05 2005-06 | 6,360 | - |
| | | | <u>-</u> | <u>15,634</u> |
| Total for federal grantor agency | | | <u>6,360</u> | <u>15,634</u> |
| Total federal awards expended | | | <u>\$ 1,509,193</u> | <u>\$ 1,306,318</u> |

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

MIDDLEBURY COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

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

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

II. Noncash Assistance

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

| <u>Program Title</u> | <u>Federal CFDA Number</u> | <u>2004-2005</u> | <u>2005-2006</u> |
|-------------------------|------------------------------------|------------------|------------------|
| Child Nutrition Cluster | 10.555 | <u>\$ 40,284</u> | <u>\$ 52,533</u> |

MIDDLEBURY COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weaknesses identified? no
 Reportable conditions identified that are not considered to be material weaknesses? none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:
 Material weaknesses identified? no
 Reportable conditions identified that are not considered to be material weaknesses? none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

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

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

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

MIDDLEBURY COMMUNITY SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

MIDDLEBURY COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on November 1, 2006, with James K. Conner, Superintendent of Schools; Shirley A. Meyer, Treasurer; and Delores K. Merrick, President of the School Board. Our audit disclosed no material items that warrant comment at this time.