

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

AUDIT REPORT

OF

BAUGO COMMUNITY SCHOOLS

ELKHART COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED
01/12/2007

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|--|--|
| Treasurer | Mary E. Gamble Barbara Cloud | 07-01-04 to 12-31-04 01-01-05 to 06-30-07 |
| Superintendent of Schools | Jerry H. Cook | 07-01-04 to 06-30-09 |
| President of the School Board | Warren Allender David Polston Edward Collins | 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 BAUGO 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 Baugo Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

In accordance with Government Auditing Standards, we have also issued a report dated November 27, 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 Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

STATE BOARD OF ACCOUNTS

November 27, 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 BAUGO COMMUNITY SCHOOLS, ELKHART COUNTY, INDIANA

We have audited the financial statements of the Baugo Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated November 27, 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

November 27, 2006

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

| <u>Assets</u> | <u>Governmental Activities</u> |
|-----------------------|------------------------------------|
| Current assets: | |
| Cash and investments | \$ 2,214,856 |
| Restricted assets: | |
| Cash and investments | <u>1,631,698</u> |
| Total assets | <u>\$ 3,846,554</u> |
| <u>Net Assets</u> | |
| Restricted for: | |
| Debt service | \$ 1,631,698 |
| Unrestricted | <u>2,214,856</u> |
| Total net assets | <u>\$ 3,846,554</u> |

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

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

| <u>Assets</u> | <u>Governmental Activities</u> |
|-----------------------|------------------------------------|
| Current assets: | |
| Cash and investments | \$ 2,166,166 |
| Restricted assets: | |
| Cash and investments | <u>1,682,068</u> |
| Total assets | <u>\$ 3,848,234</u> |
| <u>Net Assets</u> | |
| Restricted for: | |
| Debt service | \$ 1,682,068 |
| Unrestricted | <u>2,166,166</u> |
| Total net assets | <u>\$ 3,848,234</u> |

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

BAUGO 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 | \$ 5,308,990 | \$ - | \$ 85,004 | \$ (5,223,986) |
| Support services | 8,073,544 | 403,318 | 196,262 | (7,473,964) |
| Community services | 204,086 | - | - | (204,086) |
| Nonprogrammed charges | 705,010 | - | - | (705,010) |
| Debt service | 7,906,837 | - | - | (7,906,837) |
| Total governmental activities | \$ 22,198,467 | \$ 403,318 | \$ 281,266 | (21,513,883) |
| General receipts: | | | | |
| Property taxes | | | | 11,961,669 |
| Other local sources | | | | 1,096,893 |
| State aid | | | | 6,310,458 |
| Grants and contributions not restricted | | | | 502,767 |
| Bonds and loans | | | | 3,953,615 |
| Sale of property, adjustments, and refunds | | | | 179,306 |
| Investment earnings | | | | 47,238 |
| Total general receipts | | | | 24,051,946 |
| Change in cash and investments | | | | 2,538,063 |
| Net assets - beginning | | | | 1,308,491 |
| Net assets - ending | | | | \$ 3,846,554 |

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

BAUGO 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 | \$ 5,336,158 | \$ - | \$ 68,431 | \$ (5,267,727) |
| Support services | 8,030,929 | 436,232 | 258,616 | (7,336,081) |
| Community services | 228,867 | - | - | (228,867) |
| Nonprogrammed charges | 746,439 | - | - | (746,439) |
| Debt service | 5,344,394 | - | - | (5,344,394) |
| Total governmental activities | \$ 19,686,787 | \$ 436,232 | \$ 327,047 | (18,923,508) |
| General receipts: | | | | |
| Property taxes | | | | 8,957,436 |
| Other local sources | | | | 1,037,331 |
| State aid | | | | 6,817,167 |
| Grants and contributions not restricted | | | | 442,935 |
| Bonds and loans | | | | 1,526,525 |
| Sale of property, adjustments, and refunds | | | | 10,234 |
| Investment earnings | | | | 133,560 |
| Total general receipts | | | | 18,925,188 |
| Change in cash and investments | | | | 1,680 |
| Net assets - beginning | | | | 3,846,554 |
| Net assets - ending | | | | \$ 3,848,234 |

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

BAUGO 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 | \$ 5,482,177 | \$ 978,909 | \$ 4,623,822 | \$ 1,935,146 | \$ 49,937 | \$ 413,535 | \$ 13,483,526 |
| Intermediate sources | 15,932 | - | 9,210 | - | - | 450 | 25,592 |
| State sources | 6,398,060 | - | - | - | - | 108,707 | 6,506,767 |
| Federal sources | - | - | - | - | - | 587,724 | 587,724 |
| Bonds and loans | 2,742,910 | 469,863 | - | 718,952 | 21,890 | - | 3,953,615 |
| Sale of property, adjustments and refunds | 168,596 | 2,800 | - | 2,864 | - | 5,046 | 179,306 |
| Interfund transfers | - | - | - | - | - | 3,342 | 3,342 |
| Total receipts | <u>14,807,675</u> | <u>1,451,572</u> | <u>4,633,032</u> | <u>2,656,962</u> | <u>71,827</u> | <u>1,118,804</u> | <u>24,739,872</u> |
| Disbursements: | | | | | | | |
| Current: | | | | | | | |
| Instruction | 4,943,567 | - | - | - | - | 365,423 | 5,308,990 |
| Support services | 4,975,364 | 752,633 | 84 | 1,599,247 | 75,605 | 670,611 | 8,073,544 |
| Community services | 204,086 | - | - | - | - | - | 204,086 |
| Nonprogrammed charges | 671,140 | - | - | - | - | 37,212 | 708,352 |
| Debt services | 3,178,932 | 472,232 | 3,329,734 | 895,384 | 30,555 | - | 7,906,837 |
| Total disbursements | <u>13,973,089</u> | <u>1,224,865</u> | <u>3,329,818</u> | <u>2,494,631</u> | <u>106,160</u> | <u>1,073,246</u> | <u>22,201,809</u> |
| Excess (deficiency) of total receipts over (under) total disbursements | 834,586 | 226,707 | 1,303,214 | 162,331 | (34,333) | 45,558 | 2,538,063 |
| Cash and investments - beginning | <u>512,794</u> | <u>83,921</u> | <u>328,484</u> | <u>145,224</u> | <u>45,552</u> | <u>192,516</u> | <u>1,308,491</u> |
| Cash and investments - ending | <u>\$ 1,347,380</u> | <u>\$ 310,628</u> | <u>\$ 1,631,698</u> | <u>\$ 307,555</u> | <u>\$ 11,219</u> | <u>\$ 238,074</u> | <u>\$ 3,846,554</u> |

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

BAUGO 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 | \$ 4,062,299 | \$ 768,141 | \$ 3,411,226 | \$ 1,561,882 | \$ 77,683 | \$ 587,450 | \$ 10,468,681 |
| Intermediate sources | 520 | - | 296 | 94,673 | - | 389 | 95,878 |
| State sources | 6,855,853 | - | - | - | - | 119,541 | 6,975,394 |
| Federal sources | - | - | - | - | - | 611,755 | 611,755 |
| Bonds and loans | 780,611 | 264,951 | - | 446,147 | 34,816 | - | 1,526,525 |
| Sale of property, adjustments and refunds | 6,466 | - | - | 2,198 | - | 1,570 | 10,234 |
| Interfund transfers | - | 15,454 | - | - | - | 266,150 | 281,604 |
| Total receipts | 11,705,749 | 1,048,546 | 3,411,522 | 2,104,900 | 112,499 | 1,586,855 | 19,970,071 |
| Disbursements: | | | | | | | |
| Current: | | | | | | | |
| Instruction | 4,964,852 | - | - | - | - | 371,306 | 5,336,158 |
| Support services | 4,805,215 | 812,686 | - | 1,606,906 | 133,000 | 673,122 | 8,030,929 |
| Community services | 228,867 | - | - | - | - | - | 228,867 |
| Nonprogrammed charges | 688,086 | 11,982 | 81,588 | 119,969 | 808 | 125,610 | 1,028,043 |
| Debt services | 1,414,107 | 229,314 | 3,319,840 | 230,905 | 28,341 | 121,887 | 5,344,394 |
| Total disbursements | 12,101,127 | 1,053,982 | 3,401,428 | 1,957,780 | 162,149 | 1,291,925 | 19,968,391 |
| Excess (deficiency) of total receipts over (under) total disbursements | (395,378) | (5,436) | 10,094 | 147,120 | (49,650) | 294,930 | 1,680 |
| Cash and investments - beginning | 1,347,380 | 310,628 | 1,631,698 | 307,555 | 11,219 | 238,074 | 3,846,554 |
| Cash and investments - ending | <u>\$ 952,002</u> | <u>\$ 305,192</u> | <u>\$ 1,641,792</u> | <u>\$ 454,675</u> | <u>\$ (38,431)</u> | <u>\$ 533,004</u> | <u>\$ 3,848,234</u> |

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

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

| | <u>Pension Trust Fund</u> | <u>Private-Purpose Trust Funds</u> |
|--|-------------------------------|--|
| Additions: | | |
| Local sources | \$ - | \$ 4,182 |
| Bonds and loans | <u>1,579,360</u> | <u>-</u> |
| Total additions | <u>1,579,360</u> | <u>4,182</u> |
| Deductions: | | |
| Support services | 137,670 | - |
| Nonprogrammed charges | <u>-</u> | <u>2,500</u> |
| Total deductions | <u>137,670</u> | <u>2,500</u> |
| Excess of total additions over total deductions | 1,441,690 | 1,682 |
| Cash and investments - beginning | <u>-</u> | <u>13,073</u> |
| Cash and investments - ending | <u>\$ 1,441,690</u> | <u>\$ 14,755</u> |

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

BAUGO 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 Funds |
|---|-----------------------|--------------------------------|
| Additions: | | |
| Local sources | \$ - | \$ 2,125 |
| Deductions: | | |
| Support services | 1,275,040 | - |
| Nonprogrammed charges | - | 2,500 |
| Total deductions | 1,275,040 | 2,500 |
| Deficiency of total additions under total deductions | (1,275,040) | (375) |
| Cash and investments - beginning | 1,441,690 | 14,755 |
| Cash and investments - ending | \$ 166,650 | \$ 14,380 |

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

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

| <u>Assets</u> | <u>Pension Trust Fund</u> | <u>Private-Purpose Trust Funds</u> | <u>Agency Funds</u> |
|--|-------------------------------|--|-------------------------|
| Cash and investments | \$ 1,441,690 | \$ 14,755 | \$ 81,082 |
| | | | |
| <u>Net Assets</u> | | | |
| Held in trust for employee benefits and other purposes | \$ 1,441,690 | \$ 14,755 | |

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

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

| <u>Assets</u> | <u>Pension Trust Fund</u> | <u>Private-Purpose Trust Funds</u> | <u>Agency Funds</u> |
|--|-------------------------------|--|-------------------------|
| Cash and investments | \$ 166,650 | \$ 14,380 | \$ 62,129 |
| | | | |
| <u>Net Assets</u> | | | |
| Held in trust for employee benefits and other purposes | \$ 166,650 | \$ 14,380 | |

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

BAUGO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Primary Government: Baugo Community Schools

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

Joint Venture

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

Baugo Community Schools is a member of the Elkhart County Special Education Cooperative (ECSEC), a joint venture with five other Elkhart County Public School Corporations. The Cooperative was formed for the purpose of providing services to handicapped students of the six school corporations in the most efficient manner possible (Special Education Program). Baugo Community Schools also is a member of the Elkhart County Education Interlocal, a joint venture with four of the same five Elkhart County Public School Corporations as the ECSEC. The Interlocal provides programs for students who have difficulty learning in a traditional setting (Alternative School Program). The operations of the Interlocal are managed by the superintendents of each school (Board of Directors), a Treasurer and Assistant Treasurer. The Special Education Program and the Alternative School Program are administered by Goshen Community Schools. Funding for the operations of the Interlocal shall include grants and/or charges to the participating members. The joint venture's continued existence depends on continued funding by the School Corporation. Complete financial statements for the programs can be obtained from the administrative offices of Goshen Community Schools at 613 E. Purl Street, Goshen, Indiana, 46526. During the 2005-2006 school year, Baugo Community Schools' share of the Special Education and Alternative School Programs Joint Venture expenditures totaled \$551,604 and \$33,542, respectively.

BAUGO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

The School Corporation is a participant with numerous other school corporations in a joint venture to operate the Northern Indiana Educational Services Center which was created to develop, operate and supervise selected educational services. The School Corporation is obligated by contract to remit annually a share based on ADM to supplement the Northern Indiana Educational Services Center. During 2005-2006, Baugo Community Schools' share of the Northern Indiana Educational Services Center's expenditures totaled \$3,080. The Northern Indiana Educational Services Center's existence depends on continued funding by the School Corporation. The School Corporation is obligated for the debts of the Northern Indiana Educational Services Center. Complete financial statements for the Northern Indiana Educational Services Center can be obtained from the Administrative offices at 56535 Magnetic Drive, Mishawaka, Indiana, 46545.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. At this time, the School Corporation has not established any business-type activities.

Fund Financial Statements

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

The School Corporation reports the following major governmental funds:

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

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

The 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.

BAUGO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Additionally, the School Corporation reports the following fund types:

The pension trust fund accounts for the activities of the retirement/severance bond fund, which accumulate resources for pension benefit payments.

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

Agency funds account for assets held by the School Corporation as an agent for amounts withheld from employees.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Property Taxes

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

BAUGO COMMUNITY SCHOOLS
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 the months of service. Unused sick leave may be accumulated indefinitely. 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 3 days per year. Personal leave does not accumulate from year to year.

4. Capital Assets

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

5. Long-Term Debt

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

6. Equity Classification

Government-Wide Statements

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

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

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

Fund Financial Statements

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

BAUGO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Receipts and Disbursements

Program Receipts

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

F. Interfund Balances and Activities

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

Fund Financial Statements

Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

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

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities and Net Assets – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

BAUGO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

B. Cash and Investment Balance Deficits

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

| Fund | 2006 |
|------------------------|------------------|
| School Bus Replacement | <u>\$ 38,431</u> |

The cash and investment deficit arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; this deficit is to be repaid from future receipts.

III. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At June 30, 2006, the bank balance in the amount of \$3,305,009 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-School Corporation's name. The remaining bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

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

| Transfer From | Transfer To | 2004 | 2005 |
|--------------------------|--------------------------|----------|------------|
| General Fund | Other governmental | \$ - | \$ 63,827 |
| Transportation Operating | Other governmental | - | 11,982 |
| Debt Service | Transportation Operating | - | 15,454 |
| Debt Service | Other governmental | - | 66,134 |
| Capital Projects | Other governmental | - | 119,969 |
| School Bus Replacement | Other governmental | - | 808 |
| Other governmental | Other governmental | 3,342 | 3,430 |
| Totals | | \$ 3,342 | \$ 281,604 |

BAUGO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

IV. Other Information

A. Risk Management

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

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); 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.

B. Holding Corporations

The School Corporation has entered into a capital lease with Multi-School Building Corporation and Baugo School Building Corporation (the lessors). The lessors were organized as not-for-profit corporations pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the year totaled \$3,044,100.

C. 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:

BAUGO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Funding Policy and Annual Pension Cost

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

Actuarial Information for the Above Plan

| | PERF |
|--|---|
| Annual required contribution | \$ 81,767 |
| Interest on net pension obligation | (12,232) |
| Adjustment to annual required contribution | 13,939 |
| Annual pension cost | 83,474 |
| Contributions made | 105,938 |
| Decrease in net pension obligation | (22,464) |
| Net pension obligation, beginning of year | (168,716) |
| Net pension obligation, end of year | \$ (191,180) |
| Contribution rates: | |
| School Corporation | 6% |
| Plan members | 3% |
| Actuarial valuation date | 07-01-05 |
| Actuarial cost method | Entry age |
| Amortization method | Level percentage of projected payroll, closed |
| Amortization period | 40 years |
| Amortization period (from date) | 07-01-97 |
| Asset valuation method | 75% of expected actuarial value plus 25% of market value |

Actuarial Assumptions

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

BAUGO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

| | Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|------|----------------|---------------------------------|-------------------------------------|------------------------------|
| PERF | 06-30-03 | \$ 87,182 | 114% | \$ (138,356) |
| | 06-30-04 | 72,005 | 142% | (168,716) |
| | 06-30-05 | 83,474 | 147% | (191,180) |

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

Teachers' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Costs

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

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$152,237, \$146,447, and \$137,592, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

BAUGO COMMUNITY SCHOOLS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Excess of Assets Over (Unfunded) AAL (a-b) | Funded Ratio (a/b) | Covered Payroll (c) | Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c) |
|--------------------------------|--|---|--|--------------------------|---------------------------|--|
| 07-01-03 | \$ 1,158,013 | \$ 1,088,827 | \$ 69,186 | 106% | \$ 1,498,887 | 5% |
| 07-01-04 | 1,209,776 | 1,225,443 | (15,667) | 99% | 1,567,059 | (1%) |
| 07-01-05 | 1,293,818 | 1,458,077 | (164,259) | 89% | 1,696,270 | (10%) |

BAUGO COMMUNITY SCHOOLS
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS

June 30, 2006

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

| <u>Primary Government</u> | <u>Ending Balance</u> |
|--|---------------------------|
| Governmental activities: | |
| Capital assets, not being depreciated: | |
| Land | \$ 282,499 |
| Buildings | 43,253,551 |
| Improvements other than buildings | 1,404,471 |
| Machinery and equipment | 1,968,461 |
| Transportation | <u>515,225</u> |
| Total governmental activities, capital assets not being depreciated | <u>\$ 47,424,207</u> |

BAUGO COMMUNITY SCHOOLS
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT

June 30, 2006

| Description of Debt | Principal Ending Balance | Principal Due Within One Year |
|--|--------------------------------|-------------------------------------|
| Governmental Activities: | | |
| Capital Leases: | | |
| 1999 Building | \$ 617,500 | \$ 167,500 |
| 2001 Refunding | 3,685,000 | 1,005,000 |
| 2005 Refunding | <u>32,390,000</u> | <u>335,000</u> |
| Total Capital Leases | <u>36,692,500</u> | <u>1,507,500</u> |
| Bonds Payable: | | |
| General Obligation Bonds: | | |
| 1998 Construction Bonds | 520,000 | 165,000 |
| 2004 Pension Bonds | <u>1,600,000</u> | <u>-</u> |
| Total Bonds Payable | <u>2,120,000</u> | <u>165,000</u> |
| Common School Fund Loan | <u>346,275</u> | <u>57,712</u> |
| Installment Payment Contract | | |
| Energy Savings Contract | <u>1,259,025</u> | <u>384,187</u> |
| Total governmental activities long-term debt | <u>\$ 40,417,800</u> | <u>\$ 2,114,399</u> |

BAUGO COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The cash balance of the School Bus Replacement Fund was overdrawn in at June 30, 2006.

The cash balance of any fund may not be reduced below zero. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

DEPOSITS (Applies to Jimtown High School)

Two checks received in June of 2004 for driver's education classes were not deposited in a timely manner. The Extra-Curricular Treasurer gave the Baugo Community School Treasurer \$175 on November 17, 2006, cash to cover the checks that were not deposited into the Baugo Community Schools account. The School Corporation has requested payment from the individuals who wrote the checks in 2004.

Indiana Code 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

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 Indiana Public School Corporations, Chapter 9)

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 BAUGO COMMUNITY SCHOOLS, ELKHART COUNTY, INDIANA

Compliance

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

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

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

November 27, 2006

BAUGO 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 | | \$ 32,514 | \$ 39,184 |
| National School Lunch Program | 10.555 | | <u>167,839</u> | <u>189,986</u> |
| Total for federal grantor agency | | | <u>200,353</u> | <u>229,170</u> |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | |
| Pass-Through Goshen Community Schools Special Education Cluster | | | | |
| Special Education-Grants to States | 84.027 | 04/05 05/06 | 258,311 | - |
| | | | <u>-</u> | <u>262,133</u> |
| Total for cluster | | | <u>258,311</u> | <u>262,133</u> |
| Pass-Through Indiana Department of Education Title I Grants to Local Educational Agencies | 84.010 | 03/04 04/05 05/06 | 8,879 | - |
| | | | 83,016 | - |
| | | | <u>-</u> | <u>73,332</u> |
| Total for program | | | <u>91,895</u> | <u>73,332</u> |
| Pass-Through Elkhart Community Schools Vocational Education - Basic Grants to States | 84.048 | 04/05 05/06 | 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 State Grants for Innovative Programs | 84.298 | 03/04 04/05 | 12,761 | - |
| | | | <u>-</u> | <u>12,632</u> |
| Total for program | | | <u>12,761</u> | <u>12,632</u> |
| Improving Teacher Quality State Grants | 84.367 | | <u>18,700</u> | <u>54,969</u> |
| Total for federal grantor agency | | | <u>388,766</u> | <u>410,165</u> |
| Total federal awards expended | | | <u>\$ 589,119</u> | <u>\$ 639,335</u> |

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

BAUGO 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 Baugo 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.

| Program Title | Federal CFDA Number | 2005 | 2006 |
|-------------------------|---------------------------|------------------|------------------|
| Child Nutrition Cluster | 10.555 | <u>\$ 29,072</u> | <u>\$ 28,514</u> |

BAUGO 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:

Name of Federal Program or Cluster

Special Education Cluster

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

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

BAUGO COMMUNITY SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

BAUGO COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on December 6, 2006, with Jerry H. Cook, Superintendent of Schools; Barbara Cloud, Treasurer; Terry Hilyard, Business Manager; and Bruce Perry, School Board Member. The officials concurred with our audit findings.