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

AUDIT REPORT

OF

SCHOOL CITY OF MISHAWAKA

ST. JOSEPH COUNTY, INDIANA

July 1, 2004 to June 30, 2006

FILED
12/28/2006

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OFFICIALS

Office	Official	Term
Treasurer	Randy J. Squadroni	07-01-04 to 12-31-06
Superintendent of Schools	R. Steven Mills	07-01-04 to 06-30-11
President of the School Board	Anne B. Wiesjahn	01-01-04 to 12-31-04
	Lloyd C. Wayne	01-01-05 to 12-31-06

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE SCHOOL CITY OF MISHAWAKA, ST. JOSEPH COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School City of Mishawaka (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School City of Mishawaka'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 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 30, 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 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 a required part 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

October 30, 2006

STATE OF INDIANA

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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 SCHOOL CITY OF MISHAWAKA, ST. JOSEPH COUNTY, INDIANA

We have audited the financial statements of the School City of Mishawaka (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated October 30, 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 30, 2006

SCHOOL CITY OF MISHAWAKA
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

Assets	Governmental Activities
Current assets:	
Cash and investments	$ 1,766,285
Restricted assets:	
Cash and investments	17,042
Total assets	$ 1,783,327
Net Assets	
Restricted for:	
Debt service	$ 17,042
Unrestricted	1,766,285
Total net assets	$ 1,783,327

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

SCHOOL CITY OF MISHAWAKA
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

Assets	Governmental Activities
Current assets:	
Cash and investments	$ 4,768,656
Restricted assets:	
Cash and investments	257,832
Total assets	$ 5,026,488
Net Assets	
Restricted for:	
Debt service	$ 257,832
Unrestricted	4,768,656
Total net assets	$ 5,026,488

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

SCHOOL CITY OF MISHAWAKA
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts: Charges for Services	Program Receipts: Operating Grants and Contributions	Net (Disbursement) Receipts: Total
Governmental activities:				
Instruction	$ 25,501,049	$ -	$ 298,666	$ (25,202,383)
Support services	31,090,196	1,097,715	934,283	(29,058,198)
Community services	174,817	-	-	(174,817)
Nonprogrammed charges	5,464,922	-	-	(5,464,922)
Debt service	13,738,190	-	-	(13,738,190)
Total governmental activities	$ 75,969,174	$ 1,097,715	$ 1,232,949	(73,638,510)
General receipts:				
Property taxes				13,295,090
Other local sources				2,086,239
State aid				24,410,811
Grants and contributions not restricted				4,556,535
Bonds and loans				10,430,000
Sale of property, adjustments, and refunds				8,811,998
Investment earnings				136,081
Intergovernmental transfers				9,681,729
Total general receipts and intergovernmental transfers				73,408,483
Change in cash and investments				(230,027)
Net assets - beginning				2,013,354
Net assets - ending				$ 1,783,327

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

SCHOOL CITY OF MISHAWAKA
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts: Charges for Services	Program Receipts: Operating Grants and Contributions	Net (Disbursement) Receipts: Total
Governmental activities:				
Instruction	$ 25,096,299	$ -	$ 212,790	$ (24,883,509)
Support services	32,287,192	1,092,589	1,448,657	(29,745,946)
Community services	189,576	-	-	(189,576)
Nonprogrammed charges	3,865,824	-	-	(3,865,824)
Debt service	12,589,997	-	-	(12,589,997)
Total governmental activities	$ 74,028,888	$ 1,092,589	$ 1,661,447	(71,274,852)
General receipts:				
Property taxes				16,473,566
Other local sources				1,549,104
State aid				25,792,346
Grants and contributions not restricted				5,529,068
Bonds and loans				9,925,000
Sale of property, adjustments, and refunds				7,027,383
Investment earnings				324,967
Intergovernmental transfers				7,896,579
Total general receipts and intergovernmental transfers				74,518,013
Change in cash and investments				3,243,161
Net assets - beginning				1,783,327
Net assets - ending				$ 5,026,488

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

SCHOOL CITY OF MISHAWAKA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	Joint Services	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	$ 6,718,920	$ 353,360	$ -	$ 5,536,873	$ 2,310,954	$ 64,667	$ 1,276,251	$ 16,261,025
Intermediate sources	-	-	-	-	-	-	351,534	351,534
State sources	24,553,110	-	91,035	-	-	-	807,068	25,451,213
Federal sources	-	-	-	-	-	-	4,749,082	4,749,082
Bonds and loans	7,420,000	440,000	-	325,000	1,640,000	100,000	505,000	10,430,000
Sale of property, adjustments and refunds	773,414	54,158	230	20,902	12,350	-	2,497,968	3,359,022
Interfund transfers	188,974	42,500	-	-	-	-	-	231,474
Intergovernmental transfers	-	1,747	8,433,176	-	-	-	1,246,806	9,681,729
Total receipts	39,654,418	891,765	8,524,441	5,882,775	3,963,304	164,667	11,433,709	70,515,079
Disbursements:								
Current:								
Instruction	15,277,627	-	5,500,841	-	-	-	4,722,581	25,501,049
Support services	13,692,046	493,849	2,323,788	-	2,588,695	90,928	6,030,160	25,219,466
Community services	172,869	-	-	-	-	-	1,948	174,817
Nonprogrammed charges	5,155,547	-	-	231,474	-	-	309,375	5,696,396
Debt services	5,710,000	400,000	-	5,638,190	1,400,000	60,000	530,000	13,738,190
Total disbursements	40,008,089	893,849	7,824,629	5,869,664	3,988,695	150,928	11,594,064	70,329,918
Excess (deficiency) of total receipts over (under) total disbursements	(353,671)	(2,084)	699,812	13,111	(25,391)	13,739	(160,355)	185,161
Cash and investments - beginning	375,934	5,245	(89,960)	3,931	28,451	1,018	24,697	349,316
Cash and investments - ending	$ 22,263	$ 3,161	$ 609,852	$ 17,042	$ 3,060	$ 14,757	$ (135,658)	$ 534,477

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	$ 185,161
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.	(415,188)
Change in cash and investments of governmental activities	$ (230,027)

SCHOOL CITY OF MISHAWAKA
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Transportation Operating	Joint Services	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	$ 7,202,960	$ 458,227	$ -	$ 6,810,252	$ 3,269,598	$ 89,661	$ 1,244,922	$ 19,075,620
Intermediate sources	-	-	-	-	-	-	361,488	361,488
State sources	25,988,570	-	600	-	-	-	666,603	26,655,773
Federal sources	-	-	-	-	-	-	6,327,088	6,327,088
Bonds and loans	6,373,685	200,000	-	-	750,000	50,000	2,551,315	9,925,000
Sale of property, adjustments and refunds	191,888	41,253	52,308	-	22,765	-	1,200,142	1,508,356
Interfund transfers	-	19,289	-	-	-	-	60,003	79,292
Intergovernmental transfers	-	21,036	6,729,886	-	-	-	1,145,657	7,896,579
Total receipts	39,757,103	739,805	6,782,794	6,810,252	4,042,363	139,661	13,557,218	71,829,196
Disbursements:								
Current:								
Instruction	15,150,001	-	5,373,015	-	-	-	4,573,283	25,096,299
Support services	13,616,260	420,345	1,906,454	40	2,835,444	54,545	7,475,576	26,308,664
Community services	180,723	-	-	133	-	-	8,720	189,576
Nonprogrammed charges	3,511,949	-	-	79,292	-	-	353,875	3,945,116
Debt services	5,020,000	280,000	-	6,489,997	740,000	60,000	-	12,589,997
Total disbursements	37,478,933	700,345	7,279,469	6,569,462	3,575,444	114,545	12,411,454	68,129,652
Excess (deficiency) of total receipts over (under) total disbursements	2,278,170	39,460	(496,675)	240,790	466,919	25,116	1,145,764	3,699,544
Cash and investments - beginning	22,263	3,161	609,852	17,042	3,060	14,757	(135,658)	534,477
Cash and investments - ending	$ 2,300,433	$ 42,621	$ 113,177	$ 257,832	$ 469,979	$ 39,873	$ 1,010,106	$ 4,234,021

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

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

Net change in fund balances - total governmental funds	$ 3,699,544
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.	(456,383)
Change in cash and investments of governmental activities	$ 3,243,161

SCHOOL CITY OF MISHAWAKA
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
PROPRIETARY FUND
For The Year Ended June 30, 2005

	Internal Service Fund
Receipts:	
Local sources	$ 2,566
Sale of property, adjustments and refunds	5,452,976
Total receipts	5,455,542
Disbursements:	
Support services	5,870,730
Changes in cash and investments	(415,188)
Cash and investments - beginning	1,664,038
Cash and investments - ending	$ 1,248,850

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

SCHOOL CITY OF MISHAWAKA
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
PROPRIETARY FUND
For The Year Ended June 30, 2006

	Internal Service Fund
Receipts:	
Local sources	$ 3,118
Sale of property, adjustments and refunds	5,519,027
Total receipts	5,522,145
Disbursements:	
Support services	5,978,528
Changes in cash and investments	(456,383)
Cash and investments - beginning	1,248,850
Cash and investments - ending	$ 792,467

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

SCHOOL CITY OF MISHAWAKA
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	$ -	$ 3,000
Sale of property, adjustments and refunds	-	8,149
Total additions	-	11,149
Deductions:		
Instruction	-	30
Support services	-	7,945
Total deductions	-	7,975
Excess of total additions over total deductions	-	3,174
Cash and investments - beginning	51,060	11,702
Cash and investments - ending	$ 51,060	$ 14,876

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

SCHOOL CITY OF MISHAWAKA
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	$ -	$ 16,117
Sale of property, adjustments and refunds	-	5,284
Total additions	-	21,401
Deductions:		
Support services	51,060	14,098
Excess (deficiency) of total additions over (under) total deductions	(51,060)	7,303
Cash and investments - beginning	51,060	14,876
Cash and investments - ending	$ -	$ 22,179

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

SCHOOL CITY OF MISHAWAKA
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

Assets	Pension Trust Fund	Private-Purpose Trust Fund	Agency Funds
Cash and investments	$ 51,060	$ 14,876	$ 2,608
Net Assets			
Held in trust for employee benefits and other purposes	$ 51,060	$ 14,876	

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

SCHOOL CITY OF MISHAWAKA
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2006

Assets	Pension Trust Fund	Private-Purpose Trust Fund	Agency Funds
Cash and investments	$ -	$ 22,179	$ 588,160
Net Assets			
Held in trust for employee benefits and other purposes	$ -	$ 22,179	

The accompanying notes are an integral part of the 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 Penn-Harris-Madison School Corporation in a joint venture to operate Joint Service and Supply for Special Education (Joint Services) which was created to engage in the joint employment of personnel and joint purchase of supplies and equipment to provide programs and services for exceptional children with various disabilities. The School Corporation is obligated to pay Joint Services its proportion of the total joint service and supply expenditures. The Joint Services' continued existence depends on continued funding by the School Corporation. Complete financial statements for the Joint Services can be obtained from the Joint Services' Director, Pamela von Rahl, School City of Mishawaka's Administrative Center at 1402 South Main Street, Mishawaka, Indiana, 46544.

The School Corporation is a participant with John-Glenn School Corporation and Penn-Harris-Madison School Corporation in a joint venture to operate the Byrkit Avenue Alternative School (Byrkit) which was created to provide an alternative education program for students who have difficulty in traditional educational settings. The School Corporation is obligated by contract to remit annually an amount per student to supplement the Byrkit budget. Complete financial statements for the Byrkit can be obtained from its administrative office at Penn-Harris-Madison School Corporation, P.O. Box 500, Osceola, Indiana, 46561.

The School Corporation is a participant with several school corporations in a joint venture to operate the Northern Indiana Educational Services Center (NIESC) which was created to develop, operate, and supervise selected educational services. The School Corporation is obligated by contract to remit its share based on ADM and the NIESC budget annually to supplement the NIESC. The NIESC's continued existence depends on continued funding by the School Corporation. The School Corporation is obligated for the debts of the NIESC. Complete financial statements for the NIESC can be obtained from the administrative offices at 56535 Magnetic Drive, Mishawaka, Indiana, 46545.

The School Corporation is a participant with 11 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 Consortium can be obtained from its administrative office at South Bend Community School Corporation, 215 South St. Joseph Street, South Bend, IN 46601.

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 nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The School Corporation has 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, 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.

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 joint services fund accounts for the operation of a joint venture created for special education programs. Financing is provided from the School Corporation's general fund and from another participating school corporation.

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 accounts for employee/retiree medical benefits financed by payroll deductions and employer share transferred from other funds.

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

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

Agency funds account for assets held by the School Corporation as an agent for payroll deductions and for a crime stopper's program.

C. Measurement Focus and Basis of Accounting

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

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather then 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.

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

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Property Taxes

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

Due to delays related to reassessment, the County paid the School Corporation 38% of the June 2006, distribution prior to June 30. The remaining 62% or $4,422,793 was paid to the School Corporation in July 2006 and August 2006.

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rates of 10 to 12 days per year. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is paid to employees through cash payments upon eligible severance from employment. Eligibility includes being 55 years of age with 15 years of service or 60 years of age with 10 years of service. The severance pay is a range, depending on employee classification, of $110 to $200 for each year of service and from $25 to $35 for each unused sick day, to a maximum of 250 days.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 12 days to 25 days per year based upon the number of years of service and employee classification. Vacation leave of up to 5 unused days may be carried over to the next year or added to accumulative sick leave.

c. Personal Leave

Most School Corporation employees earn personal leave at the rate of 3 days per year. Unused personal leave is added to accumulated sick leave.

4. Capital Assets

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

5. Long-Term Debt

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

6. Equity Classification

Government-Wide Statements

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

a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

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

Fund Financial Statements

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

E. Receipts and Disbursements

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. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

F. Internal and 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

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.

2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements.

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

Government-Wide Financial Statements

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

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. 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. 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.

B. Cash and Investment Balance Deficits

At June 30, 2005 and 2006, the following funds reported deficits in cash and investments.

Fund	2005	2006
Beiger Construction	$ 74,876	$ -
2004 Multi School Construction	39,090	-
CSL Construction	16,836	-
Textbook Rental	660,166	-
Joint Service Preschool	8,842	176,483
Alternative Education	63,540	14,672
Work Study Program	25,951	-
Tech-A1103	221,336	-
Tech-A1136	-	249,568
Tech-A1156	-	274,595
Tech-A1213	-	60,941

Cash and investment deficits arose primarily from disbursements or expenses exceeding receipts or revenues due to the underestimate of current requirements. These deficits are to be repaid from future revenues.

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 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 Loans and Interfund Transfers

1. Interfund Loans

Interfund loans resulted from loans made during the fiscal year and repaid before the end of the calendar year. Interfund loans outstanding as of June 30, 2005 and 2006, were as follows:

Due From Fund	Due To Fund	6-30-05	6-30-06
Transportation Operating	General	$ 80,000	$ 200,000
Transportation Operating	Nonmajor Governmental	50,000	-
Debt Service	Nonmajor Governmental	325,000	-
Capital Projects	General	165,000	750,000
	Nonmajor Governmental	125,000	-
School Bus Replacement	General	35,000	50,000
	Nonmajor Governmental	25,000	-
Nonmajor Governmental	General	5,000	1,026,315
Totals		$ 810,000	$ 2,026,315

2. Interfund Transfers

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

Transfer From	Transfer To	2005	2006
Debt Service Fund	General Fund	$ 188,974	$ -
Debt Service Fund	Transportation Operating Fund	42,500	19,289
Debt Service Fund	Nonmajor Governmental	-	60,003
Totals		$ 231,474	$ 79,292

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; 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 Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of $100,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each affected fund.

B. Holding Corporations

The School Corporation has entered into capital leases with the School City of Mishawaka Multi-School Building Corporation, Mishawaka 2001 School Building Corporation, and with the Beiger Elementary Building Corporation (the lessors). The lessors were organized as not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessors have been determined to be a related party of the School Corporation. Lease payments during the years ended June 30, 2005, and June 30, 2006, totaled $4,403,525 and $4,769,741, respectively.

C. Subsequent Events

In the subsequent period, the School received approval from the Indiana Department of Education for common school loans in the amount of $1 million and $1.5 million to finance a portion of roof repair costs.

D. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health and life insurance benefits, as authorized by Indiana Code 5-10-8, to certain employees who retire from the School Corporation on or after attaining age 55 with at least 15 years of service or age 60 with at least 10 years of service. Currently, 76 retirees meet these eligibility requirements. The School Corporation provides $2,300 towards these postemployment benefits for each retiree. This amounts to approximately 20% of a family plan premium cost and 46% of a single plan premium. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. Disbursements for postemployment benefits cannot be reasonably estimated.

E. 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.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	$ 382,481
Interest on net pension obligation	(49,454)
Adjustment to annual required contribution	56,357
Annual pension cost	389,384
Contributions made	478,431
Decrease in net pension obligation	(89,047)
Net pension obligation, beginning of year	(682,123)
Net pension obligation, end of year	$ (771,170)

	PERF
Contribution rates:	
School Corporation	6.13%
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%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	$ 362,992	118%	$ (535,315)
	06-30-04	314,262	147%	(682,123)
	06-30-05	389,384	152%	(771,170)

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 makes the contributions on behalf of the members.

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

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

Funding Policy and Annual Pension Costs

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

The School Corporation is to contribute at an actuarially determined rate. The rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages for the fiscal year ending June 30, 2005, and 7.00% for the fiscal year ending June 30, 2006. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were $751,620, $711,028, and $617,852, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

SCHOOL CITY OF MISHAWAKA
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	$ 4,831,894	$ 4,640,448	$ 191,446	104%	$ 6,317,258	3%
07-01-04	5,078,816	5,291,373	(212,557)	96%	6,998,168	(3%)
07-01-05	5,459,684	6,216,720	(757,036)	88%	8,019,986	(9%)

SCHOOL CITY OF MISHAWAKA
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2006

Primary Government	Ending Balance
Governmental activities:	
Capital assets, not being depreciated:	
Land	$ 460,834
Buildings	103,124,963
Improvements other than buildings	5,451,600
Machinery and equipment	9,493,428
Construction in progress	912
Total governmental activities, capital assets not being depreciated	$ 118,531,737

SCHOOL CITY OF MISHAWAKA
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
June 30, 2006

Description of Debt	Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Multischool Improvements	$ 28,090,000	$ 1,065,000
Beiger School Improvements	16,450,000	370,000
Emmons School Improvements	13,785,000	435,000
School Buses	37,686	25,535
Tractors	22,839	8,761
Vehicle	5,892	5,892
Fitness Equipment	4,551	4,551
Floor Scrubber	10,550	2,003
Notes and loans payable		
Common School	1,641,832	335,582
Textbooks	340,102	301,694
School Buses	86,590	5,553
Total governmental activities long-term debt	$ 60,475,042	$ 2,559,571

PAYROLL ACCOUNT RECONCILEMENT

The June 30, 2006, Payroll Fund and bank account reconcilement shows an unidentified $14,587 cash long. As of July 31, 2006, the unidentified cash long is $65,434. The unidentified amount fluctuates each month. A similar comment was included in the prior Report B24679.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TEMPORARY LOANS BETWEEN FUNDS

The accounting records show several loans between funds that were not approved in the minutes of the School Board. $280,000 was loaned from the General Fund to the Capital Projects Fund, Transportation Operating Fund and School Bus Replacement Fund on May 31, 2005. $530,000 was loaned from the MHS Athletic Complex Construction Fund to the Debt Service Fund, Capital Projects Fund, Transportation Operating Fund, School Bus Replacement Fund, and the Historical Society Fund on June 30, 2005. $1,000,000 was loaned from the General Fund to the Capital Projects Fund, Transportation Operating Fund and School Bus Replacement Fund on March 31, 2006. $1,026,315 was loaned from the General Fund to the Textbook Rental Fund, Construction Loan Fund, 2004 Multischool Construction Fund and the Levy Excess Fund on March 31, 2006.

The board of school trustees, instead of negotiating a temporary loan is authorized to transfer, by resolution, from a fund having sufficient balance to any fund in need of money for cash flow purposes. The resolution must specify the fund from which money is to be temporarily advanced or transferred, the fund to which said amount is to be advanced, the amount to be transferred and the time of such temporary borrowing. The time fixed by the resolution for repayment of a temporary transfer shall not extend beyond December 31, except as authorized by IC 36-1-8-4(b), of the year in which the temporary transfer is made. Any such transfer shall be made only from funds derived from the collection of property taxes, collection of special taxes and from other revenue derived from any operation of the school corporation, IC 36-1-8-4. No temporary transfers may be made from federal funds or from funds obtained by the sale of general obligation bonds. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

OVERDRAWN CASH BALANCES

The School Corporation had the following funds with overdrawn cash balances at June 30, 2005, and June 30, 2006:

Fund	2005	2006
Beiger Construction	$ 74,876	$ -
2004 Multi School Construction	39,090	-
CSL Construction	16,836	-
Textbook Rental	660,166	-
Joint Service Preschool	8,842	176,483
Alternative Education	63,540	14,672
Work Study Program	25,951	-

Fund	2005	2006
Tech-A1103	221,336	-
Tech-A1136	-	249,568
Tech-A1156	-	274,595
Tech-A1213	-	60,941

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

RAINY DAY FUND

The School Corporation received $811,692 excess rental payments from a holding corporation on February 10, 2006, and receipted the amount into the Rainy Day Fund. The School Corporation Treasurer explained that the excess funds resulted from the holding corporation refinancing an existing bond issue. The refinancing resulted in the School Corporation amending the original lease agreement with the holding corporation. The resolution, approved by the School Board, that establishes the Rainy Day Fund shows the fund's sources include, "any other money the School Corporation may receive from time to time from any third party which is not required by law to be deposited into a specific fund of the School Corporation."

Indiana Code 20-47-2-23 states: "(a) Upon the termination of a lease entered into under this chapter, the lessor corporation shall return to the school corporation any money held by the lessor corporation that exceeds the amount needed to retire bonds issued under this chapter . . .(b) A school corporation shall deposit the money received under subsection (a) in its debt service fund or capital projects fund."

CONTRACTS

The School Corporation is a participant in a joint services agreement for the purposes of providing special education services to students with disabilities of the participating schools. The School Corporation did not make monthly payments as required by the joint services agreement for the 2005-2006 school year. The agreement shows that, "The projected yearly approved budget will be divided into ten (10) equal payments, multiplied by the corporation's pro rata share, to be paid in nine (9) monthly installments, September through May, with a final adjusted payment to be made no later than October 1."

The School Corporation paid $295,000 on December 31, 2005, and $400,000 payments on February 28, 2006, (two), March 29, 2006, April 28, 2006, May 24, 2006, and on June 30, 2006. The total payments and a credit balance from the prior year, resulted in the 2005-2006 charges paid in full, with a $90,903 credit balance.

Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SUBSIDIARY VERSUS CONTROL ACCOUNT RECONCILEMENT
(Applies to Combined Elementary/Middle School Activity Account)

The ending balances shown in the General, Donation, and Interest Funds in records kept by four of eight individual schools (subsidiary ledgers) did not agree with the June 30, 2006, balances shown in the Account Listing prepared by the Extra-Curricular Treasurer (control ledger). One of these four schools had incomplete records. None of the eight schools had ledgers in which the total of all activity accounts agreed to the control ledger. A similar comment was included in the prior Report B24679.

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

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

NONUSE OF RECEIPT FORM SA-3 (Applies to
Combined Elementary/Middle School Activity Account)

The receipt forms used for the combined elementary and middle school extra-curricular accounts did not show the form of money received, for example, cash or checks. Proper receipt forms to support amounts deposited or recorded were not presented for audit. As a result, full accountability for all monies received could not be established. A similar comment was included in previous reports, the most recent being B24679.

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

NONUSE OF TICKET SALES FORM SA-4 (Applies to the
Combined Elementary/Middle Schools Activity Account)

The Form SA-4, Ticket Sales, was not used for John Young Middle School athletic events. A ledger maintained by the Middle School Secretary shows $9,960 and $10,652 in athletic event revenues for the 2004-2005 and 2005-2006 school years, respectively. No audit evidence was provided for audit to verify that tickets are sold at athletic events. As a result, full accountability for all money received from admissions could not be determined.

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

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

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

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

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

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

ECA DEPOSITS (Applies to the Combined Elementary/Middle Schools Activity Account)

John Young Middle School athletic events' receipts were not always deposited within a reasonable time. Our examination shows the following examples: $171 was deposited six business days after collected on September 12, 2005; $358 was deposited five business days after collected on March 2, 2006, and $342 was deposited four business days after collected on September 1, 2005.

Indiana Code 20-5-7-4 states in part: ". . . receipts shall be deposited without unreasonable delay."

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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 SCHOOL CITY OF MISHAWAKA, ST. JOSEPH COUNTY, INDIANA

Compliance

We have audited the compliance of the School City of Mishawaka (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. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-1 and 2006-2.

Internal Control Over Compliance

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

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School Corporation's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-1 and 2006-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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

STATE BOARD OF ACCOUNTS

October 30, 2006

SCHOOL CITY OF MISHAWAKA
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 6-30-05	Total Federal Awards Expended 6-30-06
U.S. DEPARTMENT OF AGRICULTURE				
Pass Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	7200	$ 135,147	$ 189,662
National School Lunch Program	10.555	7200	746,008	1,026,699
Total for federal grantor agency			881,155	1,216,361
U.S. DEPARTMENT OF EDUCATION				
Pass Through Indiana Department of Education				
Special Education Cluster				
Special Education - Grants to States	84.027			
		14203-041-DY08	5,601	-
		14203-041-PY02	33,016	-
		14204-037-DY01	5,844	79,156
		14204-041-PN01	315,812	-
		14204-041-PY02	204,094	-
		14205-041-DY01	-	43,023
		14205-041-PN01	2,583,889	333,243
		14205-041-PY02	-	210,885
		14205-041-SN01	37,356	5,669
		14206-041-PN01	-	2,541,931
Total for Program			3,185,612	3,213,907
Special Education - Preschool Grants	84.173			
		45705-041-PN01	144,023	-
		45706-041-PN01	-	156,407
Total for program			144,023	156,407
Total For Special Education Cluster			3,329,635	3,370,314
Pass Through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010			
		04-7200	987,885	-
		05-7200	-	978,949
Total for program			987,885	978,949

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

SCHOOL CITY OF MISHAWAKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 6-30-05	Total Federal Awards Expended 6-30-06
U.S. DEPARTMENT OF EDUCATION (continued)				
Pass Through Elkhart Community Schools				
Vocational Education - Basic Grants to States	84.048		19,497	19,497
Pass Through Indiana Department of Education				
Safe and Drug Free Schools and Communities - States Grants	84.186			
		02-212	8,386	-
		03-130	26,486	8,310
		04-144	-	24,139
Total for program			34,872	32,449
State Grants for Innovative Programs	84.298			
		02-224	19,177	-
		03-257	15,369	24,922
		04-167	-	23,474
Total for program			34,546	48,396
Education Technology State Grants	84.318			
		02-04	24,889	-
		Competitive Tech	31,421	23,427
		04-7200	52,871	29,129
		04-06	-	8,794
		05-06	-	57,455
Total for program			109,181	118,805
Improving Teacher Quality State Grants	84.367			
		03-174	169,282	-
		04-229	76,621	180,369
		05-167	-	54,435
Total for program			245,903	234,804
Total for federal grantor agency			4,761,519	4,803,214
Total federal awards expended			$ 5,642,674	$ 6,019,575

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

SCHOOL CITY OF MISHAWAKA
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 School City of Mishawaka (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 statue 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
National School Lunch Program	10.555	$ 75,973	$ 72,979

SCHOOL CITY OF MISHAWAKA
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?	no

Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:

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

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

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

Identification of Major Programs:

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

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

Auditee qualified as low-risk auditee?	no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-1

Federal Agency: U.S. Department of Education
Federal Program: Special Education - Grants to States
CFDA Number: 84.027 and 84.173
Pass-Through Entity: Indiana Department of Education

Cash balances in fiscal year 2005-2006 Special Education Grant Project 14206-041-PN01 exceeded 10% of the grant's average monthly expenditures for most of the grant period. Cash on hand in the months where cash draws were received, prior to the draw exceeded $200,000 every month and exceeded $500,000 twice. These draws followed the cash request schedule that the School Corporation prepared as part of the grant application. A similar finding was made in the prior Report B24679.

34 CFR 80.20(7) states in part: "Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used."

The cash request form is signed by School Treasurer certifying that: ". . . the amount of the estimated cash request will not result in a cash surplus greater than 10% of our current monthly expenditures." The request form shows that the School Corporation is required to review the amount of cash on hand and the anticipated cash needed on a monthly basis and submit 'revised' cash request forms as necessary throughout the project year." A directive from the Indiana Department of Education states that: ". . . Cash Request Forms should be submitted throughout the school year as necessary to comply with the Cash Management Improvement Act."

Failure to minimize the cash on hand may cause future funding to be reduced by the pass-through agency. We recommend that the School Corporation initiate procedures to establish controls over grant funds to minimize the time between the receipt and expenditure of the funds.

FINDING 2006-2

Federal Agency: U.S. Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Pass-Through Entity: Indiana Department of Education

The month end cash balances in the fiscal year 2005-2006 Title I project exceeded 10% of the grant award six times and 25% of the grant award two times. The largest month end cash balance was May 31, 2006, ($297,046). The total grant awarded and received was $1,042,724. The School Corporation received advance monthly draws from September 2005 to May 2006. These draws follow the cash request schedule that the School Corporation prepared as part of the grant application. A similar finding was made in the prior Report B24679.

34 CFR 80.20(7) states in part: "Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used." The cash request form is signed by School Treasurer certifying that, " . . . the amount of the estimated cash request will not result in a cash surplus greater than the estimated expenditures." The IASA, Title I Quarterly Monitoring Report includes a statement ". . . cash balance at the end of each quarter should be zero or as near zero as possible."

Failure to minimize the cash on hand may cause future funding to be reduced by the pass-through agency. We recommend that the School Corporation initiate procedures to establish controls over grant funds to minimize the time between the receipt and expenditure of the funds.

School City of Mishawaka
An NCA/CASI Accredited District

Creating a Lifetime of Learning for All

SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS

FINDING NO. 2004-3 CASH MANAGEMENT

Federal Agency:	U.S. Department of Education
Federal Program:	Special Education – Grants to States
CFDA Number:	84.027
Pass-Through Entity:	Indiana Department of Education
Auditee Contact Person:	Randy J. Squadroni
Title of Contact Person:	Business Manager
Phone Number:	574.254.4501
Expected Completion Date:	As soon as possible

Corrective Action:

School City of Mishawaka will continue to review our revenue and expenditures for the current year and realign to bring our cash balance as close to zero as possible. Each month we will continue to monitor and adjust our revenue to match our expenditures throughout the year to ensure compliance with federal regulations.

FINDING NO. 2004-4 CASH MANAGEMENT

Federal Agency:	U.S. Department of Education
Federal Program:	Title I Grants to Local Educational Agencies
CFDA Number:	84.010
Pass-Through Entity:	Indiana Department of Education
Auditee Contact Person:	Randy J. Squadroni
Title of Contact Person:	Business Manager
Phone Number:	574.254.4501
Expected Completion Date:	As soon as possible

Corrective Action:

School City of Mishawaka will continue to review our revenue and expenditures for the current year and realign to bring our cash balance as close to zero as possible. Each month we will continue to monitor and adjust our revenue to match our expenditures throughout the year to ensure compliance with federal regulations.

FINDING NO. 2004-5 CASH MANAGEMENT

Federal Agency:	U.S. Department of Education
Federal Program:	Improving Teacher Quality State Grants
CFDA Number:	84.367
Pass-Through Entity:	Indiana Department of Education
Auditee Contact Person:	Randy J. Squadroni
Title of Contact Person:	Business Manager
Phone Number:	574.254.4501
Expected Completion Date:	As soon as possible

Administrative Center
1402 South Main Street • Mishawaka, IN 46544-5297
phone [574] 254-4500 • fax [574] 254-4585 • www.mishawaka.k12.in.us

Corrective Action:

School City of Mishawaka will continue to review our revenue and expenditures for the current year and realign to bring our cash balance as close to zero as possible. Each month we will continue to monitor and adjust our revenue to match our expenditures throughout the year to ensure compliance with federal regulations.

R. J. Squadroni
Randy J. Squadroni, Business Manager

10-26-06
Date

School City of Mishawaka

An NCA/CASI Accredited District

Creating a Lifetime of Learning for All

CORRECTIVE ACTION PLAN

FINDING NO. 2006-1

Federal Agency:	U.S. Department of Education
Federal Program:	Special Education – Grants to States
CFDA Number:	84.027
Pass-Through Entity:	Indiana Department of Education
Auditee Contact Person:	Randy J. Squadroni
Title of Contact Person:	Business Manager
Phone Number:	574.254.4501
Expected Completion Date:	As soon as possible

Corrective Action:

School City of Mishawaka will continue to review our revenue and expenditures for the current year and realign to bring our cash balance as close to zero as possible. Each month we will continue to monitor and adjust our revenue to match our expenditures throughout the year to ensure compliance with federal regulations.

FINDING NO. 2006-2

Federal Agency:	U.S. Department of Education
Federal Program:	Title I Grants to Local Educational Agencies
CFDA Number:	84.010
Pass-Through Entity:	Indiana Department of Education
Auditee Contact Person:	Randy J. Squadroni
Title of Contact Person:	Business Manager
Phone Number:	574.254.4501
Expected Completion Date:	As soon as possible

Corrective Action:

School City of Mishawaka will continue to review our revenue and expenditures for the current year and realign to bring our cash balance as close to zero as possible. Each month we will continue to monitor and adjust our revenue to match our expenditures throughout the year to ensure compliance with federal regulations.

Squadroni

Randy J. Squadroni, Business Manager

10-30-06

Date

Administrative Center

1402 South Main Street • Mishawaka, IN 46544-5297

phone [574] 254-4500 • fax [574] 254-4585 • www.mishawaka.k12.in.us

SCHOOL CITY OF MISHAWAKA
EXIT CONFERENCE

The contents of this report were discussed on November 22, 2006, with Randy J. Squadroni, Treasurer; R. Steven Mills, Superintendent of Schools; and with Lloyd C. Wayne, President of the School Board.