

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

AUDIT REPORT

OF

GOSHEN COMMUNITY SCHOOLS

ELKHART COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED

03/27/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Linda K. Zoller	07-01-04 to 06-30-07
Superintendent of Schools	Bruce Stahly	07-01-04 to 06-30-08
President of the School Board	Randy R. Robertson	07-01-04 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 GOSHEN 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 Goshen Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

In accordance with Government Auditing Standards, we have also issued a report dated January 10, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

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

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

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

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

STATE BOARD OF ACCOUNTS

January 10, 2007



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 GOSHEN COMMUNITY SCHOOLS, ELKHART COUNTY, INDIANA

We have audited the financial statements of the Goshen Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

STATE BOARD OF ACCOUNTS

January 10, 2007

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 14,644,339
Restricted assets:	
Cash and investments	<u>2,040,234</u>
Total assets	<u>\$ 16,684,573</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 2,040,234
Unrestricted	<u>14,644,339</u>
Total net assets	<u>\$ 16,684,573</u>

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

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 15,814,809
Restricted assets:	
Cash and investments	<u>4,637,440</u>
Total assets	<u>\$ 20,452,249</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 4,637,440
Unrestricted	<u>15,814,809</u>
Total net assets	<u>\$ 20,452,249</u>

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

GOSHEN 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	\$ 24,270,170	\$ 322,575	\$ 383,455	\$ (23,564,140)
Support services	30,191,992	1,136,202	1,254,486	(27,801,304)
Community services	373,474	-	-	(373,474)
Nonprogrammed charges	5,596,498	-	-	(5,596,498)
Debt service	18,326,428	-	-	(18,326,428)
Total governmental activities	\$ 78,758,562	\$ 1,458,777	\$ 1,637,941	(75,661,844)
General receipts:				
Property taxes				31,677,956
Other local sources				5,850,726
State aid				23,299,751
Grants and contributions not restricted				6,912,614
Bonds and loans				3,103,626
Sale of property, adjustments, and refunds				1,316,123
Investment earnings				298,878
Intergovernmental transfers				7,824,871
Total general receipts and intergovernmental transfers				80,284,545
Change in cash and investments				4,622,701
Net assets - beginning				12,061,872
Net assets - ending				\$ 16,684,573

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

GOSHEN 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	\$ 25,372,265	\$ 280,000	\$ 256,245	\$ (24,836,020)
Support services	32,726,085	1,177,522	1,291,634	(30,256,929)
Community services	392,240	-	-	(392,240)
Nonprogrammed charges	5,748,525	-	-	(5,748,525)
Debt service	9,096,007	-	-	(9,096,007)
Total governmental activities	\$ 73,335,122	\$ 1,457,522	\$ 1,547,879	(70,329,721)
General receipts:				
Property taxes				24,024,207
Other local sources				6,094,309
State aid				25,584,172
Grants and contributions not restricted				6,068,668
Bonds and loans				700,000
Sale of property, adjustments, and refunds				1,408,201
Investment earnings				675,546
Intergovernmental transfers				9,542,294
Total general receipts and intergovernmental transfers				74,097,397
Change in cash and investments				3,767,676
Net assets - beginning				16,684,573
Net assets - ending				\$ 20,452,249

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

GOSHEN 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	\$ 14,689,508	\$ 2,289,829	\$ 11,084,757	\$ 6,004,926	\$ 635,550	\$ 2,251,049	\$ 36,955,619
Intermediate sources	208	-	-	-	-	1,781	1,989
State sources	23,623,771	-	-	-	-	1,413,557	25,037,328
Federal sources	63,438	-	-	-	-	7,072,115	7,135,553
Bonds and loans	1,300,000	540,000	8,626	-	155,000	1,100,000	3,103,626
Sale of property, adjustments and refunds	220,097	15,859	-	279,087	-	801,080	1,316,123
Intergovernmental transfers	52,063	-	-	-	-	7,772,808	7,824,871
Interfund transfers	60,000	109,468	-	-	-	404,487	573,955
Total receipts	<u>40,009,085</u>	<u>2,955,156</u>	<u>11,093,383</u>	<u>6,284,013</u>	<u>790,550</u>	<u>20,816,877</u>	<u>81,949,064</u>
Disbursements:							
Current:							
Instruction	16,074,255	-	-	-	-	8,195,915	24,270,170
Support services	13,189,630	1,907,143	-	4,666,449	87,114	8,467,308	28,317,644
Community services	338,360	-	-	-	-	35,114	373,474
Nonprogrammed charges	2,310,496	26,498	287,183	66,676	8,976	3,470,624	6,170,453
Debt services	5,510,000	790,000	10,741,896	-	350,000	934,532	18,326,428
Total disbursements	<u>37,422,741</u>	<u>2,723,641</u>	<u>11,029,079</u>	<u>4,733,125</u>	<u>446,090</u>	<u>21,103,493</u>	<u>77,458,169</u>
Excess (deficiency) of total receipts over (under) total disbursements	2,586,344	231,515	64,304	1,550,888	344,460	(286,616)	4,490,895
Cash and investments - beginning	4,618,553	642,855	1,986,806	1,976,493	129,603	2,657,726	12,012,036
Cash and investments - ending	<u>\$ 7,204,897</u>	<u>\$ 874,370</u>	<u>\$ 2,051,110</u>	<u>\$ 3,527,381</u>	<u>\$ 474,063</u>	<u>\$ 2,371,110</u>	<u>\$ 16,502,931</u>

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

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

Net change in fund balances - total governmental funds	\$ 4,490,895
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>131,806</u>
Change in cash and investments of governmental activities	<u>\$ 4,622,701</u>

GOSHEN 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	\$ 10,747,648	\$ 1,844,577	\$ 9,150,850	\$ 5,016,234	\$ 336,425	\$ 2,054,126	\$ 29,149,860
Intermediate sources	139	-	-	-	-	1,762	1,901
State sources	25,785,364	-	-	-	-	1,181,481	26,966,845
Federal sources	170	-	-	-	-	6,513,704	6,513,874
Bonds and loans	-	550,000	-	-	120,000	30,000	700,000
Sale of property, adjustments and refunds	237,886	14,699	-	55,355	-	750,261	1,058,201
Intergovernmental transfers	22,004	-	-	-	-	9,520,290	9,542,294
Interfund transfers	406,079	27,367	-	-	-	649,437	1,082,883
Total receipts	<u>37,199,290</u>	<u>2,436,643</u>	<u>9,150,850</u>	<u>5,071,589</u>	<u>456,425</u>	<u>20,701,061</u>	<u>75,015,858</u>
Disbursements:							
Current:							
Instruction	16,802,016	-	-	-	-	8,570,249	25,372,265
Support services	15,312,877	2,048,852	48,001	4,714,786	409,761	7,346,168	29,880,445
Community services	351,743	-	-	-	-	40,497	392,240
Nonprogrammed charges	2,978,315	9,467	80,099	26,131	1,791	3,735,605	6,831,408
Debt services	1,300,000	540,000	6,438,495	-	155,000	662,512	9,096,007
Total disbursements	<u>36,744,951</u>	<u>2,598,319</u>	<u>6,566,595</u>	<u>4,740,917</u>	<u>566,552</u>	<u>20,355,031</u>	<u>71,572,365</u>
Excess (deficiency) of total receipts over (under) total disbursements	454,339	(161,676)	2,584,255	330,672	(110,127)	346,030	3,443,493
Cash and investments - beginning	7,204,897	874,370	2,051,110	3,527,381	474,063	2,371,110	16,502,931
Cash and investments - ending	<u>\$ 7,659,236</u>	<u>\$ 712,694</u>	<u>\$ 4,635,365</u>	<u>\$ 3,858,053</u>	<u>\$ 363,936</u>	<u>\$ 2,717,140</u>	<u>\$ 19,946,424</u>

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

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

Net change in fund balances - total governmental funds	\$ 3,443,493
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>324,183</u>
Change in cash and investments of governmental activities	<u>\$ 3,767,676</u>

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

	<u>Internal Service Fund</u>
Receipts:	
Local sources	<u>\$ 2,006,154</u>
Disbursements:	
Support services	<u>1,874,348</u>
Changes in cash and investments	131,806
Cash and investments - beginning	<u>49,836</u>
Cash and investments - ending	<u><u>\$ 181,642</u></u>

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

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

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 2,819,823
Sale of property, adjustments and refunds	<u>350,000</u>
Total receipts	<u>3,169,823</u>
Disbursements:	
Support services	<u>2,845,640</u>
Changes in cash and investments	324,183
Cash and investments - beginning	<u>181,642</u>
Cash and investments - ending	<u><u>\$ 505,825</u></u>

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

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

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Additions:		
Local sources	\$ 98,455	\$ 40,565
Deductions:		
Instruction	-	13,657
Support services	3,539,120	2,181
Community services	-	398
Nonprogrammed charges	-	120
Total deductions	<u>3,539,120</u>	<u>16,356</u>
Excess (deficiency) of total additions over (under) total deductions	(3,440,665)	24,209
Cash and investments - beginning	<u>4,851,038</u>	<u>(14,222)</u>
Cash and investments - ending	<u>\$ 1,410,373</u>	<u>\$ 9,987</u>

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

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

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Additions:		
Local sources	\$ 84,773	\$ 7,615
Sale of property, adjustments and refunds	<u>1,000,000</u>	<u>-</u>
Total additions	<u>1,084,773</u>	<u>7,615</u>
Deductions:		
Instruction	-	2,258
Support services	<u>407,423</u>	<u>66</u>
Total deductions	<u>407,423</u>	<u>2,324</u>
Excess of total additions over total deductions	677,350	5,291
Cash and investments - beginning	<u>1,410,373</u>	<u>9,987</u>
Cash and investments - ending	<u>\$ 2,087,723</u>	<u>\$ 15,278</u>

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

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

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 1,410,373	\$ 9,987	\$ 105,785
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 1,410,373	\$ 9,987	

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

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

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 2,087,723	\$ 15,278	\$ 108,416
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	<u>\$ 2,087,723</u>	<u>\$ 15,278</u>	

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

GOSHEN 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: Goshen 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 Ventures

The School Corporation is a participant with Baugo Community Schools, Concord Community Schools, Fairfield Community Schools, Middlebury Community Schools and Wa-Nee Community Schools in a joint venture to operate the Elkhart County Special Cooperative (ECSEC) which was created to operate programs and services for handicapped children, including administration and supervision, psychological services, programs for emotionally handicapped children, and other special education programs as recommended and approved by the governing board. The School Corporation is obligated by contract to pay its share of the cost based on average daily attendance (ADA) from previous year. Payments shall be made quarterly to the administering school to supplement ECSEC. ECSEC's continued existence depends on continued funding by the School Corporation. Goshen Community Schools is the administering school corporation of ECSEC.

The School Corporation is a participant with 11 other school corporations in Elkhart County and St. Joseph County in a joint venture to operate a Head Start Consortium (Consortium) which was created to develop, operate, participate and supervise a Head Start Program to serve the preschool student populations of the participating school corporations. The Consortium's continued existence depends on continued funding through a federal grant program. Participating schools are required to provide "in-kind services" (transportation and classroom, gymnasium and playground space) to meet the grant requirements. No fees are assessed to the school corporations for the operation of this program. The School Corporation may be obligated for debts of the Consortium should they not be covered by the grant. Complete financial statements for the Head Start Consortium can be obtained from the Administrative Offices of the South Bend Community School Corporation at 215 S. St. Joseph Street, South Bend, Indiana, 46601.

The School Corporation is a participant with numerous other schools 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 to remit a fee based upon a formula per ADM and the budget annually to supplement the Northern Indiana Educational Services Center. The Northern Indiana Educational Services Center's continued existence depends on continued funding by the School Corporation. The School Corporation is obligated for the debt of the Northern Indiana Educational Services Center. Complete financial statements for the Northern Indiana Educational Services Center can be obtained from the administering office at 56535 Magnetic Drive, Mishawaka, Indiana, 46545.

GOSHEN COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

The School Corporation is a participant with Baugo Community Schools, Concord Community Schools, Fairfield Community Schools, and Middlebury Community Schools in a joint venture to operate the Merit Learning Center of Elkhart County Cooperative which was created to provide career guidance, education and training for student. Goshen Community Schools is the administering school corporation of the Merit Learning Center of Elkhart County Cooperative.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. 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 cash balances, 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 debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction, and interest on emergency and temporary loans.

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

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

The School Corporation reports the following major proprietary fund:

The internal service fund accounts for all transactions associated with the School's Self Insurance Fund.

GOSHEN COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Additionally, the School Corporation reports the following fund types:

The pension trust funds account for the receipts and disbursements concerning retirement/severance benefits as authorized by statute.

The private-purpose trust funds report a trust arrangement under which principal and income benefit the employees and other agencies.

Agency funds account for assets held by the School Corporation as an agent for other agencies and serves as control account for certain cash transactions during the time they are a liability to the School Corporation.

C. Measurement Focus and Basis of Accounting

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

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

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

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 other departments or agencies primarily within the government (internal service 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

GOSHEN COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 3 to 19 days per year based on months of service. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is paid to employees upon retirement at the rate of \$45 per day.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Starting January 2002, vacation leave may not be accumulated from year to year. Prior to January 2002, accumulated vacation leave maybe carried indefinitely until used. Accumulated vacation leave is paid to employees through cash payments upon termination.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 2 days per year. Unused personal leave for noncertified employees may be accumulated to a maximum of 3 days. Unused personal leave for certified employees may be accumulated to a maximum of 5 days. Accumulated personal leave is not paid to employees upon termination.

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."

GOSHEN COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Fund Financial Statements

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

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, 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.

2. Operating Receipts and Disbursements

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

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

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

Government-Wide Financial Statements

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

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

GOSHEN COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

B. Cash and Investment Balance Deficits

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

Fund	2005	2006
Governmental Funds:		
Retirement/Severance Bond Debt	\$ 10,876	\$ -
School Lunch	119,136	-
2004-05 Merit Learning	55,120	-
Common School Tech	-	10,299
Common School Tech	-	161,626
Totals	\$ 185,132	\$ 171,925

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

III. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to

GOSHEN COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 of \$23,370,678 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	2005	2006
General Fund	Other governmental	\$ 173,450	\$ 555,397
Debt Service	General Fund	60,000	-
Debt Service	Transportation Operating	109,468	27,367
Debt Service	Other governmental	117,715	52,732
Capital Projects	Other governmental	66,676	26,131
Transportation Operating	Other governmental	26,498	9,467
School Bus Replacement	Other governmental	8,976	1,791
Other governmental	General Fund	-	406,079
Other governmental	Other governmental	11,172	3,919
Totals		<u>\$ 573,955</u>	<u>\$ 1,082,883</u>

The School Corporation typically uses transfers for cash flow purposes according to various statutes.

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 post-employment benefits); and natural disasters.

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

Medical Benefits to Employees, Retirees, and Dependents (Excluding Postemployment Benefits)

The School Corporation has been 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.

GOSHEN COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

An excess policy through commercial insurance covers individual claims in excess of \$2,000,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all funds with payrolls and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each fund's gross wages, and are reported as quasi-external interfund transactions.

B. Holding Corporations

The School Corporation has entered into capital leases with Goshen Middle School Building Corporation, Goshen Multi-School Building Corporation and GCS School Building Corporation (the lessors). The lessors were organized as not-for-profit corporations pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessors have been determined to be a related party of the School Corporation. Lease payments during the year ended June 30, 2006, totaled \$6,450,000.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides post-employment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 55 with at least 15 years of service or meeting the requirements of the rule of 85 (age and the years of service equal 85). Currently, 62 retirees meet these eligibility requirements. The School Corporation's portion of the postemployment benefits has been predetermined by the master teacher contract. Disbursements for those post-employment benefits are recognized on a pay-as-you-go basis. For the two year period ended June 30, 2006, disbursements of \$737,505 were recognized for postemployment benefits.

D. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

GOSHEN 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.

Information to segregate the assets/liabilities and the actuarial study figures between the School Corporation and the Utilities is not available.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 443,557
Interest on net pension obligation	(42,941)
Adjustment to annual required contribution	48,935
Annual pension cost	449,551
Contributions made	560,412
Decrease in net pension obligation	(110,861)
Net pension obligation, beginning of year	(592,290)
Net pension obligation, end of year	\$ (703,151)
Contribution rates:	
School Corporation	7.75%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	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%

GOSHEN 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	\$ 453,037	109%	\$ (461,875)
	06-30-04	393,974	133%	(592,290)
	06-30-05	449,571	142%	(703,131)

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 \$941,250, \$826,260, and \$724,678, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

GOSHEN COMMUNITY SCHOOLS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 4,144,298	\$ 5,261,352	\$ (1,117,054)	79%	\$ 6,058,907	(18%)
07-01-04	4,457,753	5,805,921	(1,348,168)	77%	6,492,651	(21%)
07-01-05	4,913,557	7,050,271	(2,136,714)	70%	6,927,131	(31%)

GOSHEN 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	\$ 1,952,612
Buildings	138,131,240
Improvements other than buildings	1,143,334
Machinery and equipment	<u>13,476,769</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 154,703,955</u>

GOSHEN COMMUNITY SCHOOLS
SUPPLEMENTARY INFORMATION
SCHEDULE OF DEBT

June 30, 2006

The Goshen Community Schools has entered into the following debt:

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Short-Term Debt:		
Tax anticipation warrants:		
Transportation fund	\$ 550,000	\$ 550,000
Bus replacement fund	<u>120,000</u>	<u>120,000</u>
Total short-term debt	<u>670,000</u>	<u>670,000</u>
Long-Term Debt:		
Capital leases:		
1992 refunding	6,692,000	-
1989-1999 refunding	32,414,282	3,074,000
2004-2006 building lease	46,985,000	-
Bond anticipation notes payable	4,850,000	420,000
Common school loans payable	941,146	300,000
Energy savings loans	<u>134,273</u>	<u>88,342</u>
Total long-term debt	<u>92,016,701</u>	<u>3,882,342</u>
Total governmental activities debt	<u>\$ 92,686,701</u>	<u>\$ 4,552,342</u>

GOSHEN COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The following funds had overdrawn fund balances in excess of \$10,000 at various times during the audit period as noted below:

Number	Fund Name	June 30, 2005	June 30, 2006
25	Retirement/Severance Bond Debt	\$ 10,876	\$ -
80	School Lunch	119,136	-
193	2004-2005 Merit Learning	55,120	-
317	Common School Tech	-	10,299
318	Common School Tech	-	161,626

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)

TRANSPORTATION FUND - RECORD OF HOURS WORKED

Part of the School Corporation Treasurer's salary was paid from the Transportation Fund during the audit period. A record of hours worked for the Treasurer was not presented for audit. A similar comment appeared in the prior Audit Report B24482.

Indiana Code 5-11-9-4 requires in part: "... records be maintained showing which hours were worked each day by officers and employees . . . employed . . . in more than one (1) position by the same public agency . . ."

Some positions have been formally established by boards of school trustees, through job description, duties assigned, title, salary schedules, etc., as transportation related (for example, Assistant Superintendent-Transportation Director). We will not take audit exception, in these situations (other than positions excluded by statute), to direct transportation related employees having direct transportation related expenses being paid from the transportation fund if a cost allocation system based upon auditable statistics is established tracking costs attributable to the transportation program and therefore payable from the transportation fund. The use of time cards, time logs, or other means of accumulating auditable statistics upon which to base costs would have to be maintained. The time spent on such programs by persons serving in more than one program area must be specific if costs are to be separated. These costs cannot be accurately maintained on a percentage basis and requires the use of one of the methods mentioned above to provide auditable statistics and should cover all program areas in which a person serves or for which the service, materials, supplies, etc., are provided. (The School Administrator and Uniform Compliance Guidelines, Volume 157)

HONOR DIPLOMAS - INCORRECT REPORTING TO THE STATE

The information presented for audit indicates honors diplomas on Form Number 30A, Honors Diploma Verification, were incorrect for the school years ending June 30, 2004, and June 30, 2005.

The difference between the count reported on the honor diplomas and the verified figures are shown below:

GOSHEN COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

<u>School Year</u>	<u>Honors Diplomas Reported on Form Number 30A</u>	<u>Actual Honors Diplomas Verified</u>	<u>Difference</u>
2003-2004	73	75	(2)
2004-2005	61	64	(3)

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

CND-1 STATE REPORT

We noted during our review of the school lunch claims for reimbursement that 13 of 23 reports were not filed in a timely manner. Claim for reimbursement reports are due 10 days following the month reported. Some claims were file 1 to 11 days after the due date.

As stated in the Claim for Reimbursement Form CND-1 "All claims are due in our office (Indiana Department of Education) 10 days following the month reported."

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

GUARANTEED ENERGY SAVINGS CONTRACT - JOHNSON CONTROLS, INC.

Goshen Community Schools entered into a guaranteed energy savings contract with Johnson Controls, Inc., on June 16, 1994. The total amount of the contract was \$1,245,257. The total amount of guaranteed energy savings was \$1,256,849. The total amount of guaranteed operational savings was \$758,010. The total amount of guaranteed stipulated or agreed upon savings was \$758,010. The total amount of guaranteed deferred capital cost savings was \$94,910. The total amount of guaranteed deferred maintenance expenditures was \$220,000. The contract provides operational cost savings projections and included capital expenditures as "agreed upon Operational Cost Savings." The "agreed upon" savings were "deemed realized upon execution" of the contract. No information was presented for audit to document the operational cost savings.

The contract states: "It is agreed that upon contract execution, the operational savings shown below are considered satisfied throughout the term of the agreement." The amount shown below on the contract was \$75,801 annual operational savings.

Stipulated Savings is further described in the contract as "Operational Savings - Includes any labor and material costs associated with the repair of unplanned maintenance of the equipment being replaced in the scope of work" and "Capital Offset - Includes cost avoidance from future planned equipment upgrades or replacement with the cost amortized over the ten years of the agreement." No information was presented for audit to document any "stipulated savings" that resulted in actual energy or operating cost savings from energy conservation measures.

GOSHEN COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

The project includes certain savings measures as noted in the contract for energy efficient lighting, variable frequency drives, boiler optimization, chiller and cooling tower retrofit, and energy management systems at nine facilities owned by and operated by the School Corporation.

Statutory and Other Compliance Guideline Provisions

The Public Works Law, Indiana Code 36-1-12-1(e), states in part: "As an alternative to this chapter, the governing body . . . may . . . enter into a guaranteed energy savings contract as permitted under IC 36-1-12.5."

Effective March 21, 2002, Indiana Code 36-1-12.5-1 states in part:

"As used in this chapter, 'energy conservation measure' means a school facility alteration or an alteration of a structure (as defined in IC 36-1-10-2) designed to reduce energy consumption costs or other operating costs . . . including future:

- (A) labor costs;
- (B) costs for contracted services; and
- (C) related capital expenditures."

Indiana Code 36-1-12.5-5(a) concerning energy savings contracts states in part: "The governing body may enter into . . . a guaranteed energy savings contract with a qualified provider to reduce the school corporation's or the political subdivision's energy consumption costs or operating costs if, after review of the report described in section 6 of this chapter, the governing body finds: (1) that the amount the governing body would spend on the energy conservation measures under the contract and that are recommended in the report is not likely to exceed the amount to be saved in energy consumption costs and other operating costs over ten (10) years from the date of installation if the recommendations in the report were followed; and (2) in the case of a guaranteed energy savings contract, the qualified provider provides a written guarantee as described in subsection (d)(2)."

Indiana Code 36-1-12.5-5(d) states in part: "An agreement to participate in . . . guaranteed energy savings contract under this section must provide that: . . . (2) in the case of the guaranteed energy savings contract: (A) the savings in energy and operating costs due to the energy conservation measures are guaranteed to cover the costs of the payments for the measures; and (B) the qualified provider will reimburse the school corporation or political subdivision for the difference between the guaranteed savings and the actual savings . . ."

Effective March 21, 2002, Indiana Code 36-1-12.5-0.5 states: "As used in this chapter, 'actual savings' includes stipulated savings."

Indiana Code 36-1-12.5-0.7 states: "As used in this chapter, 'causally connected work' means work that is required to properly implement an energy conservation measure."

Indiana Code 36-1-12.5-3.7 states in part: "As used in this chapter, 'stipulated savings' are assumed savings that are documented by industry engineering standards."

GOSHEN COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 36-1-12.5-11 states in part:

"(a) A guaranteed energy savings contract that includes stipulated savings must specify the methodology used to calculate the savings using industry engineering standards.

(b) Stipulated savings may be used for energy conservation measures including . . . (9) Any work that is causally connected to the energy conservation measures listed in subdivisions (1) through (8).

(c) The guaranteed energy savings contract shall:

(1) describe stipulated savings for:

(A) energy conservation measures; and

(B) work causally connected to the energy conservation measures; and

(2) document assumptions by industry engineering standards."

Repayment of Costs in Excess of Savings

Goshen Community School Officials conveyed that the items shown as "agreed upon" or "stipulated savings" have been predetermined. Furthermore, Goshen Community School Officials do not have available for audit and conveyed they do not plan in the future to have any additional information to document actual operating or energy savings. Accordingly, with due regards for the remaining contract time for which information may be presented to document actual operating and energy savings (effective March 21, 2002, "stipulated savings" documented by "industry engineering standards"), the Goshen Community School should request reimbursement from Johnson Controls, Inc., for costs which did not result in an actual reduction of energy consumption costs or other operating costs (or effective March 21, 2002, stipulated savings which were not supported by "industry engineering standards") at the end of the contract term in accordance with Indiana Code 36-1-12.5-5(d)(2)(B).

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Page Chapter 9)

GUARANTEED ENERGY SAVINGS CONTRACT - AMERICAN ENERGY CONSERVATION, INC.

Goshen Community Schools entered into a guaranteed energy savings contract with American Energy Conservation, Inc. (AECI) on October 7, 1997. The total amount of the contract was \$725,000. The total amount of guaranteed energy savings was \$956,443. The total amount of guaranteed operational savings was \$162,168. The total amount of guaranteed stipulated or agreed upon savings was \$975,770. There was no guaranteed deferred capital cost savings and no guaranteed deferred maintenance expenditures. The contract also provides energy savings projects. No information was presented for audit to document actual energy and professional cost savings. Energy savings projections assume a three percent increase in the consumer price index for each year of the contract period.

The contract states in part "American Energy Conservation, Inc., guarantees that Goshen Community Schools will annually save the amount stated above in the energy consumption and other operating costs during the stated program term, and will reimburse Goshen Community Schools for the difference between the Annual Guaranteed Amount set forth above and the actual savings."

GOSHEN COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Operational Savings, described in the contract, includes any labor and material costs associated with the repair of unplanned maintenance of the equipment being replaced in the scope of work and includes cost avoidance from future planned equipment upgrades or replacement with the cost amortized over the ten years of the agreement. No information was presented for audit to document that any of these savings resulted in actual energy or operating cost savings from energy conservation measures.

The project includes per the contract, ". . . to furnish and install temperature controls as per plans and specifications for the "addition and alterations to Goshen High School, West Goshen Elementary School, and Goshen Middle School. AECl will also furnish and install variable frequency drives per the above specification for the air handling units and pumps at Goshen High School."

Statutory and Other Compliance Guideline Provisions

The Public Works Law, Indiana Code 36-1-12-1(e), states in part: "As an alternative to this chapter, the governing body . . . may . . . enter into a guaranteed energy savings contract as permitted under IC 36-1-12.5."

Effective March 21, 2002, Indiana Code 36-1-12.5-1 states in part:

"As used in this chapter, 'energy conservation measure' means a school facility alteration or an alteration of a structure (as defined in IC 36-1-10-2) designed to reduce energy consumption costs or other operating costs . . . including future:

- (A) labor costs;
- (B) costs for contracted services; and
- (C) related capital expenditures."

Indiana Code 36-1-12.5-5(a) concerning energy savings contracts states in part: "The governing body may enter into . . . a guaranteed energy savings contract with a qualified provider to reduce the school corporation's or the political subdivision's energy consumption costs or operating costs if, after review of the report described in section 6 of this chapter, the governing body finds: (1) that the amount the governing body would spend on the energy conservation measures under the contract and that are recommended in the report is not likely to exceed the amount to be saved in energy consumption costs and other operating costs over ten (10) years from the date of installation if the recommendations in the report were followed; and (2) in the case of a guaranteed energy savings contract, the qualified provider provides a written guarantee as described in subsection (d)(2)."

Indiana Code 36-1-12.5-5(d) states in part: "An agreement to participate in . . . guaranteed energy savings contract under this section must provide that: . . . (2) in the case of the guaranteed energy savings contract: (A) the savings in energy and operating costs due to the energy conservation measures are guaranteed to cover the costs of the payments for the measures; and (B) the qualified provider will reimburse the school corporation or political subdivision for the difference between the guaranteed savings and the actual savings . . ."

Effective March 21, 2002, Indiana Code 36-1-12.5-0.5 states: "As used in this chapter, 'actual savings' includes stipulated savings."

Indiana Code 36-1-12.5-0.7 states: "As used in this chapter, 'causally connected work' means work that is required to properly implement an energy conservation measure."

GOSHEN COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 36-1-12.5-3.7 states in part: "As used in this chapter, 'stipulated savings' are assumed savings that are documented by industry engineering standards."

Indiana Code 36-1-12.5-11 states in part:

"(a) A guaranteed energy savings contract that includes stipulated savings must specify the methodology used to calculate the savings using industry engineering standards.

(b) Stipulated savings may be used for energy conservation measures including . . . (9) Any work that is causally connected to the energy conservation measures listed in subdivisions (1) through (8).

(c) The guaranteed energy savings contract shall:

(1) describe stipulated savings for:

(A) energy conservation measures; and

(B) work causally connected to the energy conservation measures; and

(2) document assumptions by industry engineering standards."

Repayment of Costs in Excess of Savings

Goshen Community School Officials conveyed that the items shown as "agreed upon" or "stipulated savings" have been predetermined. Furthermore, Goshen Community School Officials do not have available for audit and conveyed they do not plan in the future to have any additional information to document actual operating or energy savings. Accordingly, with due regards for the remaining contract time for which information may be presented to document actual operating and energy savings (effective March 21, 2002, "stipulated savings" documented by "industry engineering standards"), the Goshen Community School should request reimbursement from American Energy Conservation, Inc., for costs which did not result in an actual reduction of energy consumption costs or other operating costs (or effective March 21, 2002, stipulated savings which were not supported by "industry engineering standards") at the end of the contract term in accordance with Indiana Code 36-1-12.5-5(d)(2)(B).

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

RECEIPT ISSUANCE (Applies to Model Elementary, Chamberlain Elementary, Chandler Elementary, and Goshen Middle Schools)

We noted instances where the receipts were written the same day or after bank deposits were made. Deposits were sometimes made only once a week. One instance revealed that no receipt was written, however the amount was deposited and was posted as a receipt to two funds. A similar audit result and comment appeared in the previous Audit Report B24482.

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

GOSHEN COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

UNDEPOSITED CASH RECEIPTS (Applies to Model Elementary,
Parkside Elementary and Chamberlain Elementary Schools)

Cash receipts were not always deposited in the same form as the collections. Cash receipts were withheld from deposits and used for cashing checks. The cash change amount was held over the summer and not deposited. A proper cash change fund was not maintained. Some deposit slips in other instances did not list the amount of cash being deposited. Further examination disclosed that these may have been the result of checks being cashed instead of deposited and/or cash being withheld for petty cash disbursement.

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

TIMELY DEPOSITS (Applies to Goshen High School)

Receipts for athletic events are not being deposited in a timely manner. Receipts for 15 athletic events held from September 6, 2005 to September 22, 2005, were not receipted and deposited until September 27, 2005, and amounted to \$6,208. Receipts for 15 athletic events held from September 24, 2005 to October 8, 2005, were not receipted and deposited until October 17, 2005, and amounted to \$6,998.

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. . ."

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

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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

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

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

Compliance

We have audited the compliance of the Goshen 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 its major federal program for the years ended June 30, 2005 and 2006. The School Corporation's major federal program is 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 its major federal program 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

January 10, 2007

GOSHEN 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		\$ 140,205	\$ 184,735
National School Lunch Program	10.555		926,818	1,028,598
Summer Food Service Program for Children	10.559		<u>20,428</u>	<u>27,242</u>
Total for federal grantor agency			<u>1,087,451</u>	<u>1,240,575</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Special Education Cluster				
Special Education - Grants to States	84.027	14204-016-PN01	139,184	-
		14205-016-PN01	3,930,309	156,086
		14205-016-SN01	39,424	19,112
		14205-016-DY01	-	48,430
		14206-016-PN01	<u>-</u>	<u>3,401,578</u>
Total for program			<u>4,108,917</u>	<u>3,625,206</u>
Special Education - Preschool Grants	84.173	45704-016-PN01	13,418	-
		45705-016-PN01	201,721	27,154
		45706-016-PN01	<u>-</u>	<u>188,416</u>
Total for program			<u>215,139</u>	<u>215,570</u>
Total for cluster			<u>4,324,056</u>	<u>3,840,776</u>
Direct Grant				
Fund for the Improvement of Education	84.215	V215L042243	84,323	75,747
		V215L030045	<u>11,692</u>	<u>-</u>
Total for program			<u>96,015</u>	<u>75,747</u>
Pass-Through Elkhart Community Schools				
Adult Education - State Grant Program	84.002	2005-8007	47,231	700
		2006-8007	<u>-</u>	<u>23,800</u>
Total for program			<u>47,231</u>	<u>24,500</u>
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010	04-2315	140,589	-
		04-2315, Prevention	895	-
		05-2315	610,786	175,406
		05-2315, Part D	23,596	-
		06-2315	-	588,705
		6-2315, Part D	<u>-</u>	<u>22,846</u>
Total for program			<u>775,866</u>	<u>786,957</u>
Migrant Education - State Grant Program	84.011	FY 04-05 Summer Program	15,465	-
		FY 04-05/RM-21	78,091	1,910
		FY 05-06/SM-10	1,136	11,432
		FY 05-06/RM-8	<u>-</u>	<u>78,046</u>
Total for program			<u>94,692</u>	<u>91,388</u>
Pass-Through Elkhart Community Schools				
Vocational Education - Basic Grants to States	84.048	FY 2005	26,361	2,522
		FY 2006	<u>-</u>	<u>25,764</u>
Total for program			<u>26,361</u>	<u>28,286</u>

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

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

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF EDUCATION (continued)</u>				
Pass-Through Indiana Department of Education Safe and Drug Free Schools and Communities - State Grants	84.186	03-123 04-112 05-132 005-24	3,657 12,515 - -	2,879 8,753 10,889 15,000
Total for program			16,172	37,521
Pass-Through Boys and Girls Club of Goshen Twenty First Century Community Learning Centers	84.287	FY 05-06	-	33,335
Pass-Through Indiana Department of Education State Grants for Innovative Programs	84.298	02-126 03-126 04-039 05-118	20,390 27,648 7,030 -	- 13,742 20,583 9,097
Total for program			55,068	43,422
Education Technology State Grants	84.318	FY 03-04 FY 04-05 FY 05-06	- 703 2,707	12,890 15,866 10,624
Total for program			3,410	39,380
Reading Excellence	84.338	S338A010016A	95,886	-
English Language Acquisition Grants	84.365	FY 03-04 FY 04-05 FY 05-06	29,363 189,340 -	- 57,804 259,138
Total for program			218,703	316,942
Improving Teacher Quality State Grants	84.367	02-147 S318X020014 03-119 04-135 05-184	15,826 667 62,892 134,805 -	- - - 60,241 125,843
Total for program			214,190	186,084
Total for federal grantor agency			5,967,650	5,504,338
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Pass-Through Indiana Child Care Fund Inc Child Care Cluster Child Care and Development Block Grant	93.575	SA-03-020-0 FY 04-05 FY 05-06	5,541 11,508 -	- - 9,373
Total for federal grantor agency			17,049	9,373
Total federal awards expended			\$ 7,072,150	\$ 6,754,286

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

GOSHEN 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 Goshen 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. Subrecipients

Of the federal expenditures presented in the schedule, the School Corporation provided federal awards to subrecipients as follows for the years ended June 30, 2005 and 2006:

Program Title	Federal CFDA Number	2004-2005	2005-2006
Special Education – Grants to States	84.027	\$ 2,497,140	\$ 1,993,897

III. Noncash Assistance

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

Program Title	Federal CFDA Number	2004-2005	2005-2006
Child Nutrition Cluster	10.555	\$ 113,579	\$ 114,537

GOSHEN 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: \$407,950

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

GOSHEN COMMUNITY SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

GOSHEN COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on January 30, 2007, with Bruce Stahly, Superintendent of Schools; Linda K. Zoller, Treasurer; and Randy R. Robertson, President of the School Board.