

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

AUDIT REPORT

OF

FAIRFIELD COMMUNITY SCHOOLS

ELKHART COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED

01/10/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Esther J. Bontrager Linda L. Hire	07-01-04 to 02-28-05 03-01-05 to 06-30-07
Superintendent of Schools	Thomas E. Tumey	07-01-04 to 06-30-07
President of the School Board	Jonathan C. Graber Brent E. Welty Michael D. Morehouse	07-01-04 to 06-30-05 07-01-05 to 06-30-06 07-01-06 to 06-30-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE FAIRFIELD 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 Fairfield 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 October 17, 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, listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

STATE BOARD OF ACCOUNTS

October 17, 2006



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

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

We have audited the financial statements of the Fairfield Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated October 17, 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 17, 2006

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 7,858,547
Restricted assets:	
Cash and investments	<u>71,611</u>
Total assets	<u>\$ 7,930,158</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 71,611
Unrestricted	<u>7,858,547</u>
Total net assets	<u>\$ 7,930,158</u>

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

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 9,048,605
Restricted assets:	
Cash and investments	<u>23,323</u>
Total assets	<u>\$ 9,071,928</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 23,323
Unrestricted	<u>9,048,605</u>
Total net assets	<u>\$ 9,071,928</u>

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

FAIRFIELD 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	\$ 6,700,568	\$ -	\$ 88,062	\$ (6,612,506)
Support services	16,795,009	656,961	169,750	(15,968,298)
Community services	156,127	-	-	(156,127)
Nonprogrammed charges	633,615	-	-	(633,615)
Debt service	4,088,028	-	-	(4,088,028)
Total governmental activities	\$ 28,373,347	\$ 656,961	\$ 257,812	(27,458,574)
General receipts:				
Property taxes				10,963,901
Other local sources				1,746,365
State aid				7,342,963
Grants and contributions not restricted				633,727
Sale of property, adjustments, and refunds				331,393
Investment earnings				201,092
Transfers:				
Intergovernmental transfers				83,990
Total general receipts and transfers				21,303,431
Change in cash and investments				(6,155,143)
Net assets - beginning				14,085,301
Net assets - ending				\$ 7,930,158

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

FAIRFIELD 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	\$ 6,734,355	\$ -	\$ 71,484	\$ (6,662,871)
Support services	9,414,760	651,672	186,083	(8,577,005)
Community services	157,633	-	-	(157,633)
Nonprogrammed charges	164,916	-	-	(164,916)
Debt service	3,103,500	-	-	(3,103,500)
Total governmental activities	\$ 19,575,164	\$ 651,672	\$ 257,567	(18,665,925)
General receipts:				
Property taxes				8,792,790
Other local sources				1,630,111
State aid				7,632,226
Grants and contributions not restricted				661,925
Sale of property, adjustments, and refunds				603,800
Investment earnings				350,200
Transfers:				
Intergovernmental transfers				95,475
Pension Trust Fund transfer to Self-Insurance Fund				41,168
				<u>19,807,695</u>
				1,141,770
				<u>7,930,158</u>
				<u>\$ 9,071,928</u>

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

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

	General	Transportation Operating	Rainy Day	School Lunch	Debt Service	Capital Projects	School Bus Replacement	Construction	Other	Totals
Receipts:										
Local sources	\$ 5,147,863	\$ 949,552	\$ 434,589	\$ 507,361	\$ 3,807,996	\$ 2,145,936	\$ 293,058	\$ 49,519	\$ 171,997	\$ 13,507,871
Intermediate sources	668	-	-	-	-	-	-	-	694	1,362
State sources	7,411,837	-	-	16,313	-	-	-	-	143,672	7,571,822
Federal sources	277,752	-	-	114,887	-	-	-	-	270,042	662,681
Bonds and loans	-	-	-	-	-	155,000	-	-	-	155,000
Sale of property, adjustments and refunds	8,197	115	1,600,000	3,807	-	1,024	-	316,748	1,501	1,931,392
Interfund transfers	2,342	40,070	1,200,000	-	-	-	-	-	9,739	1,252,151
Intergovernmental transfers	83,990	-	-	-	-	-	-	-	-	83,990
Total receipts	12,932,649	989,737	3,234,589	642,368	3,807,996	2,301,960	293,058	366,267	597,645	25,166,269
Disbursements:										
Current:										
Instruction	6,472,940	-	-	-	-	-	-	-	227,628	6,700,568
Support services	4,078,379	723,317	-	554,405	-	2,915,746	172,355	7,181,980	204,561	15,830,743
Community services	152,728	-	-	-	-	-	-	-	3,399	156,127
Nonprogrammed charges	2,484,078	10,655	1,600,000	-	80,574	455,836	76,125	-	146,052	4,853,320
Debt services	-	357,443	-	-	3,656,235	-	74,350	-	-	4,088,028
Total disbursements	13,188,125	1,091,415	1,600,000	554,405	3,736,809	3,371,582	322,830	7,181,980	581,640	31,628,786
Excess (deficiency) of total receipts over (under) total disbursements	(255,476)	(101,678)	1,634,589	87,963	71,187	(1,069,622)	(29,772)	(6,815,713)	16,005	(6,462,517)
Cash and investments - beginning	1,546,532	382,623	-	210,083	424	2,973,569	173,142	7,241,375	338,391	12,866,139
Cash and investments - ending	\$ 1,291,056	\$ 280,945	\$ 1,634,589	\$ 298,046	\$ 71,611	\$ 1,903,947	\$ 143,370	\$ 425,662	\$ 354,396	\$ 6,403,622

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	\$ (6,462,517)
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>307,374</u>
Change in cash and investments of governmental activities	<u>\$ (6,155,143)</u>

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

	General	Transportation Operating	Rainy Day	School Lunch	Debt Service	Capital Projects	School Bus Replacement	Construction	Other	Totals
Receipts:										
Local sources	\$ 4,138,168	\$ 857,360	\$ 57,362	\$ 498,765	\$ 3,055,212	\$ 1,905,372	\$ 199,723	\$ 25,310	\$ 166,668	\$ 10,903,940
Intermediate sources	445	-	-	-	-	-	-	-	638	1,083
State sources	7,686,383	-	-	16,511	-	-	-	-	98,859	7,801,753
Federal sources	230,008	-	-	152,068	-	-	-	-	367,889	749,965
Bonds and loans	-	-	-	-	-	32,200	32,200	-	-	64,400
Sale of property, adjustments and refunds	4,115	6,157	3,250,000	2,676	-	32,573	-	500,351	57,538	3,853,410
Interfund transfers	5,199	-	212,375	-	-	-	-	-	44,597	262,171
Intergovernmental transfers	95,475	-	-	-	-	-	-	-	-	95,475
Total receipts	12,159,793	863,517	3,519,737	670,020	3,055,212	1,970,145	231,923	525,661	736,189	23,732,197
Disbursements:										
Current:										
Instruction	6,414,788	-	-	-	-	-	-	-	319,567	6,734,355
Support services	4,053,531	788,270	-	569,668	-	1,582,283	175,528	944,230	241,272	8,354,782
Community services	152,565	-	-	-	-	-	-	-	5,067	157,632
Nonprogrammed charges	926,775	15,010	3,250,000	-	-	251,985	32,200	-	102,037	4,578,007
Debt services	-	-	-	-	3,103,500	-	-	-	-	3,103,500
Total disbursements	11,547,659	803,280	3,250,000	569,668	3,103,500	1,834,268	207,728	944,230	667,943	22,928,276
Excess (deficiency) of total receipts over (under) total disbursements	612,134	60,237	269,737	100,352	(48,288)	135,877	24,195	(418,569)	68,246	803,921
Cash and investments - beginning	1,291,056	280,945	1,634,589	298,046	71,611	1,903,947	143,370	425,662	354,396	6,403,622
Cash and investments - ending	\$ 1,903,190	\$ 341,182	\$ 1,904,326	\$ 398,398	\$ 23,323	\$ 2,039,824	\$ 167,565	\$ 7,093	\$ 422,642	\$ 7,207,543

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	\$ 803,921
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>337,849</u>
Change in cash and investments of governmental activities	<u>\$ 1,141,770</u>

FAIRFIELD COMMUNITY SCHOOLS
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	\$ 473,971
Transfers	797,669
Total receipts	1,271,640
Disbursements:	
Support services	964,266
Changes in cash and investments	307,374
Cash and investments - beginning	1,219,162
Cash and investments - ending	\$ 1,526,536

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

FAIRFIELD COMMUNITY SCHOOLS
 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	\$ 519,748
Sale of property, adjustments and refunds	390
Transfers	877,689
Total receipts	1,397,827
Disbursements:	
Support services	1,059,978
Changes in cash and investments	337,849
Cash and investments - beginning	1,526,536
Cash and investments - ending	\$ 1,864,385

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

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

	<u>Pension Trust Fund</u>
Additions:	
Intermediate sources	\$ 153,800
Deductions:	
Support services	<u>8,380</u>
Excess of total additions over total deductions	145,420
Cash and investments - beginning	<u>-</u>
Cash and investments - ending	<u><u>\$ 145,420</u></u>

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

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

	Pension Trust Fund
Additions	\$ -
Deductions:	
Support services	21,048
Nonprogrammed charges	41,168
Total deductions	62,216
Deficiency of total additions under total deductions	(62,216)
Cash and investments - beginning	145,420
Cash and investments - ending	\$ 83,204

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

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

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 145,420	\$ 10,598
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	<u>\$ 145,420</u>	

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

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

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 83,204	\$ 10,097
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	<u>\$ 83,204</u>	

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

FAIRFIELD 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: Fairfield Community Schools

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

Joint Venture

The School Corporation is a participant with Baugo, Concord, Goshen, Middlebury, and Wa-Nee Community Schools in a joint venture to operate Elkhart County Special Education Cooperative (ECSEC), which was created to provide instructions for handicapped children. The School Corporation is obligated by contract to remit \$476,147 for the 2005-2006 school year to supplement the ECSEC. The ECSEC pays its surplus to the participants. The ECSEC's continued existence depends on continued funding by the School Corporations. Complete financial statements for the ECSEC can be obtained from the Goshen Community Schools' administrative office at 613 East Purl Street, Goshen, IN 46526.

The School Corporation is a participant with Baugo, Concord, Goshen, Middlebury, and Wa-Nee Community Schools in a joint venture to operate Merit Learning Center of Elkhart County Cooperative (Cooperative), which was created to provide an alternative education program. The School Corporation was obligated by contract to remit \$17,351 for the 2005-2006 school year to supplement the Cooperative. The Cooperative's continued existence depends on continued funding by the School Corporations. Complete financial statements for the Cooperative can be obtained from the Goshen Community Schools' administrative office at 613 East Purl Street, Goshen, IN 46526.

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 the South Bend Community School Corporation's administrative office at 215 South St. Joseph Street, South Bend, IN 46601.

FAIRFIELD COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Jointly Governed Organization

The School Corporation, in conjunction with Wawasee Community Schools and West Noble Community Schools, has created the Wawasee Area Career and Technical Cooperative. The Wawasee Community Schools operates the Career and Technical Cooperative and maintains the accounting records.

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. 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 assets, liabilities, fund equity, 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 rainy day fund accounts for transfers of resources to fund severance and retirement benefits and for emergency and unforeseen circumstances.

The school lunch fund accounts for all collections and receipts and disbursements for the operation of cafeterias serving students' meals at each school building.

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.

FAIRFIELD COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

The construction fund is used to account for receipts and disbursements concerning the construction of a specific project.

Additionally, the School Corporation reports the following fund types:

The internal service fund accounts for the financial resources related to the health insurance of current employees and retirees on a premium cost basis.

The pension trust fund accounts for 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.

Agency funds account for assets held by the School Corporation as an agent for vendors for which deductions are made from employees pay. This fund also serves as a control of accounts 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The School Corporation has elected not to follow subsequent private-sector guidance.

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.

FAIRFIELD COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Property Taxes

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

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 10 to 13 days per year. Unused sick leave may be accumulated to a maximum of 114 days. A sick leave savings plan for all employees will allow any employee that accumulates the maximum number of sick days (114) to put their unused sick leave days for a given year into a sick day savings plan. The maximum number of sick days an employee may put into the sick day savings plan is 90 days. Accumulated sick leave is paid to employees upon retirement.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 3 days per year. Unused personal leave may be accumulated to a maximum of 4 to 5 days. Accumulated personal leave is not paid to employees upon retirement.

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.

FAIRFIELD COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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 and the similar discretely presented component unit 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 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.

FAIRFIELD COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

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

Government-Wide Financial Statements

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

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis 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

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.

III. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At June 30, 2006, the bank balance held at Farm Bureau Credit Union in the amount of \$20,316.27 was insured by a private insurance company, which insures their money market

FAIRFIELD COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

share accounts individually up to \$250,000. The remaining bank balances were insured by the Federal Deposit Insurance Corporation and 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:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2005</u>	<u>2006</u>
General Fund	Rainy Day Fund	\$ 1,200,000	\$ -
General Fund	Other governmental	2,226	-
General Fund	Internal Service	787,399	814,100
Transportation Fund	Internal Service	10,270	15,011
Transportation Fund	Other governmental	385	-
Capital Projects Fund	Transportation Fund	40,070	-
Capital Projects Fund	Rainy Day Fund	-	212,375
Capital Projects Fund	Other governmental	881	-
Capital Projects Fund	Internal Service	-	7,410
Bus Replacement Fund	Other governmental	125	-
Debt Service Fund	Other governmental	1,574	-
Other governmental	General Fund	2,342	5,199
Other governmental	Other governmental	4,548	44,597
Other governmental	Internal Service	-	41,168
		<u>\$ 2,049,820</u>	<u>\$ 1,139,860</u>
Totals			

The School Corporation typically uses transfers for cash flow purposes as provided by 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; 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.

FAIRFIELD COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 \$40,000 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 actual enrollee's plan choice (family/single) and then charged to the fund from which the enrollees are paid, and are reported as quasi-external interfund transactions.

B. Holding Corporations

The School Corporation has entered into a capital lease with Fairfield Jr.-Sr. High School Building Corporation, Fairfield Multi-School Building Corporation and Fairfield 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 building facilities under the lease are included in the capital assets supplemental schedule of the School Corporation and the corresponding lease obligation has been included in the governmental activities column of the supplemental schedule. Lease payments during the year totaled \$3,103,500.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health insurance benefits to all certified employees hired prior to June 1, 2002, as authorized by Indiana Code 5-10-8, who retire from the School Corporation on or after attaining age 55, with at least 15 years of service. Currently, 14 employees meet these eligibility requirements and 5 retirees are currently participating. The School Corporation provides 62% to 68% of the current monthly premium. This benefit is available for a maximum of 5 years postretirement. Noncertified employees who retire from the School Corporation with at least 20 years of service also receive a health insurance benefit. The School Corporation will pay up to \$3,500 per year towards a single health insurance premium and up to \$6,500 per year for a family health insurance premium. This benefit is available for noncertified employees for up to 3 years postretirement. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$41,168 were recognized for postemployment benefits.

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

Retirement annuity benefits are available to all certified employees hired prior to June 1, 2002, who retire from the School Corporation on or after attaining age 55 with at least 15 years of service. Currently, 15 employees meet these eligibility requirements and 19 retirees are receiving benefits. The School Corporation contributes \$7,028 per year into a Non-Elective 403(b) Plan Annuity. This benefit is available for a maximum of 5 years postretirement. Disbursements for these postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, \$111,840 of retirement benefits accrued. Disbursement of this benefit was made in July 2006.

FAIRFIELD COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 114,229
Interest on net pension obligation	(10,386)
Adjustment to annual required contribution	11,836
Annual pension cost	115,679
Contributions made	131,428
Decrease in net pension obligation	(15,749)
Net pension obligation, beginning of year	(143,260)
Net pension obligation, end of year	\$ (159,009)

FAIRFIELD COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

	PERF
Contribution rates:	
School Corporation	7%
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	\$ 109,363	115%	\$ (104,191)
	06-30-04	86,584	145%	(143,260)
	06-30-05	115,379	152%	(159,009)

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.

FAIRFIELD COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Plan members are required to contribute 3.00% of their salary and 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 \$181,714, \$163,304, and \$153,178, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

FAIRFIELD 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	\$ 1,695,522	\$ 1,734,895	\$ (39,373)	98%	\$ 1,705,718	(2%)
07-01-04	1,751,606	1,996,030	(244,424)	88%	1,877,327	(13%)
07-01-05	1,856,072	2,226,341	(370,269)	83%	1,976,404	(19%)

FAIRFIELD 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	\$ 493,650
Buildings	50,443,959
Improvements other than buildings	635,144
Machinery and equipment	<u>4,102,365</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 55,675,118</u>

FAIRFIELD COMMUNITY SCHOOLS
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Fairfield Multi-School Building Corporation	\$ 3,270,000	\$ 620,000
Fairfield Jr-Sr High School Building Corporation	\$ 4,650,000	\$ 265,000
Fairfield Building School Building Corporation	\$ 26,014,840	\$ 655,015
Total governmental activities long-term debt	<u>\$ 33,934,840</u>	<u>\$ 1,540,015</u>

FAIRFIELD COMMUNITY SCHOOLS
AUDIT RESULT AND COMMENT

NONUSE OF TICKET SALES FORM SA-4 FOR BAND AND
CHORAL CONCERTS (Applies to Jr.-Sr. High School)

We noted several instances where the Form SA-4 (Ticket Sales) was not used to properly account, through the Extra-Curricular Treasurer's records, for the revenue generated from both band and choral musical concerts. The revenue generated by these events, which involve both students and teachers of the School Corporation, is handled by band and choral booster clubs. As a result, full accountability for all money received from admissions to these band and choral concerts could not be determined since the revenue was not handled through the Extra-Curricular Treasurer's records. Tickets are sold and cash payments are taken at the time of admittance to the events, which are held in the High School facilities. The concerts are productions of these two High School departments. The booster clubs do not pay the High School for the performances like an outside contractor.

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)

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 FAIRFIELD COMMUNITY SCHOOLS, ELKHART COUNTY, INDIANA

Compliance

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

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

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to its major federal program for the years ended June 30, 2005 and 2006.

Internal Control Over Compliance

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

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

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

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

STATE BOARD OF ACCOUNTS

October 17, 2006

FAIRFIELD 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			
		FY 04-05	\$ 959	\$ -
		FY 05-06	-	2,000
Total for the program			959	2,000
National School Lunch Program	10.555			
		FY 04-05	153,063	-
		FY 05-06	-	164,900
Total for the program			153,063	164,900
Total for federal grantor agency			154,022	166,900
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Goshen Community Schools Special Education Cluster (IDEA) Special Education - Grants to States	84.027			
		FY 04-05	277,752	-
		FY 05-06	-	230,008
Total for cluster			277,752	230,008
Pass-Through Indiana Department of Education Title I Grants to Local Educational Agencies	84.010			
		04-2155	79,476	-
		05-2155	99,059	74,976
		06-2155	-	174,702
Total for program			178,535	249,678
Safe and Drug Free Schools and Communities - State Grants	84.186			
		02-254	86	-
		03-049	500	-
		04-011	8,327	157
		05-042	-	9,164
Total for program			8,913	9,321
State Grants for Innovative Programs	84.298			
		02-038	90	-
		03-151	1,054	-
		04-030	8,311	233
		05-087	-	5,737
Total for program			9,455	5,970

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

FAIRFIELD 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 (continued)				
Education Technology State Grants	84.318			
		FY 04-05	837	-
		FY 05-06	-	4,687
Total for program			<u>837</u>	<u>4,687</u>
English Language Acquisition Grants	84.365			
		FY 04-05	24,845	-
		FY 05-06	-	48,686
Total for program			<u>24,845</u>	<u>48,686</u>
Improving Teacher Quality State Grants	84.367			
		03-079	43,632	-
		04-057	19,471	41,155
		05-124	-	21,249
Total for program			<u>63,103</u>	<u>62,404</u>
Total for federal grantor agency			<u>563,440</u>	<u>610,754</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Pass-Through Indiana Department of Education				
Headstart	93.600			
		FY 04-05	2,918	-
		FY 05-06	-	4,504
Pass-Through South Bend Community Schools				
Headstart	93.600			
		FY 04-05	990	-
		FY 05-06	-	882
Total for federal grantor agency			<u>3,908</u>	<u>5,386</u>
Total federal awards expended			<u>\$ 721,370</u>	<u>\$ 783,040</u>

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

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

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

II. Noncash Assistance

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

Program Title	Federal CFDA Number	2005	2006
School Breakfast Program	10.553	\$ 216	\$ 412
National School Lunch Program	10.555	39,032	36,536

FAIRFIELD COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

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

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

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

Identification of Major Programs:

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

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

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

FAIRFIELD COMMUNITY SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

FAIRFIELD COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on November 28, 2006, with Michael D. Morehouse, President of the School Board; Thomas E. Tumey, Superintendent of Schools; Roger B. Zentz, Business Manager; and Linda L. Hire, Treasurer. The officials concurred with our audit finding.