

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

AUDIT REPORT  
OF

NORTH MONTGOMERY COMMUNITY  
SCHOOL CORPORATION  
MONTGOMERY COUNTY, INDIANA

July 1, 2005 to June 30, 2006



**FILED**  
01/31/2007



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#### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Linda K. Burkle	07-01-05 to 06-30-07
Superintendent of Schools	Dr. Robert E. Brower	07-01-05 to 06-30-07
President of the School Board	Gerald Hole	07-01-05 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 NORTH MONTGOMERY COMMUNITY  
SCHOOL CORPORATION, MONTGOMERY COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Montgomery Community School Corporation (School Corporation), as of and for the year ended June 30, 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, 2006, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated November 9, 2006, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

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

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Long-Term Debt is presented for additional analysis and is not a required part of the basic financial statements. The Schedule of Long-Term Debt has 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 it.

STATE BOARD OF ACCOUNTS

December 14, 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 NORTH MONTGOMERY COMMUNITY  
SCHOOL CORPORATION, MONTGOMERY COUNTY, INDIANA

We have audited the financial statements of the North Montgomery Community School Corporation (School Corporation), as of and for the year ended June 30, 2006, and have issued our report thereon dated December 14, 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

December 14, 2006

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 6,365,460
Restricted assets:	
Cash and investments	<u>2,054,835</u>
Total assets	<u>\$ 8,420,295</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 2,054,835
Unrestricted	<u>6,365,460</u>
Total net assets	<u>\$ 8,420,295</u>

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

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
STATEMENT OF CASH ACTIVITIES  
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 5,880,552	\$ -	\$ 108,964	\$ (5,771,588)
Support services	11,057,904	663,531	290,675	(10,103,698)
Community services	281,147	-	-	(281,147)
Nonprogrammed charges	611,487	-	-	(611,487)
Debt service	5,305,591	-	-	(5,305,591)
Total governmental activities	\$ 23,136,681	\$ 663,531	\$ 399,639	(22,073,511)
General receipts:				
Property taxes				17,021,637
Other local sources				2,377,553
State aid				6,522,763
Grants and contributions not restricted				679,230
Sale of property, adjustments, and refunds				88,618
Investment earnings				115,880
				26,805,681
Total general receipts				26,805,681
				4,732,170
Change in cash and investments				4,732,170
Net assets - beginning				3,688,125
Net assets - ending				\$ 8,420,295

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

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2006

	General	Transportation Operating	Rainy Day	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
<b>Receipts:</b>								
Local sources	\$ 6,952,349	\$ 2,796,555	\$ -	\$ 4,951,485	\$ 2,979,630	\$ 270,175	\$ 1,158,431	\$ 19,108,625
Intermediate sources	188	-	-	-	-	-	-	188
State sources	6,618,206	-	-	-	-	-	119,395	6,737,601
Federal sources	-	-	-	-	-	-	864,031	864,031
Sale of property, adjustments and refunds	10,107	4,798	-	-	3,439	-	46,262	64,606
Intergovernmental transfers	109,145	-	500,000	-	-	-	47,922	657,067
<b>Total receipts</b>	<b>13,689,995</b>	<b>2,801,353</b>	<b>500,000</b>	<b>4,951,485</b>	<b>2,983,069</b>	<b>270,175</b>	<b>2,236,041</b>	<b>27,432,118</b>
<b>Disbursements:</b>								
<b>Current:</b>								
Instruction	5,219,993	-	-	-	-	-	660,559	5,880,552
Support services	4,799,728	1,625,676	118,099	32,202	2,235,984	159,900	1,086,327	10,057,916
Community services	280,942	-	-	-	-	-	205	281,147
Nonprogrammed charges	585,965	505,899	-	-	6,095	-	170,595	1,268,554
Debt services	781,301	469,333	-	3,307,819	445,715	-	301,423	5,305,591
<b>Total disbursements</b>	<b>11,667,929</b>	<b>2,600,908</b>	<b>118,099</b>	<b>3,340,021</b>	<b>2,687,794</b>	<b>159,900</b>	<b>2,219,109</b>	<b>22,793,760</b>
Excess of total receipts over total disbursements	2,022,066	200,445	381,901	1,611,464	295,275	110,275	16,932	4,638,358
Cash and investments - beginning	313,928	72,952	1,876,169	286,080	124,455	42,797	449,750	3,166,131
Cash and investments - ending	<u>\$ 2,335,994</u>	<u>\$ 273,397</u>	<u>\$ 2,258,070</u>	<u>\$ 1,897,544</u>	<u>\$ 419,730</u>	<u>\$ 153,072</u>	<u>\$ 466,682</u>	<u>\$ 7,804,489</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	\$ 4,638,358
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>93,812</u>
Change in cash and investments of governmental activities	<u>\$ 4,732,170</u>

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
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	\$ 1,069,788
Sale of property, adjustments and refunds	<u>24,012</u>
Total receipts	1,093,800
Disbursements:	
Support services	<u>999,988</u>
Changes in cash and investments	93,812
Cash and investments - beginning	<u>521,994</u>
Cash and investments - ending	<u><u>\$ 615,806</u></u>

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

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
For The Year Ended June 30, 2006

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ 89,400	\$ 24,838
Sale of property, adjustments and refunds	-	1,500
Total additions	89,400	26,338
Deductions:		
Instruction	-	6,276
Support services	51,633	15,740
Community services	-	211
Nonprogrammed charges	38,163	1,000
Total deductions	89,796	23,227
Excess (deficiency) of total additions over (under) total deductions	(396)	3,111
Cash and investments - beginning	3,518,795	1,969
Cash and investments - ending	\$ 3,518,399	\$ 5,080

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

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
 STATEMENT OF CASH AND INVESTMENTS  
 FIDUCIARY FUNDS  
 June 30, 2006

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ 3,518,399	\$ 5,080
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 3,518,399	\$ 5,080

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

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
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.

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 8 other school corporations in a joint venture to operate West Central Indiana Special Services Cooperative which was created to provide instruction and vocational programs for special needs students. The School Corporation is obligated by contract to remit its proportional share of program costs annually. Complete financial statements for the West Central Indiana Special Service Cooperative can be obtained from Crawfordsville Community School Corporation at 1000 Fairview Avenue, Crawfordsville, IN 47933.

The School Corporation is a participant with 7 other school corporations in a joint venture to operate West Central Indiana Career and Technical Education Cooperative which was created to provide vocational programs for students. Administrative costs are divided equally among participants while program costs are prorated based on enrollment in the various programs. Complete financial statements for the West Central Indiana Career and Technical Education Cooperative can be obtained from Crawfordsville Community School Corporation at 1000 Fairview Avenue, Crawfordsville, IN 47933.

The School Corporation is a participant with 37 other school corporations in a joint venture to operate Wabash Valley Education Center which was created to provide educational services to school staff. Participating school corporations share programs and services which they collectively implement. Participation fees are based on ADM counts and service fees are based on purchases. Complete financial statements for the Wabash Valley Education Center can be obtained from West Lafayette School Corporation at 1130 N. Salisbury Avenue, West Lafayette, IN 47903.

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 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.

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 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 rainy day fund is to account for transfers of unused and unencumbered funds in accordance with Indiana Code 36-1-8-5 and a locally adopted resolution. The fund is subject to the same appropriation process as funds that receive tax money.

Additionally, the School Corporation reports the following fund types:

The internal service fund is a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents.

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

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

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.

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any enterprise funds.

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to December 31 of the year collected.

3. Compensated Absences

a. Sick Leave

Certified employees earn sick leave at the rate of 10 days per year. Unused sick leave may be accumulated to a maximum of 185 days for those certified personnel who had accumulated more than 120 days on August 12, 2001. For those certified personnel who had accumulated less than 120 days on August 12, 2001, the maximum accumulated sick leave is 120 days.

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Classified employees earn up to 10 days per year based on employee classification. Unused sick leave may be accumulated up to a maximum 45 days, 90 days, or 100 days based on employee classification.

Accumulated sick leave is not paid to employees upon termination.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 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 1 to 3 days per year. Personal leave does not accumulate from year to year but unused days are added to the sick leave balance up to the maximum allowed.

4. Capital Assets

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

5. Long-Term Debt

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

6. Equity Classification

Government-Wide Statements

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

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

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

Fund Financial Statements

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

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

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 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

Internal activities - Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Cash Activities 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 Cash Activities.

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.

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

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. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2006, were as follows:

Transfer From	Transfer To	2005
Transportation Fund	Rainy Day Fund	\$ 500,000
Other governmental	General Fund	109,145
Other governmental	Other governmental	47,922
Total		\$ 657,067

The School Corporation typically uses transfers to fund cash flow purposes in accordance with 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; and natural disasters.

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents (excluding postemployment benefits). The risk financing fund is accounted for in the Internal Service Fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$65,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all affected funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each affected fund and are reported as quasi-external interfund transactions.

B. Holding Corporations

The School Corporation has entered into capital leases with North Montgomery Elementary School Building Corporation and North Montgomery High 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 related parties of the School Corporation. Lease payments during the year totaled \$2,937,445.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment early retirement benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 50 with at least 12 years of service. Currently, 41 retirees meet these eligibility requirements. The School Corporation provides 100% of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$224,675 were recognized for post-employment 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

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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	\$ 13,915
Interest on net pension obligation	(4,445)
Adjustment to annual required contribution	5,066
Annual pension cost	14,536
Contributions made	11,601
Increase in net pension obligation	2,935
Net pension obligation, beginning of year	(61,312)
Net pension obligation, end of year	\$ (58,377)
Contribution rates:	
School Corporation	1%
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

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Assumptions	PERF
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	\$ 9,283	269%	\$ (47,337)
	06-30-04	5,520	353%	(61,312)
	06-30-05	14,536	210%	(58,377)

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

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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% 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 \$432,640, \$395,130, and \$375,402, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 1,155,805	\$ 732,244	\$ 423,561	158%	\$ 777,060	55%
07-01-04	1,141,889	775,783	366,106	147%	859,710	43%
07-01-05	1,150,397	803,428	346,969	143%	748,542	46%

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Elementary School Building	\$ 3,630,000	\$ 1,765,000
High School Building and sports facilities	12,413,472	585,000
Notes and loans payable	1,326,116	547,710
Bonds payable:		
General obligation bonds:		
Pension benefits	3,340,000	120,000
 Total governmental activities long-term debt	 \$ 20,709,588	 \$ 3,017,710

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS

PUBLIC PURCHASE LAW

A public purchase contract was awarded for playground equipment in the amount of \$250,788.

We noted the following from the information presented for audit concerning the bidder awarded the contract:

1. the bidder was not informed by public notice nor required to submit a certified check or other evidence of financial responsibility,
2. the bidder was not required to submit an affidavit:
  - (A) that the bidder has not entered into a combination or agreement:
    - (i) relative to the price to be bid by a person;
    - (ii) to prevent a person from bidding; or
    - (iii) to induce a person to refrain from bidding; and
  - (B) that the bidder's bid is made without reference to any other bid.
3. the Board minutes do not indicate why the bidder was awarded the contract instead of the lowest bidder.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Indiana Code 5-22-7-2 states in part: "An invitation for bids must include the following: . . .A statement concerning whether the bid must be accompanied by a certified check or other evidence of financial responsibility that may be imposed in accordance with rules or policies of the governmental body."

Indiana Code 5-22-16-6 (a) states: "An offeror must file with the purchasing agent an affirmation, made under the penalties for perjury, that states in substance the following:

- (1) The offeror has not entered into a combination or an agreement:
  - (A) relative to the price to be offered by a person;
  - (B) to prevent a person from making an offer; or
  - (C) to induce a person to refrain from making an offer.
- (2) The offeror's offer is made without reference to any other offer."

Indiana Code 5-22-17-12 (c) states: "If the purchasing agent awards a contract for a line or class of supplies or services, or any combination of lines or classes, to an offeror other than the lowest offeror, the purchasing agent must make a written determination stating the reasons for awarding a contract to that offeror.

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

PUBLIC WORKS CONTRACT IN EXCESS OF \$100,000

A public works contract was awarded for removal of old playground equipment and installation of new playground equipment in the amount of \$158,940. Total payments to the contractor were \$163,935 or \$4,995 more than the awarded contract for additional work performed. However, no change orders were presented and approved by the School Board authorizing an increase in the contract.

We noted the following from the information presented for audit concerning the bidder awarded the contract:

1. No retainage was withheld from portions of payments to the contractor,
2. the bidder was not informed by the public notice nor required to submit a financial statement, a proposed plan or plans for performing the public work, and the available equipment for such public work on the prescribed form (Contractor's Bid for Public Work Form 96),
3. the bidder was not required to submit an affidavit:
  - (A) that the bidder has not entered into a combination or agreement:
    - (i) relative to the price to be bid by a person;
    - (ii) to prevent a person from bidding; or
    - (iii) to induce a person to refrain from bidding; and
  - (B) that the bidder's bid is made without reference to any other bid.
4. the bidder was not required to submit a bond or a certified check with the bid, and
5. upon acceptance of the bid, the bidder was not required to execute a payment bond to the School Corporation, approved by and for the benefit of the School Corporation, in an amount equal to the contract price.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Indiana Code 36-1-12-18 (a) states: "If, in the course of the construction, reconstruction, or repair of a public work project, it becomes necessary to change or alter the original specifications, a change order may be issued to add, delete, or change an item or items in the original contract. The change order becomes an addendum to the contract and must be approved and signed by the board and the contractor."

Indiana Code 36-1-12-14 (b) states in part: "A board that enters into a contract for public work, and a contractor who subcontracts parts of that contract, shall include in their respective contracts provisions for the retainage of portions of payments by the board to contractors, by contractors to subcontractors, and for the payment of subcontractors. Either the board or contractor, or both, shall place the retainage in an escrow account, with a bank, savings and loan institution, or the state as the escrow agent. The escrow agent shall be selected by mutual agreement between board and contractor or contractor and subcontractor under a written agreement among the bank or savings and loan institution . . ."

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

Indiana Code 36-1-12-4 (b) states in part: "If the cost of a project is one hundred thousand dollars (\$100,000) or more, the board shall require the bidder to submit a financial statement, a statement of experience, a proposed plan or plans for performing the public work, and the equipment that the bidder has available for the performance of the public work. The statement shall be submitted on forms prescribed by the state board of accounts . . . The board shall require the bidder to submit an affidavit:

(A) that the bidder has not entered into a combination or agreement:

- (i) relative to the price to be bid by a person;
- (ii) to prevent a person from bidding; or
- (iii) to induce a person to refrain from bidding; and

(B) that the bidder's bid is made without reference to any other bid."

Indiana Code 36-1-12-4.5 (a) states: "A bond or a certified check shall be filed with each bid by a bidder in the amount determined and specified by the board in the notice of the letting."

Indiana Code 36-1-12-13.1 states in part: "The contractor shall execute a payment bond to the appropriate political subdivision or agency, approved by and for the benefit of the political subdivision or agency, in an amount equal to the contract price. The payment bond is binding on the contractor, the subcontractor, and their successors and assigns for the payment of all indebtedness to a person for labor and service performed, material furnished, or services rendered. The payment bond must state that it is for the benefit of the subcontractors, laborers, material suppliers, and those performing services. . . . The payment bond shall be deposited with the board."

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



# STATE OF INDIANA

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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 NORTH MONTGOMERY COMMUNITY  
SCHOOL CORPORATION, MONTGOMERY COUNTY, INDIANA

### Compliance

We have audited the compliance of the North Montgomery Community School Corporation (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 year ended June 30, 2006. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

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

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 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

December 14, 2006

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended June 30, 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
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	FY 05-06	\$ 45,504
National School Lunch Program	10.555	FY 05-06	<u>231,852</u>
Total for cluster			<u>277,356</u>
Team Nutrition Grant	10.574	FY 05-06	<u>500</u>
Total for federal grantor agency			<u>277,856</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Crawfordsville Community School Corporation			
Special Education Cluster			
Special Education - Grants to States	84.027	FY 05-06	441,529
Special Education - Preschool Grants	84.173	FY 05-06	<u>14,565</u>
Total for cluster			<u>456,094</u>
Pass-through Indiana Department of Education			
Title 1 Grants to Local Educational Agencies	84.010	05-5835 06-5835	12,585 <u>130,281</u>
Total for program			<u>142,866</u>
Safe and Drug Free Schools and Communities - State Grants	84.186	03-098 04-101 05-070	18 2,537 <u>4,081</u>
Total for program			<u>6,636</u>
Pass-through Indiana Department of Workforce Development			
Tech Prep Education	84.243	TP-4-216	<u>3,378</u>
Pass-through Indiana Department of Education			
State Grants for Innovative Programs	84.298	05-138	<u>10,420</u>
Education Technology State Grants	84.318	FY 05-06	<u>5,302</u>
Improving Teacher Quality State Grants	84.367	04-013 05-095	19,865 <u>21,910</u>
Total for program			<u>41,775</u>
Total for federal grantor agency			<u>666,471</u>
Total federal awards expended			<u>\$ 944,327</u>

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

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
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 North Montgomery Community School Corporation (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.

II. Noncash Assistance

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

Program Title	Federal CFDA Number	2006
School Breakfast Program	10.553	\$ 4,106
National School Lunch Program	10.555	20,379

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
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

Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

NORTH MONTGOMERY COMMUNITY SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on December 14, 2006, with Jim McBee, Business Manager; Linda K. Burkle, Treasurer; and Colleen Moran, Assistant Superintendent of Schools. The officials concurred with our audit findings.