

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

AUDIT REPORT

OF

FREMONT COMMUNITY SCHOOLS

STEBEN COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED
03/27/2007

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|--|--|
| Treasurer | Judith K. Cleckner Shayne Tresenriter | 07-01-04 to 06-30-05 07-01-05 to 06-30-07 |
| Superintendent of Schools | Ben J. Roederer | 07-01-04 to 06-30-07 |
| President of the School Board | Steve Foley Tim Knoblauch | 07-01-04 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 FREMONT COMMUNITY SCHOOLS, STEUBEN COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fremont 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 accordance with Government Auditing Standards, we have also issued a report dated March 1, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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.

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

March 1, 2007



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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 FREMONT COMMUNITY SCHOOLS, STEUBEN COUNTY, INDIANA

We have audited the financial statements of the Fremont Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated March 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

STATE BOARD OF ACCOUNTS

March 1, 2007

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

| <u>Assets</u> | <u>Governmental Activities</u> |
|----------------------|------------------------------------|
| Current assets: | |
| Cash and investments | <u>\$ 703,026</u> |
| <u>Net Assets</u> | |
| Unrestricted | <u>\$ 703,026</u> |

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

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

| <u>Assets</u> | <u>Governmental Activities</u> |
|-----------------------|------------------------------------|
| Current assets: | |
| Cash and investments | \$ 3,542,884 |
| Restricted assets: | |
| Cash and investments | <u>239,784</u> |
| Total assets | <u>\$ 3,782,668</u> |
| <u>Net Assets</u> | |
| Restricted for: | |
| Debt service | \$ 239,784 |
| Unrestricted | <u>3,542,884</u> |
| Total net assets | <u>\$ 3,782,668</u> |

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

FREMONT COMMUNITY SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

| Functions/Programs | Disbursements | Program Receipts | | Net Disbursement |
|--|---------------|----------------------|------------------------------------|------------------|
| | | Charges for Services | Operating Grants and Contributions | Total |
| Governmental activities: | | | | |
| Instruction | \$ 4,709,753 | \$ - | \$ 57,688 | \$ (4,652,065) |
| Support services | 4,975,183 | 377,459 | 194,029 | (4,403,695) |
| Community services | 330,027 | - | - | (330,027) |
| Nonprogrammed charges | 1,704,828 | - | - | (1,704,828) |
| Debt service | 7,531,810 | - | - | (7,531,810) |
| Total governmental activities | \$ 19,251,601 | \$ 377,459 | \$ 251,717 | (18,622,425) |
| General receipts: | | | | |
| Property taxes | | | | 7,982,000 |
| Other local sources | | | | 1,220,592 |
| State aid | | | | 2,373,447 |
| Grants and contributions not restricted | | | | 1,262,824 |
| Bonds and loans | | | | 4,380,528 |
| Sale of property, adjustments, and refunds | | | | 34,513 |
| Investment earnings | | | | 17,673 |
| Intergovernmental transfers | | | | 466,272 |
| Total general receipts and intergovernmental transfers | | | | 17,737,849 |
| Change in cash and investments | | | | (884,576) |
| Net assets - beginning | | | | 1,587,602 |
| Net assets - ending | | | | \$ 703,026 |

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

FREMONT COMMUNITY SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

| Functions/Programs | Disbursements | Program Receipts | | Net Disbursement |
|--|---------------|----------------------|------------------------------------|------------------|
| | | Charges for Services | Operating Grants and Contributions | Total |
| Governmental activities: | | | | |
| Instruction | \$ 4,895,081 | \$ - | \$ 27,286 | \$ (4,867,795) |
| Support services | 5,556,100 | 349,886 | 220,884 | (4,985,330) |
| Community services | 305,026 | - | - | (305,026) |
| Nonprogrammed charges | 1,584,733 | - | - | (1,584,733) |
| Debt service | 6,211,007 | - | - | (6,211,007) |
| Total governmental activities | \$ 18,551,947 | \$ 349,886 | \$ 248,170 | (17,953,891) |
| General receipts: | | | | |
| Property taxes | | | | 13,085,929 |
| Other local sources | | | | 1,700,835 |
| State aid | | | | 1,992,604 |
| Grants and contributions not restricted | | | | 994,913 |
| Bonds and loans | | | | 2,638,884 |
| Sale of property, adjustments, and refunds | | | | 285,829 |
| Investment earnings | | | | 42,777 |
| Intergovernmental transfers | | | | 291,762 |
| Total general receipts and intergovernmental transfers | | | | 21,033,533 |
| Change in cash and investments | | | | 3,079,642 |
| Net assets - beginning | | | | 703,026 |
| Net assets - ending | | | | \$ 3,782,668 |

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

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

| | General | Transportation Operating | Debt Service | Capital Projects | School Bus Replacement | Construction | Other | Totals |
|---|-------------------|-----------------------------|--------------------|---------------------|---------------------------|-------------------|---------------------|-------------------|
| Receipts: | | | | | | | | |
| Local sources | \$ 4,529,277 | \$ 887,461 | \$ 1,861,979 | \$ 1,543,007 | \$ 217,663 | \$ - | \$ 556,448 | \$ 9,595,835 |
| Intermediate sources | 165 | - | - | - | - | - | - | 165 |
| State sources | 2,431,724 | - | - | - | - | - | 216,529 | 2,648,253 |
| Federal sources | - | - | - | - | - | - | 1,239,735 | 1,239,735 |
| Bonds and loans | 2,200,000 | 270,000 | 830,000 | 580,000 | - | 500,528 | - | 4,380,528 |
| Sale of property, adjustments and refunds | 7,786 | 4,252 | - | 1,505 | - | - | 20,969 | 34,512 |
| Intergovernmental transfers | 229,546 | 60,717 | - | - | - | - | 176,009 | 466,272 |
| Total receipts | 9,398,498 | 1,222,430 | 2,691,979 | 2,124,512 | 217,663 | 500,528 | 2,209,690 | 18,365,300 |
| Disbursements: | | | | | | | | |
| Current: | | | | | | | | |
| Instruction | 3,817,895 | - | - | - | - | - | 891,858 | 4,709,753 |
| Support services | 1,957,215 | 736,658 | - | 1,368,066 | 99,356 | 10,012 | 716,721 | 4,888,028 |
| Community services | 94,117 | - | - | - | - | - | 235,910 | 330,027 |
| Nonprogrammed charges | 927,564 | 116,195 | 60,717 | 245,671 | - | - | 354,681 | 1,704,828 |
| Debt services | 3,111,857 | 600,900 | 2,585,438 | 1,233,615 | - | - | - | 7,531,810 |
| Total disbursements | 9,908,648 | 1,453,753 | 2,646,155 | 2,847,352 | 99,356 | 10,012 | 2,199,170 | 19,164,446 |
| Excess (deficiency) of total receipts over (under) total disbursements | (510,150) | (231,323) | 45,824 | (722,840) | 118,307 | 490,516 | 10,520 | (799,146) |
| Cash and investments - beginning | 1,095,529 | 232,686 | (108,819) | 697,717 | 107,002 | - | (316,269) | 1,707,846 |
| Cash and investments - ending | <u>\$ 585,379</u> | <u>\$ 1,363</u> | <u>\$ (62,995)</u> | <u>\$ (25,123)</u> | <u>\$ 225,309</u> | <u>\$ 490,516</u> | <u>\$ (305,749)</u> | <u>\$ 908,700</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 | \$ (799,146) |
| 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>(85,430)</u> |
| Change in cash and investments of governmental activities | <u>\$ (884,576)</u> |

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

| | General | Transportation Operating | Debt Service | Capital Projects | School Bus Replacement | Construction | Other | Totals |
|---|---------------------|-----------------------------|-------------------|---------------------|---------------------------|-------------------|---------------------|---------------------|
| Receipts: | | | | | | | | |
| Local sources | \$ 7,568,986 | \$ 1,378,164 | \$ 2,709,328 | \$ 2,064,083 | \$ 159,916 | \$ - | \$ 1,098,556 | \$ 14,979,033 |
| Intermediate sources | 165 | - | - | - | - | - | - | 165 |
| State sources | 2,019,846 | - | - | - | - | - | 245,718 | 2,265,564 |
| Federal sources | - | - | - | - | - | - | 970,123 | 970,123 |
| Bonds and loans | 1,772,834 | 254,765 | 180,800 | 422,304 | - | - | 8,181 | 2,638,884 |
| Sale of property, adjustments and refunds | 31,300 | 267 | - | 72 | - | 83,480 | 7,513 | 122,632 |
| Intergovernmental transfers | - | - | - | - | - | - | 291,762 | 291,762 |
| Total receipts | <u>11,393,131</u> | <u>1,633,196</u> | <u>2,890,128</u> | <u>2,486,459</u> | <u>159,916</u> | <u>83,480</u> | <u>2,621,853</u> | <u>21,268,163</u> |
| Disbursements: | | | | | | | | |
| Current: | | | | | | | | |
| Instruction | 3,905,370 | - | - | - | - | - | 989,711 | 4,895,081 |
| Support services | 2,253,929 | 626,172 | 489 | 1,301,829 | 205,812 | 469,983 | 609,219 | 5,467,433 |
| Community services | 93,517 | - | - | - | - | - | 211,509 | 305,026 |
| Nonprogrammed charges | 1,204,725 | 121,503 | 8,181 | - | - | - | 250,324 | 1,584,733 |
| Debt services | 2,200,000 | 270,000 | 2,579,326 | 580,000 | - | - | 581,681 | 6,211,007 |
| Total disbursements | <u>9,657,541</u> | <u>1,017,675</u> | <u>2,587,996</u> | <u>1,881,829</u> | <u>205,812</u> | <u>469,983</u> | <u>2,642,444</u> | <u>18,463,280</u> |
| Excess (deficiency) of total receipts over (under) total disbursements | 1,735,590 | 615,521 | 302,132 | 604,630 | (45,896) | (386,503) | (20,591) | 2,804,883 |
| Cash and investments - beginning | 585,379 | 1,363 | (62,995) | (25,123) | 225,309 | 490,516 | (305,749) | 908,700 |
| Cash and investments - ending | <u>\$ 2,320,969</u> | <u>\$ 616,884</u> | <u>\$ 239,137</u> | <u>\$ 579,507</u> | <u>\$ 179,413</u> | <u>\$ 104,013</u> | <u>\$ (326,340)</u> | <u>\$ 3,713,583</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 | \$ 2,804,883 |
| 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>274,759</u> |
| Change in cash and investments of governmental activities | <u>\$ 3,079,642</u> |

FREMONT 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 | \$ 1,725 |
| Transfers | 1,460,117 |
| Total receipts | 1,461,842 |
| Disbursements: | |
| Support services | 1,547,272 |
| Changes in cash and investments | (85,430) |
| Cash and investments - beginning | (120,244) |
| Cash and investments - ending | \$ (205,674) |

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

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

| | <u>Internal Service Fund</u> |
|---|--------------------------------------|
| Receipts: | |
| Local sources | \$ 200,229 |
| Sale of property, adjustments and refunds | 163,197 |
| Transfers | <u>1,312,874</u> |
| Total receipts | <u>1,676,300</u> |
| Disbursements: | |
| Support services | <u>1,401,541</u> |
| Changes in cash and investments | 274,759 |
| Cash and investments - beginning | <u>(205,674)</u> |
| Cash and investments - ending | <u><u>\$ 69,085</u></u> |

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

FREMONT 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: | |
| Local sources | \$ 1,148 |
| Bonds and loans | <u>3,506,758</u> |
| Total additions | <u>3,507,906</u> |
| Deductions: | |
| Support services | 2,770,612 |
| Nonprogrammed charges | <u>396,451</u> |
| Total deductions | <u>3,167,063</u> |
| Excess of total additions over total deductions | 340,843 |
| Cash and investments - beginning | <u>-</u> |
| Cash and investments - ending | <u>\$ 340,843</u> |

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

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

| | Pension Trust Fund |
|---|-----------------------|
| Deductions: | |
| Support services | \$ 92,480 |
| Deficiency of total additions under total deductions | (92,480) |
| Cash and investments - beginning | 340,843 |
| Cash and investments - ending | \$ 248,363 |

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

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

| <u>Assets</u> | <u>Pension Trust Fund</u> | <u>Agency Funds</u> |
|--|-------------------------------|-----------------------------|
| Cash and investments | \$ 340,843 | \$ 334,212 |
| | <u> </u> | <u> </u> |
| <u>Net Assets</u> | | |
| Held in trust for employee benefits and other purposes | \$ 340,843 | |
| | <u> </u> | |

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

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

| <u>Assets</u> | <u>Pension Trust Fund</u> | <u>Agency Funds</u> |
|--|-------------------------------|-------------------------|
| Cash and investments | <u>\$ 248,363</u> | <u>\$ 258,370</u> |
| <u>Net Assets</u> | | |
| Held in trust for employee benefits and other purposes | <u>\$ 248,363</u> | |

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

FREMONT 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: Fremont Community Schools

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

Jointly Governed Organizations

The School Corporation is a participant with other interested school corporations in DeKalb, LaGrange, Noble, and Steuben Counties in a joint venture to operate the Four County Area Vocational Cooperative (Co-op) which was created to provide vocational instruction for children. The School Corporation is obligated by contract to remit an amount annually to supplement the Co-op. Complete financial statements for the Co-op can be obtained from Garrett-Keyser-Butler School Corporation, 801 Houston Street, Garrett, Indiana, 46738.

The School Corporation is a participant with other interested school corporations in DeKalb, LaGrange, Noble, and Steuben Counties, in a joint venture to operate the Northeast Indiana Special Education Cooperative (Co-op) which was created to provide programs and services for children with exceptional needs. The School Corporation is obligated by contract to remit an amount annually to supplement the Co-op. Complete financial statements for the Co-op can be obtained from DeKalb County Eastern Community School Corporation, 300 East Washington Street, Butler, Indiana, 46721.

The School Corporation is a participant with other interested school corporations in LaGrange and Steuben Counties in a joint venture to operate the Educational Opportunity Center Cooperative (Co-op) which was created to provide alternative means to achieve high school credit. The School Corporation is obligated by contract to remit an amount annually based upon the number of students attending to supplement the Co-op. Complete financial statements for the Co-op can be obtained from Metropolitan School Corporation of Steuben County, 400 South Martha Street, Angola, Indiana, 46703.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

FREMONT COMMUNITY SCHOOLS
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 construction fund is used to account for receipts and disbursements for the replacement of the high schools' roof.

Additionally, the School Corporation reports the following fund types:

The internal service fund services the risk of loss related to employee health claims. An excess policy through commercial insurance covers individual claims in excess of \$50,000 per family per year.

The pension trust funds account for the activities of the retirees, which accumulate resources for pension benefit payments.

Agency funds account for assets held by the School Corporation as an agent for other governments and private organizations, and serve as 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.

FREMONT COMMUNITY SCHOOLS
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 other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any enterprise funds. There is only internal service fund for self-insurance. This fund is supported by a workers' compensation rate charged by all funds that incur a salary expense and from all transfers from the 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 June 30 of the year collected.

3. Compensated Absences

a. Sick Leave

Certified personnel (teachers) earn sick leave at the rate of 10 days the first school year and 7 days each year thereafter. Unused sick leave may be accumulated to a maximum of 200 days. Accumulated sick leave for certified personnel is paid to employees through cash payments of \$30 to \$27 per day of sick leave accumulated, up to a maximum of 200 days depending upon the years of service at termination. Noncertified personnel earn sick leave at

FREMONT COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

the rate of 7 days per school year. Unused sick leave may be accumulated to a maximum of 75 days. Accumulated sick leave for noncertified personnel who have qualified for retirement under PERF and have ten years of service with Fremont Community Schools is paid to employees through cash payments of \$15 per day of sick leave accumulated, up to a maximum of 75 days.

b. Vacation Leave

Certified personnel do not earn vacation leave because they are contracted for less than a full year. Noncertified School Corporation employees earn vacation leave at rates from 10 days to 20 days per school year based upon the number of years of service. Administrators on extended contracts earn vacation leave of 20 days per school year. 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 school year. Personal leave does not accumulate from year to year.

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.

FREMONT COMMUNITY SCHOOLS
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, and (2) operating grants and contributions. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

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

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

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

Government-Wide Financial Statements

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

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

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

B. Disbursements in Excess of Appropriations

For the years ended June 30, 2005 and 2006, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

| Fund | 2005 | 2006 |
|------------------------------|-----------|----------|
| Special Education Pre-school | \$ 25,702 | \$ 1,712 |

C. Cash and Investment Balance Deficits

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

| Fund | Balance 06-30-05 | Balance 06-30-06 |
|------------------------------|---------------------|---------------------|
| Debt Service | \$ 62,995 | \$ - |
| Capital Projects | 25,122 | - |
| Special Education Pre-School | 61,323 | 12,501 |
| School Lunch | 63,621 | 28,103 |
| Self-Insurance | 205,674 | - |
| Education Plates | 1,918 | 1,580 |
| DOE Library Grant | 2,957 | - |
| Latchkey Program | 9,840 | 4,318 |
| Day Care Program | 186,800 | 289,283 |

FREMONT COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

| Fund | Balance 06-30-05 | Balance 06-30-06 |
|-------------------------------|---------------------|---------------------|
| Title I 04/05 | - | 235 |
| Title VI 00-01 | 11,978 | 11,978 |
| Anti-Drug Abuse | 2,401 | - |
| ICI 99 | - | 186 |
| Title II 2002 | 3,957 | 4,396 |
| Vocation Education - Grant PE | 50,555 | - |
| Head Start 04/05 | - | 41,995 |
| Head Start 05/06 | - | 181,621 |
| Head Start Food Service | 99,492 | 83,993 |
| Title IV/Pt A/02-03 | 1,849 | 4,109 |
| Cass Size Reduction | 3,232 | 3,232 |
| Totals | \$ 793,714 | \$ 667,530 |

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

III. Detailed Notes on All Funds

A. Deposits and Investments

1. 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.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13.

B. Interfund Transfers

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

FREMONT COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

| Transfer From | Transfer To | 2005 | 2006 |
|--------------------|--------------------|-------------------|-------------------|
| General Fund | Other governmental | \$ - | \$ 74,637 |
| Major Fund | Major Fund | 60,717 | - |
| | Other governmental | - | 61,498 |
| Other governmental | General Fund | 229,546 | 132,913 |
| | Other governmental | 176,009 | 22,714 |
| Totals | | <u>\$ 466,272</u> | <u>\$ 291,762</u> |

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

C. Restatements and Reclassifications

For the year ended June 30, 2004, certain changes have been made to the financial statements to more appropriately reflect financial activity of the School Corporation. The following schedule presents a summary of restated beginning balances by fund. Prior period adjustments represent an error in the report.

| Fund | Balance as Reported June 30, 2004 | Prior Period Adjustments | Balance as Restated July 1, 2004 |
|----------------|--|--------------------------------|---|
| General | \$ 1,695,528 | \$ (599,999) | \$ 1,095,529 |
| Transportation | 202,328 | 30,358 | 232,686 |
| Debt Service | (678,460) | 569,641 | (108,819) |

IV. Other Information

A. Risk Management

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

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; 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. Risk financing is not utilized for the other risks of loss.

Group Health Insurance (Medical Benefits to Employees)

The School Corporation's Self-Insurance Fund, an internal services fund, services the risk of loss related to employee health claims. An excess policy through commercial insurance covers individual claims in excess of \$50,000 per family per year. Settled claims resulting from this risk did not exceed

FREMONT COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

commercial insurance coverage in the past year. Amounts are paid into the fund by all insurance funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based primarily upon the percentage of each fund's current year payroll as it relates to total payroll and are reported as quasi-external interfund transactions. Provisions are also made for unexpected and unusual claims.

B. Holding Corporation

The School Corporation has entered into capital leases with Fremont Community School Improvement Building Corporation and Fremont Middle 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 has been determined to be related parties of the School Corporation. Lease payments during the years 2005 and 2006 totaled \$1,440,783 and \$1,433,132, respectively.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment medical insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 55 until the age of 65 with at least ten years of service. Currently, three 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 audit period, disbursements of \$21,408 were recognized for postemployment benefits.

D. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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

FREMONT COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

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

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

Actuarial Information for the Above Plan

| | PERF |
|--|--|
| Annual required contribution | \$ 82,826 |
| Interest on net pension obligation | (7,297) |
| Adjustment to annual required contribution | 8,316 |
| Annual pension cost | 83,845 |
| Contributions made | 101,992 |
| Decrease in net pension obligation | (18,147) |
| Net pension obligation, beginning of year | (100,653) |
| Net pension obligation, end of year | \$ (118,800) |
| Contribution rates: | |
| School Corporation | 6.75% |
| Plan members | 3% |
| Actuarial valuation date | 07-01-05 |
| Actuarial cost method | Entry age |
| Amortization method | Level percentage of projected payroll, closed |
| Amortization period | 40 years |
| Amortization period (from date) | 07-01-97 |
| Asset valuation method | 75% of expected actuarial value plus 25% of market value |

Actuarial Assumptions

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

FREMONT COMMUNITY SCHOOLS
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Three Year Trend Information

| | Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|------|----------------|---------------------------------|-------------------------------------|------------------------------|
| PERF | 06-30-03 | \$ 99,682 | 109% | \$ (75,177) |
| | 06-30-04 | 78,821 | 132% | (100,653) |
| | 06-30-05 | 83,845 | 129% | (118,800) |

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

Teachers' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Costs

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

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 \$121,111, \$127,998, and \$117,545, respectively. The School Corporation actually contributed 100%, of the required contributions for each of the fiscal years, respectively.

FREMONT COMMUNITY SCHOOLS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Excess of Assets Over (Unfunded) AAL (a-b) | Funded Ratio (a/b) | Covered Payroll (c) | Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c) |
|--------------------------------|--|---|--|--------------------------|---------------------------|--|
| 07-01-03 | \$ 1,366,501 | \$ 1,352,081 | \$ 14,420 | 101% | \$ 1,562,448 | 1% |
| 07-01-04 | 1,412,918 | 1,438,475 | (25,557) | 98% | 1,538,850 | (2%) |
| 07-01-05 | 1,493,652 | 1,684,759 | (191,107) | 89% | 1,613,479 | (12%) |

FREMONT 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 | \$ 270,775 |
| Buildings | 30,534,000 |
| Improvements other than buildings | 943,000 |
| Machinery and equipment | <u>3,384,507</u> |
| Total governmental activities, capital assets not being depreciated | <u>\$ 35,132,282</u> |

FREMONT COMMUNITY SCHOOLS
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

The school corporation has entered into the following long-term debt obligation:

| Description of Debt | Ending Balance | Due Within One Year |
|--|----------------------|---------------------------|
| Governmental Activities: | | |
| Capital leases: | | |
| Team Building | \$ 2,000,000 | \$ 80,000 |
| Middle School Building | 8,280,000 | 1,180,000 |
| Improvements Buildings | 265,000 | 175,000 |
| Energy Savings Contract | 377,852 | 249,306 |
| Notes and loans payable | 2,630,703 | 2,630,703 |
| Bonds payable: | | |
| General obligation bonds: | | |
| Pension Liability | 3,185,000 | 220,000 |
| High School Roof | <u>500,000</u> | <u>40,000</u> |
| Total governmental activities long-term debt | <u>\$ 17,238,555</u> | <u>\$ 4,575,009</u> |

FREMONT COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

OVERDRAWN FUND BALANCES (Fremont Middle School)

Several funds were overdrawn in the 2005-2006 school year, including the following:

- Phys. Ed fund, \$77.82,
- Interest fund, \$150.83,
- Fundraiser fund, \$1,607.41,
- 7th Team fund, \$15.44.

The balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

OUTSIDE ORGANIZATIONS (Fremont Middle School)

Financial records indicate that monies from the PTO were accounted for in the Extra-Curricular Accounts.

Indiana Code 41-1-7 states in part: "The treasurer shall have charge of the custody and disbursement of any funds . . . incurred in conducting any athletic, social, or other school function (other than functions conducted solely by any organization of parents and teachers) . . ." Therefore, activities and organizations which are not extra-curricular in nature should be responsible for their own accounting and cash handling systems. The extra-curricular account should not collect, receipt, remit, or disburse outside organization's monies. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

| <u>Fund</u> | <u>Years</u> | <u>Excess Amount Expended</u> |
|------------------------------|--------------|---------------------------------------|
| Special Education Pre-school | 2004-2005 | \$ 25,702 |
| Special Education Pre-school | 2005-2006 | 1,712 |

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

TRANSPORTATION FUND EXPENDITURES - PRINCIPALS AND TEACHERS

Portions of the principals, teachers, athletic directors, secretaries, and custodians salaries were paid from the Transportation Fund and the General Fund. The amount of salaries in question paid for FY 2004-05 and FY 2005-06 were \$196,217 and \$30,621, respectively. A similar comment was in prior Audit Reports B16154, B20231 and B24484.

FREMONT COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 21-2-11.5-2(b), School Transportation Fund, states in part: "The costs attributable to transportation include the following: (1) The salaries paid bus drivers, transportation supervisors, mechanics and garage employees, clerks, and other transportation-related employees . . ."

Effective July 1, 1995, Indiana Code 21-2-11.5-2(c) states: "Beginning January 1, 1996, portions, percentages, or parts of salaries of teaching personnel or principals are not attributable to transportation. However, parts of salaries of instructional aides who are assigned to assist with the school transportation program are attributable to transportation. The costs described in this subsection (other than instructional aide costs) may not be budgeted for payment or paid from the school transportation fund."

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

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

OVERDRAWN CASH BALANCES

The following cash balances of funds were overdrawn at June 30, 2005 and 2006:

| Fund | Balance 06-30-05 | Balance 06-30-06 |
|------------------------------|---------------------|---------------------|
| Debt Service | \$ 62,995 | \$ - |
| Capital Projects | 25,122 | - |
| Special Education Pre-School | 61,323 | 12,501 |
| School Lunch | 63,621 | 28,103 |
| Self-Insurance | 205,674 | - |
| Education Plates | 1,918 | 1,580 |
| DOE Library Grant | 2,957 | - |
| Latchkey Program | 9,840 | 4,318 |
| Day Care Program | 186,800 | 289,283 |

FREMONT COMMUNITY SCHOOLS
 AUDIT RESULTS AND COMMENTS
 (Continued)

| Fund | Balance 06-30-05 | Balance 06-30-06 |
|-------------------------------|---------------------|---------------------|
| Title I 04/05 | - | 235 |
| Title VI 00-01 | 11,978 | 11,978 |
| Anti-Drug Abuse | 2,401 | - |
| ICI 99 | - | 186 |
| Title II 2002 | 3,957 | 4,396 |
| Vocation Education - Grant PE | 50,555 | - |
| Head Start 04/05 | - | 41,995 |
| Head Start 05/06 | - | 181,621 |
| Head Start Food Service | 99,492 | 83,993 |
| Title IV/Pt A/02-03 | 1,849 | 4,109 |
| Cass Size Reduction | 3,232 | 3,232 |

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

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 FREMONT COMMUNITY SCHOOLS, STEUBEN COUNTY, INDIANA

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

STATE BOARD OF ACCOUNTS

March 1, 2007

FREMONT 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 | | \$ 12,369 | \$ 17,877 |
| National School Lunch | 10.555 | | <u>99,581</u> | <u>123,523</u> |
| Total for cluster | | | <u>111,950</u> | <u>141,400</u> |
| Child and Adult Care Food Program | 10.558 | | <u>72,359</u> | <u>78,522</u> |
| Total for federal grantor agency | | | <u>184,309</u> | <u>219,922</u> |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | |
| Pass-Through Indiana Department of Education | | | | |
| Title 1 Grants to Local Educational Agencies | 84.010 | 05-7605 06-7605 | 39,673 | 13,451 |
| | | | <u>-</u> | <u>26,221</u> |
| Total for program | | | <u>39,673</u> | <u>39,672</u> |
| Enhancing Education Through Technology | 84.138 | 2005-2007 | <u>-</u> | <u>320</u> |
| Safe and Drug Free Schools and Communities - State Grants | 84.186 | 01-021 02-051 05-294 | 6,322 | 1,924 |
| | | | 3,968 | - |
| | | | <u>-</u> | <u>2,260</u> |
| Total for program | | | <u>10,290</u> | <u>4,184</u> |
| Eisenhower Professional Development State Grants | 84.281 | 02-010 01-0091 | 60 | 438 |
| | | | <u>-</u> | <u>14</u> |
| Total for program | | | <u>60</u> | <u>452</u> |
| Innovative Education Program Strategies | 84.298 | 02-010 04-266 | 4,104 | - |
| | | | <u>-</u> | <u>5,145</u> |
| Total for program | | | <u>4,104</u> | <u>5,145</u> |
| Improving Teacher Quality State Grants | 84.367 | 02-022 04-270 | 1,629 | - |
| | | | <u>-</u> | <u>7,255</u> |
| Total for program | | | <u>1,629</u> | <u>7,255</u> |
| Total for federal grantor agency | | | <u>55,756</u> | <u>57,028</u> |
| <u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | | |
| Direct Grant | | | | |
| Head Start | 93.600 | 05CH4191/39 05CH4191/40 05CH4191/41 | 387,927 | - |
| | | | 764,350 | 347,756 |
| | | | <u>-</u> | <u>814,477</u> |
| Total for program | | | <u>1,152,277</u> | <u>1,162,233</u> |
| Total federal awards expended | | | <u>\$ 1,392,342</u> | <u>\$ 1,439,183</u> |

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

FREMONT 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 Fremont 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.

| <u>Program Title</u> | <u>Federal CFDA Number</u> | <u>2005</u> | <u>2006</u> |
|-----------------------|------------------------------------|------------------|------------------|
| National School Lunch | 10.555 | <u>\$ 17,071</u> | <u>\$ 15,326</u> |

FREMONT 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 |
|----------------|------------------------------------|
| 93.600 | Head Start |

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.

FREMONT COMMUNITY SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

FREMONT COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on March 1, 2007, with Ben J. Boederer, Superintendent of Schools; and Shayne Tresenriter, Treasurer. The officials concurred with our audit findings.