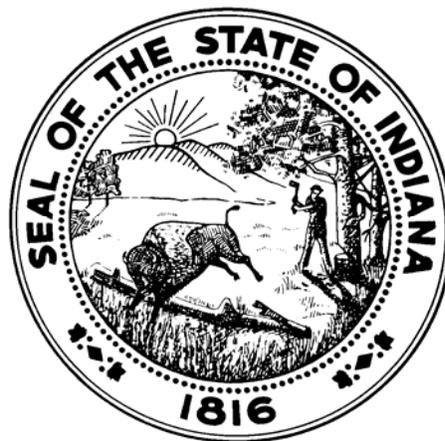


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

AUDIT REPORT
OF
METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
MARION COUNTY, INDIANA
July 1, 2003 to June 30, 2005



FILED
09/20/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jeffrey Baer	07-01-03 to 06-30-07
Superintendent of Schools	Donald H. Stinson	07-01-03 to 06-30-07
President of the School Board	Larry Taylor Herb Bazemore Judy Collins Cathy Wiseman	07-01-03 to 06-30-04 07-01-04 to 06-30-05 07-01-05 to 06-30-06 07-01-06 to 06-30-07



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

TO: THE OFFICIALS OF THE METROPOLITAN SCHOOL DISTRICT
OF DECATUR TOWNSHIP, MARION COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Metropolitan School District of Decatur Township (School Corporation), as of and for the years ended June 30, 2004 and 2005, which collectively comprise the Metropolitan School District of Decatur Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2004 and 2005, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated July 31, 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.

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

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.

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.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Supplementary Information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on it.

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

STATE BOARD OF ACCOUNTS

July 31, 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 METROPOLITAN SCHOOL DISTRICT
OF DECATUR TOWNSHIP, MARION COUNTY, INDIANA

We have audited the financial statements of the Metropolitan School District of Decatur Township (School Corporation), as of and for the years ended June 30, 2004 and 2005, and have issued our report thereon dated July 31, 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School Corporation's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2005-1.

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
(Continued)

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe none of the reportable conditions described above is a material weakness.

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

STATE BOARD OF ACCOUNTS

July 31, 2006

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
STATEMENT OF CASH AND INVESTMENTS
June 30, 2004

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 8,660,400
Restricted assets:	
Cash and investments	<u>3,127,728</u>
Total assets	<u>\$ 11,788,128</u>
<u>Net Assets</u>	
Restricted for:	
Debt service	\$ 3,127,728
Unrestricted	<u>8,660,400</u>
Total net assets	<u>\$ 11,788,128</u>

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

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 11,053,810
Restricted assets:	
Cash and investments	<u>1,002,066</u>
Total assets	<u>\$ 12,055,876</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,002,066
Unrestricted	<u>11,053,810</u>
Total net assets	<u>\$ 12,055,876</u>

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

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2004

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 18,140,718	\$ -	\$ 331,867	\$ (17,808,851)
Support services	24,613,983	1,371,960	1,017,678	(22,224,345)
Community services	715,689	-	-	(715,689)
Nonprogrammed charges	2,375,531	-	-	(2,375,531)
Debt service	10,259,416	-	-	(10,259,416)
Total governmental activities	<u>\$ 56,105,337</u>	<u>\$ 1,371,960</u>	<u>\$ 1,349,545</u>	<u>(53,383,832)</u>
General receipts:				
Property taxes				22,567,381
Other local sources				2,469,576
State aid				21,308,964
Grants and contributions not restricted				7,233,123
Bonds and loans				6,500,000
Sale of property, adjustments, and refunds				350,924
Investment earnings				106,438
Transfers:				
Intergovernmental				<u>179,859</u>
Total general receipts and transfers				<u>60,716,265</u>
Change in cash and investments				7,332,433
Net assets - beginning				<u>4,455,695</u>
Net assets - ending				<u><u>\$ 11,788,128</u></u>

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

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 18,202,919	\$ -	\$ 319,126	\$ (17,883,793)
Support services	27,007,629	1,390,780	1,116,656	(24,500,193)
Community services	756,515	-	-	(756,515)
Nonprogrammed charges	3,568,042	-	-	(3,568,042)
Debt service	13,512,885	-	-	(13,512,885)
Total governmental activities	\$ 63,047,990	\$ 1,390,780	\$ 1,435,782	(60,221,428)
General receipts:				
Property taxes				18,407,074
Other local sources				4,069,950
State aid				22,064,618
Grants and contributions not restricted				7,211,436
Bonds and loans				6,500,000
Sale of property, adjustments, and refunds				382,665
Investment earnings				191,929
Transfers:				
Intergovernmental				1,661,504
Total general receipts and transfers				60,489,176
Change in cash and investments				267,748
Net assets - beginning				11,788,128
Net assets - ending				\$ 12,055,876

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

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2004

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 11,348,641	\$ 1,563,775	\$ 5,443,325	\$ 4,302,566	\$ 1,928,374	\$ 1,928,672	\$ 26,515,353
State sources	25,967,008	1,006,739	93,235	-	-	351,680	27,418,662
Federal sources	-	-	-	-	-	2,472,969	2,472,969
Bonds and loans	5,000,000	-	1,000,000	500,000	-	-	6,500,000
Sale of property, adjustments and refunds	83,121	3,589	371	92,019	-	171,824	350,924
Intergovernmental transfers	19,451	44,434	-	-	-	115,974	179,859
Total receipts	<u>42,418,221</u>	<u>2,618,537</u>	<u>6,536,931</u>	<u>4,894,585</u>	<u>1,928,374</u>	<u>5,041,119</u>	<u>63,437,767</u>
Disbursements:							
Current:							
Instruction	17,114,617	-	-	-	-	1,026,101	18,140,718
Support services	14,486,686	2,554,536	-	3,011,223	965,175	3,596,360	24,613,980
Community services	692,135	-	-	-	-	23,554	715,689
Nonprogrammed charges	2,064,572	-	-	7,006	-	303,953	2,375,531
Debt services	2,760,000	440,000	5,406,037	1,200,000	400,000	53,379	10,259,416
Total disbursements	<u>37,118,010</u>	<u>2,994,536</u>	<u>5,406,037</u>	<u>4,218,229</u>	<u>1,365,175</u>	<u>5,003,347</u>	<u>56,105,334</u>
Excess (deficiency) of total receipts over (under) total disbursements	5,300,211	(375,999)	1,130,894	676,356	563,199	37,772	7,332,433
Cash and investments - beginning	(651,389)	445,599	1,673,001	809,472	689,549	1,489,463	4,455,695
Cash and investments - ending	<u>\$ 4,648,822</u>	<u>\$ 69,600</u>	<u>\$ 2,803,895</u>	<u>\$ 1,485,828</u>	<u>\$ 1,252,748</u>	<u>\$ 1,527,235</u>	<u>\$ 11,788,128</u>

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

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 9,404,304	\$ 1,474,027	\$ 6,205,259	\$ 4,042,659	\$ 885,494	\$ 2,047,989	\$ 24,059,732
State sources	27,566,320	462,374	-	-	-	375,089	28,403,783
Federal sources	-	-	-	-	-	2,308,053	2,308,053
Bonds and loans	5,000,000	-	500,000	1,000,000	-	-	6,500,000
Sale of property, adjustments and refunds	311,342	19,896	1,250	718	-	49,460	382,666
Intergovernmental transfers	814	500,000	-	-	-	1,160,690	1,661,504
Total receipts	<u>42,282,780</u>	<u>2,456,297</u>	<u>6,706,509</u>	<u>5,043,377</u>	<u>885,494</u>	<u>5,941,281</u>	<u>63,315,738</u>
Disbursements:							
Current:							
Instruction	17,321,808	-	-	-	-	881,111	18,202,919
Support services	16,318,436	2,909,691	-	3,057,849	893,580	3,828,073	27,007,629
Community services	740,999	-	-	-	-	15,516	756,515
Nonprogrammed charges	2,124,414	-	1,300,000	7,093	-	136,535	3,568,042
Debt services	5,067,791	-	7,220,693	506,779	-	717,622	13,512,885
Total disbursements	<u>41,573,448</u>	<u>2,909,691</u>	<u>8,520,693</u>	<u>3,571,721</u>	<u>893,580</u>	<u>5,578,857</u>	<u>63,047,990</u>
Excess (deficiency) of total receipts over (under) total disbursements	709,332	(453,394)	(1,814,184)	1,471,656	(8,086)	362,424	267,748
Cash and investments - beginning	<u>4,648,822</u>	<u>69,600</u>	<u>2,803,895</u>	<u>1,485,828</u>	<u>1,252,748</u>	<u>1,527,235</u>	<u>11,788,128</u>
Cash and investments - ending	<u>\$ 5,358,154</u>	<u>\$ (383,794)</u>	<u>\$ 989,711</u>	<u>\$ 2,957,484</u>	<u>\$ 1,244,662</u>	<u>\$ 1,889,659</u>	<u>\$ 12,055,876</u>

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

METROPOLITAN SCHOOL DISTRICT OF PIKE TOWNSHIP
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2004

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Additions:		
Local sources	\$ -	\$ 142,698
Bonds and loans	<u>8,000,000</u>	<u>-</u>
Total additions	<u>8,000,000</u>	<u>142,698</u>
Deductions:		
Instruction	-	166,635
Support services	2,536	52,664
Community services	-	15,240
Nonprogrammed charges	<u>-</u>	<u>5,123</u>
Total deductions	<u>2,536</u>	<u>239,662</u>
Excess (deficiency) of total additions over (under) total deductions	7,997,464	(96,964)
Cash and investments - beginning	<u>-</u>	<u>(93,166)</u>
Cash and investments - ending	<u>\$ 7,997,464</u>	<u>\$ (190,130)</u>

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

METROPOLITAN SCHOOL DISTRICT OF PIKE TOWNSHIP
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2005

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Additions:		
Local sources	\$ 1,051,885	\$ 116,217
Transfers	<u>-</u>	<u>1,548</u>
Total additions	<u>1,051,885</u>	<u>117,765</u>
Deductions:		
Instruction	-	18,012
Support services	8,312,944	358,039
Community services	-	15,859
Nonprogrammed charges	<u>360,690</u>	<u>4,056</u>
Total deductions	<u>8,673,634</u>	<u>395,966</u>
Deficiency of total additions under total deductions	(7,621,749)	(278,200)
Cash and investments - beginning	<u>7,997,464</u>	<u>(190,130)</u>
Cash and investments - ending	<u>\$ 375,715</u>	<u>\$ (468,330)</u>

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

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2004

<u>Assets</u>	Pension Trust Funds	Private-Purpose Trust Funds	Agency Funds
Cash and investments	<u>\$ 7,997,464</u>	<u>\$ (190,130)</u>	<u>\$ 926</u>
 <u>Net Assets</u>			
Held in trust for employee benefits and other purposes	<u>\$ 7,997,464</u>	<u>\$ (190,130)</u>	

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

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
 STATEMENT OF CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 375,715	\$ (468,330)	\$ (12,871)
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	<u>\$ 375,715</u>	<u>\$ (468,330)</u>	

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

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
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 accompanying financial statements present the activities of the School Corporation (primary government). There are no significant component units which require inclusion.

Jointly Governed Organizations

The School Corporation is a participant with School City of Beech Grove, Carmel-Clay Schools, Center Grove Community School Corporation, Clark Pleasant Community School Corporation, Franklin Township Community School Corporation, Hamilton Southeastern School Corporation, Lebanon Community School Corporation, Metropolitan School District (MSD) of Lawrence Township, MSD of Perry Township, MSD of Pike Township, School Town of Speedway, MSD of Warren Township, MSD of Wayne Township, and Westfield Washington School Corporation in a joint venture to operate the Central Indiana Educational Services Center (CIESC) which was created to provide educational programs and services for participating school corporations. To participate in the CIESC, each school corporation is billed an amount based upon their student population. Complete financial statement for CIESC can be obtained from their offices at 6321 Lapas Trail, Indianapolis Indiana.

The School Corporation is also a participant with the School City of Beech Grove, Franklin Township Community School Corporation, and MSD of Perry Township in a joint venture to operate the Relating Individualism to Special Education (RISE) Learning Center which was created to provide special education for handicapped children. The School Corporation is obligated by contract to remit funding based upon participation levels annually to supplement the RISE Learning Center. Complete financial statements for the RISE Learning Center can be obtained from MSD Perry Township, 6548 Orinoco Avenue, Indianapolis, Indiana 46227.

B. Government-Wide and Fund Financial Statements

Government-wide financial statements, (i.e., the Statement of Cash and Investments and the Statement of Cash Activities) report information on all of the nonfiduciary activities of the School Corporation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. However, there are no business-type activities to report at this time.

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
(Continued)

The Statement of Cash Activities demonstrates the degree to which direct disbursements of a given function or segment are offset by program receipts. Direct disbursements are clearly identifiable with a specific function or segment. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program receipts are reported instead as general receipts.

Separate financial statements are provided for governmental 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.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

The cash 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.

The School Corporation reports the following major governmental funds:

The general fund is the School Corporation's primary operating fund and accounts for all financial resources of the School Corporation, 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.

Additionally, the School Corporation reports the following fund types:

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

Pension trust funds account for bonds and 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.

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
(Continued)

Agency funds account for assets held by the School Corporation as an agent for individuals, private organizations and other governments and serve as control of accounts for certain cash transactions during the time they are a liability to the School Corporation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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.

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 Net Assets or Equity

1. Deposits and Investments

State statute (IC 5-13-9) authorizes the School Corporation to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Investments are stated at cost. Any changes in the 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

Noncertified employees earn sick leave at the rate of 9 to 12 days per year based on the number of months of service. Certified employees earn sick leave at the rate of 1 to 12 days per year based on the number of months of service. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is paid to employees through cash payments at the rate of 33% upon retirement if the employee has worked the last 10 years for the School Corporation and has met the PERF retirement criteria. Accumulated sick leave is not paid to employees upon separation except as stated for retirement.

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
(Continued)

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 10 days to 20 days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of 25 days. Vacation leave in excess of 25 days is converted to sick leave. Accumulated vacation leave is paid to employees in good standing upon separation.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 1 to 3 days per year. Unused personal leave may be accumulated to a maximum of 4 days. Personal leave in excess of 4 days is converted to sick leave. Accumulated personal leave is not paid to employees upon separation.

4. Reclassified Prior Year Data

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

On or before September 10, the fiscal officer of the School Corporation submits to the School Board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the School Board to obtain taxpayer comments. No later than September 20th of each year, the School Board, through the passage of a resolution, adopts the budget for the next year. Copies of the budget resolution and the advertisement for funds for which property taxes are levied are sent to the Indiana Department of Local Government Finance. The budget becomes effective after the School Corporation receives notice from 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 School Board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any 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 December 31, 2003 and 2004, disbursements exceeded budgeted appropriations in the following funds, by the amounts below:

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund	2004	2005
General Fund	\$ -	\$ 360,384
Transportation Operating Fund	57,235	-
Totals	\$ 57,235	\$ 360,384

C. Cash and Investment Balance Deficits

At June 30, 2004 and 2005, the following funds reported deficits in cash and investments.

Fund	2004	2005
Rainy Day	\$ 54,058	\$ -
Transportation Operating	-	383,794
Textbook Rental	386,620	473,566
Totals	\$ 440,678	\$ 857,360

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

III. Detailed Notes on All Funds

Deposits and Investments

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.

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.

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
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. Risk financing is not utilized for the other risks of loss.

B. Holding Corporation

The School Corporation has entered into various capital leases with Metropolitan School District of Decatur Township Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation.

The facilities under the lease are included in the capital assets note of the School Corporation and the corresponding lease obligation has been included in the governmental activities column in the Supplementary Information. Lease payments the year ended June 30, 2004, and June 30, 2005, totaled \$3,291,484 and \$4,730,610, respectively.

C. Subsequent Events

On August 8, 2005, the Decatur Township Multi-School Building Corporation issued \$11,300,000 in First Mortgage Refunding Bonds. The School Corporation will begin making capital lease payments to the holding corporation on January 15, 2006, and are payable every six months through January 12, 2018.

D. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health and dental benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 55-five with at least 20 years of service. Currently, 26 retirees meet these eligibility requirements. The School Corporation (and retirees) provide 86% and 14%, respectively, of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2005, disbursements of \$308,471 were recognized for postemployment benefits.

E. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plans

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

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
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	\$ 334,270
Interest on net pension obligation	(40,468)
Adjustment to annual required contribution	46,117
Annual pension cost	339,919
Contributions made	427,934
Decrease in net pension obligation	(88,015)
Net pension obligation, beginning of year	(558,185)
Net pension obligation, end of year	\$ (646,200)
Contribution rates:	
School Corporation	7.25%
Plan members	3.00%
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	4 year smoothed market

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
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	\$ 333,516	108%	\$ (469,034)
	06-30-04	302,741	129%	(558,185)
	06-30-05	339,919	141%	(646,200)

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

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
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, 2005, 2004, and 2003, were \$1,292,759, \$1,200,114, and \$1,281,874, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 5,748,404	\$ 5,767,946	\$ (19,542)	100%	\$ 5,817,415	(0%)
07-01-04	5,912,024	6,197,962	(285,938)	95%	5,960,373	(5%)
07-01-05	6,252,413	7,235,930	(983,517)	86%	6,661,953	(15%)

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended June 30, 2005

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	\$ 5,115,030
Buildings	154,822,168
Improvements other than buildings	3,842,952
Machinery and equipment	<u>15,328,295</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 179,108,445</u>

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF DEBT
 For The Year Ended June 30, 2005

	Ending Balance	Due Within One Year
Governmental activities:		
Notes and loans payable	\$ 5,366,915	\$ 364,255
Capital leases payable	20,217,312	2,273,036
Bonds payable:		
General obligation bonds:		
Pension bonds of 2004	7,620,000	410,000
Total governmental activities long-term debt	\$ 33,204,227	\$ 3,047,291

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS

The records presented for audit indicated the expenditures were in excess of budgeted appropriations for the General Fund in 2004 by \$360,384 and the Transportation Operating Fund in 2003 by \$57,235.

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."

CONTRACTS

Records presented for audit indicate payments were made to a contractor for the year 2003-2004 for \$24,276.30 and 2004-2005 for \$38,140.00 without a written contract. Examination of the claim vouchers revealed that the contractor's invoices contained addition errors not corrected by the School Corporation that resulted in overpayments to the contractor in the amount of \$380. The invoices submitted for payment were not sufficiently itemized. All that was present on the invoice was the number of hours worked by date and the calculated total hours multiplied by the hourly rate for the total to be paid. No detail was given as to what tasks were performed and how much time was spent on each task.

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)

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

CREDIT CARDS

The School Corporation is using credit cards in some instances to purchase items without an adequate approved credit card policy. A written credit card policy exists, but does not specify the individuals authorized to use credit cards, the types of expense which can be paid, and the supervision and use. The policy states that "the Superintendent shall develop administrative guidelines", but guidelines have not been completed.

A similar comment appeared in prior Audit Report B23706.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the board.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
AUDIT RESULTS AND COMMENTS
(Continued)

- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
- (8) If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

DISBURSEMENT DOCUMENTATION

Several payments did not contain adequate supporting documentation such as detailed receipts, bills, and invoices. Payments were observed being made from statements that were not itemized and were for past due amounts.

Due to the lack of supporting information, the validity and accountability for some monies disbursed could not be established.

A similar comment appeared in prior Audit Report B23706.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

INTERNAL CONTROLS – CAPITAL ASSET RECORDS

The internal controls over the recording and accounting for the financial activities related to capital assets were insufficient. The records presented for audit were compiled by an outside valuation company and were created after a physical inventory was performed. A similar comment was in the prior Audit Report B23706.

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
AUDIT RESULTS AND COMMENTS
(Continued)

Any asset that was present at the time the physical inventory was conducted, but not on the previous inventory was identified with a pre-numbered bar coded tag. The item and the estimated historical cost were then recorded on the Capital Asset Ledger. Any asset that was not present for the current inventory but was observed on a previous physical inventory was considered to be deleted inventory and removed from the current asset listing by the valuation company. School Officials did not make any subsequent evaluations of the deleted items in order to determine if they were, in fact, deleted rather than moved to a new location, sold scrapped as worthless, or stolen.

Information presented for audit did not indicate the physical inventory balances were verified to the account balances carried in the accounting records. As a result capital asset variances could not be explained between the physical inventory counts and the School Corporation accounting record balances.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal controls. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

A similar comment appeared in the prior Audit Report B23706.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded on the applicable Capital Asset Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CAPITAL PROJECTS FUND DISBURSEMENTS

A review of the School Corporation's expenditures from the Capital Project Fund, account number 25353 for the payment of skilled craftsmen indicated that one non-skilled School Corporation employee was paid from the Fund. The employee was paid a total of \$15,610 for the audit period. There were no other payments made from the Capital Projects Fund for the audit period.

Indiana Code 21-5-15-4(h) states:

"(h) The fund may be used to pay for services of the school corporation employees that are bricklayers, stone masons, tile setter, glaziers, insulation workers, asbestos removers, painters, paperhangers, drywall applicators and tapers, plasterers, pipe fitters, roofers, structural and steel workers, metal building assemblers, heating and air conditioning installers, welders, carpenters, electricians, or plumbers, as these occupations are defined in the United States Department of Labor, Employment and Training Administration, Dictionary of Occupational Titles, Fourth Edition, Revised 1991, if:

- (1) the employees performing construction of, renovation of, remodeling of, repair of, or maintenance on the facilities and equipment specified in subsections (b) and (c):
- (2) the School Corporation's total annual salary and benefits paid by the school corporation to employees described in this subsection are at least six hundred thousand dollars (\$600,000); and

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
AUDIT RESULTS AND COMMENTS
(Continued)

- (3) the payment of the employees described in this subsection is included as part of the proposed capital projects fund plan described in section 5(a) of this chapter.

However, the number of employees that are covered by this subsection is limited to the number of employee positions described in this subsection that existed on January 1, 1993. For purposes of this subsection, maintenance does not include janitorial or comparable routine services normally provided in the daily operation of the facilities or equipment."

SUPPORTING DOCUMENTATION (Applies to Lynwood Elementary School)

Some payments observed did not contain adequate supporting documentation, such as receipts, invoices, and other public records. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

PUBLIC RECORDS RETENTION (Applies to Decatur Middle School)

Ticket Sales Reports for athletic events were not presented for audit. The reports were lost during the move of the Athletic Director's Office.

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

OVERDRAWN FUND BALANCES (Applies to Decatur High School)

The MSD Fund, Girls Tennis Fund, Fiesta Bowl Fund and Recycle Container Grant Fund were overdrawn in 2005.

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)

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
AUDIT RESULTS AND COMMENTS
(Continued)

DEPOSITS (Applies to Decatur High and Lynwood Elementary School)

Receipts in numerous instances were deposited up to two weeks later than the time funds were received.

Indiana Code 20-41-1-9 states in part: ". . . receipts shall be deposited without unreasonable delay."

CASH DISBURSEMENTS (Applies to Decatur High School)

Disbursements were not always made by check. Examples are Pizza purchases and payments to workers at athletic events.

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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AN EQUAL OPPORTUNITY EMPLOYER

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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 METROPOLITAN SCHOOL DISTRICT
OF DECATUR TOWNSHIP, MARION COUNTY, INDIANA

Compliance

We have audited the compliance of the Metropolitan School District of Decatur Township (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, 2004 and 2005. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

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

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2004 and 2005.

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 requirement(s) 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

July 31, 2006

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2004 and 2005

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 06-30-04	Total Federal Awards Expended 06-30-05
<u>U.S. Department of Agriculture</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 135,582	\$ -
		FY 03-04	-	-
		FY 04-05	-	162,252
Total for program			<u>135,582</u>	<u>162,252</u>
National School Lunch Program				
	10.555		851,042	-
		FY 03-04	-	-
		FY 04-05	-	954,346
Total for program			<u>851,042</u>	<u>954,346</u>
Total for cluster			<u>986,624</u>	<u>1,116,598</u>
Total for federal grantor agency			<u>986,624</u>	<u>1,116,598</u>
<u>U.S. Department of Education</u>				
Pass-Through Indiana Department of Education				
Title 1 Grants to Local Educational Agencies				
	84.010		805,329	-
		FY 03-04	-	-
		FY 04-05	-	1,016,360
Total for program			<u>805,329</u>	<u>1,016,360</u>
Safe and Drug Free Schools and Communities - State Grants				
	84.186		44,431	-
		FY 03-04	-	-
		FY 04-05	-	50,875
Total for program			<u>44,431</u>	<u>50,875</u>
Eisenhower Professional Development State Grants				
	84.281		19,828	-
		FY 03-04	-	-
		FY 04-05	-	-
Total for program			<u>19,828</u>	<u>-</u>
Innovative Education Program Strategies				
	84.298		36,046	-
		FY 03-04	-	-
		FY 04-05	-	29,740
Total for program			<u>36,046</u>	<u>29,740</u>
Education Technology State Grants				
	84.318		13,001	-
		FY 03-04	-	-
		FY 04-05	-	-
Total for program			<u>13,001</u>	<u>-</u>
Comprehensive School Reform Demonstration				
	84.332		10,508	-
		FY 03-04	-	-
		FY 04-05	-	3,428
Total for program			<u>10,508</u>	<u>3,428</u>
Reading Excellence				
	84.338		581,959	-
		FY 03-04	-	-
		FY 04-05	-	113,028
Total for program			<u>581,959</u>	<u>113,028</u>
Reading First State Grants				
	84.357		125,704	-
		FY 03-04	-	-
		FY 04-05	-	132,257
Total for program			<u>125,704</u>	<u>132,257</u>
English Language Acquisition Grants				
	84.365		7,421	-
		FY 03-04	-	-
		FY 04-05	-	7,684
Total for program			<u>7,421</u>	<u>7,684</u>
Improving Teacher Quality State Grants				
	84.367		153,678	-
		FY 03-04	-	-
		FY 04-05	-	165,037
Total for program			<u>153,678</u>	<u>165,037</u>
Total for federal grantor agency			<u>1,797,905</u>	<u>1,518,409</u>
Total federal awards expended			<u>\$ 2,784,529</u>	<u>\$ 2,635,007</u>

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

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Metropolitan School District of Decatur Township (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.

Note 2. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2004 and 2005. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2004	2005
School breakfast program	10.553	\$ 15,512	\$ 17,200
National school lunch program	10.555	85,619	89,019

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
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? yes

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
	Child Nutrition Cluster
84.010	Title 1 Grants to Local Educational Agencies

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

Auditee qualified as low-risk auditee? no

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section II – Financial Statement Findings

FINDING NO. 2005-1 CAPITAL ASSET RECORDS – REPORTABLE CONDITION

The internal controls over the recording and accounting for the financial activities related to capital assets were insufficient. The records presented for audit were compiled by an outside valuation company and were created after a physical inventory was performed. Any asset that was present at the time the physical inventory was conducted, but not on the previous physical inventory was identified with a pre-numbered bar coded tag. The item and the estimated historical cost were then recorded on the Capital Asset Ledger. Any asset that was not present for the current inventory but was observed on a previous physical inventory was considered to be deleted inventory and removed from the current asset listing by the valuation company. School Officials did not make any subsequent evaluations of the deleted items in order to determine if they were, in fact, deleted rather than moved to a new location, sold, scrapped as worthless, or stolen.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal controls. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

We recommended School Corporation Officials develop and implement procedures and controls necessary to insure capital asset records are maintained in such a manner to provide accurate financial statements.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



Metropolitan School District of Decatur Township

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To: State Board of Accounts

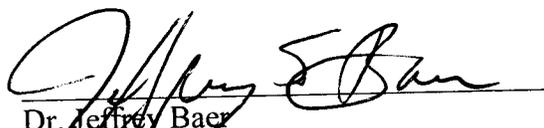
Subject: Capital Asset Records

Date: July 31, 2006

FINDING NO. 2005-1 – Capital Asset Records Reportable Condition

The school corporation will implement procedures to ensure that capital asset records are maintained to provide accurate financial statements. In the future the following procedures will be implemented:

1. A system of addition and deletion of equipment
2. Review of reports to ensure single entry of equipment
3. Omit operating leases from inventory


Dr. Jeffrey Baer
Assistant Superintendent/Treasurer

METROPOLITAN SCHOOL DISTRICT OF DECATUR TOWNSHIP
EXIT CONFERENCE

The contents of this report were discussed on July 31, 2006, with Donald H. Stinson, Superintendent; Jeffrey Baer, Assistant Superintendent/Treasurer; and Debra Blessing, Deputy Treasurer.