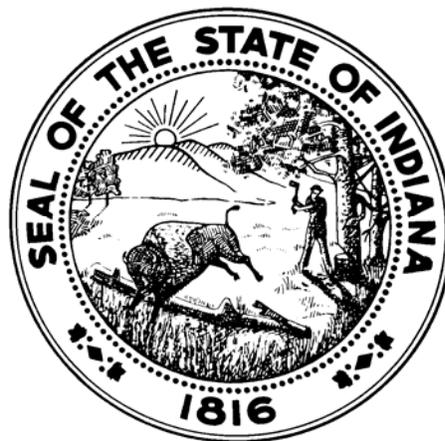


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF
METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
WARREN COUNTY, INDIANA
July 1, 2005 to June 30, 2006



FILED
01/26/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Nanette Ware	07-01-05 to 06-30-07
Superintendent of Schools	Terry K. Roderick	07-01-05 to 06-30-07
President of the School Board	Steve Magner Andy Briles	07-01-05 to 06-30-06 07-01-06 to 06-30-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE METROPOLITAN SCHOOL DISTRICT OF
WARREN COUNTY, WARREN 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 Warren County (School Corporation), as of and for the year ended June 30, 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

In accordance with Government Auditing Standards, we have also issued a report dated December 6, 2006, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular

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

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.

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 a required part 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

December 6, 2006



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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
WARREN COUNTY, WARREN COUNTY, INDIANA

We have audited the financial statements of the Metropolitan School District of Warren County (School Corporation), as of and for the year ended June 30, 2006, and have issued our report thereon dated December 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

We noted other matters involving the internal control over financial reporting that we have discussed with the management of the School Corporation on December 6, 2006. These immaterial instances of non-compliance were subsequently communicated to management in a separate letter.

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

STATE BOARD OF ACCOUNTS

December 6, 2006

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 2,594,852
Restricted assets:	
Cash and investments	<u>261,540</u>
Total assets	<u>\$ 2,856,392</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 261,540
Unrestricted	<u>2,594,852</u>
Total net assets	<u>\$ 2,856,392</u>

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

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 4,616,523	\$ 35,328	\$ 54,987	\$ (4,526,208)
Support services	6,722,395	432,848	192,962	(6,096,585)
Community services	130,363	-	-	(130,363)
Nonprogrammed charges	428,107	-	-	(428,107)
Debt service	659,250	-	-	(659,250)
Total governmental activities	\$ 12,556,638	\$ 468,176	\$ 247,949	(11,840,513)
General receipts:				
Property taxes				4,397,570
Other local sources				707,903
State aid				5,059,128
Grants and contributions not restricted				794,439
Sale of property, adjustments, and refunds				274,259
Investment earnings				128,167
Transfers:				
Intergovernmental				25,537
Total general receipts and transfers				11,387,003
Change in cash and investments				(453,510)
Net assets - beginning				3,309,902
Net assets - ending				\$ 2,856,392

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

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
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	\$ 2,599,856	\$ 632,435	\$ 705,122	\$ 1,019,488	\$ 208,589	\$ 28,561	\$ 503,037	\$ 5,697,088
Intermediate sources	3,154	-	-	-	-	-	1,575	4,729
State sources	5,133,699	870	-	-	-	-	89,119	5,223,688
Federal sources	-	-	-	-	-	-	877,827	877,827
Sale of property, adjustments and refunds	120,450	994	-	6,351	-	-	146,464	274,259
Intergovernmental transfers	-	-	-	-	-	-	25,537	25,537
Total receipts	7,857,159	634,299	705,122	1,025,839	208,589	28,561	1,643,559	12,103,128
Disbursements:								
Current:								
Instruction	3,946,676	-	-	-	-	-	669,847	4,616,523
Support services	3,394,569	717,852	-	1,123,089	316,220	293,227	877,438	6,722,395
Community services	117,395	-	-	-	-	-	12,968	130,363
Nonprogrammed charges	315,576	-	-	-	-	-	112,531	428,107
Debt services	-	-	659,250	-	-	-	-	659,250
Total disbursements	7,774,216	717,852	659,250	1,123,089	316,220	293,227	1,672,784	12,556,638
Excess (deficiency) of total receipts over (under) total disbursements	82,943	(83,553)	45,872	(97,250)	(107,631)	(264,666)	(29,225)	(453,510)
Cash and investments - beginning	1,135,443	373,050	215,668	335,823	154,379	630,002	465,537	3,309,902
Cash and investments - ending	\$ 1,218,386	\$ 289,497	\$ 261,540	\$ 238,573	\$ 46,748	\$ 365,336	\$ 436,312	\$ 2,856,392

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

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2006

	Private-Purpose Trust Funds
Additions:	
Local sources	\$ 125,552
Sale of property, adjustments and refunds	2,468
Total additions	128,020
Deductions:	
Instruction	76,061
Support services	134,955
Community services	94,798
Nonprogrammed charges	25,537
Total deductions	331,351
Deficiency of total additions under total deductions	(203,331)
Cash and investments - beginning	1,258,295
Cash and investments - ending	\$ 1,054,964

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

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
 STATEMENT OF CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 June 30, 2006

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 1,054,964	\$ 29,408
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 1,054,964	

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

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

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

Joint Venture

The School Corporation is a participant with Benton Community, Cloverdale Community, Hamilton Heights, Logansport Community, Marion-Adams, North Putnam, North Vermillion, Northwestern, Rockville Community, South Vermillion Community, Southwest Parke Community, Tipton Community, Turkey Run Community, Wabash Valley Education Center, West Central Indiana Educational Service Center, and Western Boone Community School Corporations, in a joint venture to operate the Wabash Valley/ West Central Indiana Insurance Trust which was created to provide a common and unified program of group insurance. The Trustee of the plan shall determine the rate of contributions to be required from each participant covered by the plan. Complete financial statements for the Wabash Valley/ West Central Indiana Insurance Trust can be obtained from Logansport Community School Corporation, 2829 George Street, Logansport, IN 46947.

The School Corporation is participant with Attica Consolidated, Covington Community, Southeast Fountain, Turkey Run Community, Crawfordsville Community, South Montgomery, North Montgomery, and North Vermillion School Corporations in the West Central Indiana Cooperative, a joint venture to provide instruction and vocational programs for handicapped children. Costs are prorated between participants. Complete financial statements for the West Central Indiana Cooperative can be obtained from the Crawfordsville Community School Corporation, 1000 Fairview Avenue, Crawfordsville, IN 47933.

The School Corporation is a participant with Attica Consolidated, Covington Community, Southeast Fountain, Crawfordsville Community, South Montgomery, North Montgomery, and North Vermillion School Corporations in the Vocational Cooperative Services Program, a joint venture to provide vocational programs for students. Administrative costs are divided equally among participants, while program costs are based upon the enrollment in the various programs. Complete financial statements for the Vocational Cooperative Services Program can be obtained from the Crawfordsville Community School Corporation, 1000 Fairview Avenue, Crawfordsville, IN 47933.

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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
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 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 accounts for financial resources used for construction, repair, replacement, or remodeling of school facilities.

Additionally, the School Corporation reports the following fund types:

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

C. Measurement Focus and Basis of Accounting

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

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

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

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Property Taxes

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

3. Compensated Absences

a. Sick Leave

Certified employees earn 10 days sick leave per year whereas noncertified and classified employees earn 5 days sick leave per year. Certified, noncertified, and classified employees may accumulate unused sick leave to a maximum of 190, 50, and 65 days respectively. Accumulated sick leave is paid to employees through cash payments upon retirement. Certified employees receive \$45 for each unused sick leave day and noncertified and classified employees receive \$10 for each unused sick leave day.

b. Vacation Leave

Administrative employees earn 20 days vacation leave per year whereas noncertified and classified employees earn 10 days vacation leave per year. Vacation leave does not accumulate from year to year.

c. Personal Leave

Certified employees earn 4 days personal leave per year which they may accumulate to a maximum of 6 days. Noncertified and classified employees earn 2 days personal leave per year which 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.

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Long-Term Debt

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

6. Equity Classification

Government-Wide Statements

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

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

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

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

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.

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

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

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Cash Activities.

II. Stewardship, Compliance and Accountability

Budgetary Information

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

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

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

III. Detailed Notes on All Funds

A. Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

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

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Transfer From	Transfer To	2006
Private-purpose trust	Other governmental	\$ <u>25,537</u>

The School Corporation typically uses transfers for cash flow purposes in accordance with various statutes.

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; 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.

Medical Benefits to Employees, Retirees, and Dependents

During 1992, the School Corporation joined with other governmental entities to form the Wabash Valley/West Central Indiana Insurance Trust, a public entity risk pool currently operating as a common risk management and insurance program for 17 member governmental entities. The purpose of the risk pool is to provide a medium for the funding and administration of medical benefits to employees, retirees, and dependents. The School Corporation pays an annual premium to the risk pool for its medical benefits to employees, retiree, and dependents coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$200,000 per individual per year. The risk pool obtains independent coverage for insured events in excess of the \$200,000 limit.

B. Holding Corporations

The School Corporation has entered into capital leases with Warren County School Building Corporation and Seeger School Building Corporation (the lessors). The lessors were organized as not-for-profit corporations pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessors have been determined to be related parties of the School Corporation. Lease payments during the year totaled \$658,000.

C. Subsequent Events

In October 2006, the Williamsport-Washington Township Public Library was destroyed by fire. The School Corporation furnished the learning center portion of the library. Approximately \$300,000 of loss was sustained by the School Corporation with insurance covering the loss except for a deductible.

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment severance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 55 with at least 30 years of service for full benefits. Currently, 5 retirees meet these eligibility requirements. The School Corporation provides 100% of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$75,635 were recognized for postemployment benefits.

E. Pension Plans

Agent Multiple-Employer and Single-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 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.

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 54,259
Interest on net pension obligation	(4,682)
Adjustment to annual required contribution	5,335
Annual pension cost	54,912
Contributions made	67,683
Decrease in net pension obligation	(12,771)
Net pension obligation, beginning of year	(64,576)
Net pension obligation, end of year	\$ (77,347)
Contribution rates:	
School Corporation	6%
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%

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-03	\$ 47,390	110%	\$ (45,089)
	06-30-04	44,329	144%	(64,576)
	06-30-05	54,912	153%	(77,347)

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 \$110,867, \$96,209, and \$86,230, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
 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	\$ 633,913	\$ 722,195	\$ (88,282)	88%	\$ 771,667	(11%)
07-01-04	668,361	730,002	(61,641)	92%	1,017,946	(6%)
07-01-05	722,127	901,764	(179,637)	80%	1,141,951	(16%)

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
 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.

General infrastructure assets completed in the current and prior years have been reported.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 760,000
Infrastructure	1,641,440
Buildings	38,048,481
Improvements other than buildings	721,768
Machinery and equipment	4,056,293
Construction in progress	<u>5,000,000</u>
 Total governmental activities, capital assets not being depreciated	 <u><u>\$ 50,227,982</u></u>

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental activities:		
Capital leases:		
High School building	\$ 3,287,839	\$ 344,679
Fitness center	4,886,125	233,379
Computer equipment	111,301	73,544
Heating/Air conditioning equipment	<u>2,921,841</u>	<u>338,466</u>
Total governmental activities long-term debt	<u>\$ 11,207,106</u>	<u>\$ 990,068</u>

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 METROPOLITAN SCHOOL DISTRICT OF
WARREN COUNTY, WARREN COUNTY, INDIANA

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

STATE BOARD OF ACCOUNTS

December 6, 2006

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	FY 05-06	\$ 32,241
National School Lunch	10.555	FY 05-06	<u>149,487</u>
Total for cluster			<u>181,728</u>
Team Nutrition Grant	10.574	CNTN-04-IN-1	<u>1,109</u>
Total for federal grantor agency			<u>182,837</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Crawfordsville Community School Corporation			
Special Education Cluster			
Special Education - Grants to States	84.027	FY 05-06	306,086
Special Education - Preschool Grants	84.173	FY 05-06	<u>13,718</u>
Total for cluster			<u>319,804</u>
Pass-through Indiana Department of Education			
Adult Education - State Grant Program	84.002	FY 06-8127	<u>27,679</u>
Title 1 Grants to Local Educational Agencies	84.010	05-8115 06-8115	4,570 <u>125,003</u>
Total for program			<u>129,573</u>
Safe and Drug Free Schools and Communities - State Grants	84.186	03-068 04-009	733 <u>1,796</u>
Total for program			<u>2,529</u>
State Grants for Innovative Programs	84.298	03-019 04-021 05-005	1,700 4,041 <u>1,467</u>
Total for program			<u>7,208</u>
Education Technology State Grants	84.318	FY 03-04 FY 04-05	660 <u>500</u>
Total for program			<u>1,160</u>
Reading First State Grants	84.357	2005 2006	60,283 <u>113,943</u>
Total for program			<u>174,226</u>
Improving Teacher Quality State Grants	84.367	03-013 04-022 05-004	7,000 9,415 <u>32,070</u>
Total for program			<u>48,485</u>
Total for federal grantor agency			<u>710,664</u>
Total federal awards expended			<u>\$ 893,501</u>

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

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
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 Metropolitan School District of Warren County (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

II. Noncash Assistance

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

Program Title	Federal CFDA Number	2006
National School Lunch	10.555	\$ <u>17,746</u>

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.357	Reading First State Grants
84.367	Improving Teacher Quality State Grants

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.

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

METROPOLITAN SCHOOL DISTRICT OF WARREN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on December 6, 2006, with Nanette Ware, Treasurer; and Terry K. Roderick, Superintendent of Schools. Our audit disclosed no material items that warrant comment at this time.