

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

AUDIT REPORT

OF

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK

GREENE COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED
02/26/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Pamela Jerrells	07-01-04 to 6-30-07
Superintendent of Schools	Michael Turner C.G. Epple	07-01-04 to 7-31-06 08-01-06 to 6-30-07
President of the School Board	Sherry Vandeventer Jeffery B. Miller	07-01-04 to 6-30-06 07-01-06 to 6-30-07



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 SHAKAMAK, GREENE 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 Shakamak (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated January 4, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

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

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

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

STATE BOARD OF ACCOUNTS

January 4, 2007



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

TO: THE OFFICIALS OF THE METROPOLITAN SCHOOL
DISTRICT OF SHAKAMAK, GREENE COUNTY, INDIANA

We have audited the financial statements of the Metropolitan School District of Shakamak (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

STATE BOARD OF ACCOUNTS

January 4, 2007

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 1,003,031
Restricted assets:	
Cash and investments	<u>38,321</u>
Total assets	<u>\$ 1,041,352</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 38,321
Unrestricted	<u>1,003,031</u>
Total net assets	<u>\$ 1,041,352</u>

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

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 793,758
Restricted assets:	
Cash and investments	<u>101,612</u>
Total assets	<u>\$ 895,370</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 101,612
Unrestricted	<u>793,758</u>
Total net assets	<u>\$ 895,370</u>

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

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
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	\$ 3,480,171	\$ -	\$ 40,704	\$ (3,439,467)
Support services	4,153,851	155,200	237,817	(3,760,834)
Community services	38,186	-	-	(38,186)
Nonprogrammed charges	292,363	-	-	(292,363)
Debt service	1,524,644	-	-	(1,524,644)
Total governmental activities	\$ 9,489,215	\$ 155,200	\$ 278,521	(9,055,494)
General receipts:				
Property taxes				2,447,375
Other local sources				510,364
State aid				4,856,984
Grants and contributions not restricted				619,132
Bonds and loans				1,020,035
Sale of property, adjustments, and refunds				16,126
Investment earnings				5,205
Total general receipts				9,475,221
Change in cash and investments				419,727
Net assets - beginning				621,625
Net assets - ending				\$ 1,041,352

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

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
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	\$ 3,494,741	\$ -	\$ 31,227	\$ (3,463,514)
Support services	4,301,883	152,394	193,167	(3,956,322)
Community services	37,056	-	-	(37,056)
Nonprogrammed charges	294,370	-	-	(294,370)
Debt service	481,462	-	-	(481,462)
Total governmental activities	<u>\$ 8,609,512</u>	<u>\$ 152,394</u>	<u>\$ 224,394</u>	<u>(8,232,724)</u>
General receipts:				
Property taxes				2,542,444
Other local sources				543,548
State aid				4,369,839
Grants and contributions not restricted				604,062
Sale of property, adjustments, and refunds				12,468
Investment earnings				14,381
				<u>8,086,742</u>
				(145,982)
Net assets - beginning				<u>1,041,352</u>
Net assets - ending				<u>\$ 895,370</u>

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

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
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	\$ 1,367,140	\$ 236,092	\$ 712,659	\$ 563,271	\$ 78,500	\$ 160,256	\$ 3,117,918
Intermediate sources	226	-	-	-	-	-	226
State sources	4,921,830	-	-	-	-	68,380	4,990,210
Federal sources	52,010	-	-	-	-	712,417	764,427
Bonds and loans	1,000,000	-	-	-	-	20,035	1,020,035
Sale of property, adjustments and refunds	10,607	150	-	2,044	-	3,325	16,126
Intergovernmental transfers	-	91,338	-	-	-	49,772	141,110
Total receipts	<u>7,351,813</u>	<u>327,580</u>	<u>712,659</u>	<u>565,315</u>	<u>78,500</u>	<u>1,014,185</u>	<u>10,050,052</u>
Disbursements:							
Current:							
Instruction	3,090,484	-	-	-	-	389,687	3,480,171
Support services	2,862,349	283,078	-	373,456	55,203	579,765	4,153,851
Community services	31,635	-	-	-	-	6,551	38,186
Nonprogrammed charges	239,826	-	91,338	-	-	102,309	433,473
Debt services	1,001,603	-	523,041	-	-	-	1,524,644
Total disbursements	<u>7,225,897</u>	<u>283,078</u>	<u>614,379</u>	<u>373,456</u>	<u>55,203</u>	<u>1,078,312</u>	<u>9,630,325</u>
Excess (deficiency) of total receipts over (under) total disbursements	125,916	44,502	98,280	191,859	23,297	(64,127)	419,727
Cash and investments - beginning	<u>380,512</u>	<u>(124,087)</u>	<u>(59,959)</u>	<u>89,953</u>	<u>16,330</u>	<u>318,876</u>	<u>621,625</u>
Cash and investments - ending	<u>\$ 506,428</u>	<u>\$ (79,585)</u>	<u>\$ 38,321</u>	<u>\$ 281,812</u>	<u>\$ 39,627</u>	<u>\$ 254,749</u>	<u>\$ 1,041,352</u>

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

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
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	Other	Totals
Receipts:							
Local sources	\$ 1,336,751	\$ 313,497	\$ 606,753	\$ 594,965	\$ 172,901	\$ 227,816	\$ 3,252,683
Intermediate sources	83	-	-	-	-	-	83
State sources	4,432,982	-	-	-	-	44,879	4,477,861
Federal sources	75,122	-	-	-	-	645,313	720,435
Sale of property, adjustments and refunds	4,613	172	-	10	-	7,673	12,468
Intergovernmental transfers	-	46,660	-	-	-	100,836	147,496
Total receipts	5,849,551	360,329	606,753	594,975	172,901	1,026,517	8,611,026
Disbursements:							
Current:							
Instruction	3,221,320	-	-	-	-	273,421	3,494,741
Support services	2,860,728	236,332	-	592,357	57,703	554,763	4,301,883
Community services	32,559	-	-	-	-	4,497	37,056
Nonprogrammed charges	293,382	10,394	62,000	19,115	3,684	53,291	441,866
Debt services	-	-	481,462	-	-	-	481,462
Total disbursements	6,407,989	246,726	543,462	611,472	61,387	885,972	8,757,008
Excess (deficiency) of total receipts over (under) total disbursements	(558,438)	113,603	63,291	(16,497)	111,514	140,545	(145,982)
Cash and investments - beginning	506,428	(79,585)	38,321	281,812	39,627	254,749	1,041,352
Cash and investments - ending	\$ (52,010)	\$ 34,018	\$ 101,612	\$ 265,315	\$ 151,141	\$ 395,294	\$ 895,370

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

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

	Private-Purpose Trust Funds
Additions: State sources	\$ 3,026
Deductions: Instruction	3,040
Deficiency of total additions under total deductions	(14)
Cash and investments - beginning	2,188
Cash and investments - ending	\$ 2,174

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

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

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
State sources	\$ -	\$ 23,948
Bonds and loans	1,973,400	-
Total additions	1,973,400	23,948
Deductions:		
Instruction	-	24,036
Debt services	5,290	-
Total deductions	5,290	24,036
Excess (deficiency) of total additions over (under) total deductions	1,968,110	(88)
Cash and investments - beginning	-	2,174
Cash and investments - ending	\$ 1,968,110	\$ 2,086

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

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

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 2,174	\$ (7,937)
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 2,174	

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

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

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 1,968,110	\$ 2,086	\$ 68,073
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 1,968,110	\$ 2,086	

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

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

The School Corporation's financial reporting entity is composed of the following:

Primary Government: Metropolitan School District of Shakamak

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 5 other schools in a joint venture to operate Greene-Sullivan Special Education Cooperative which was created to provide special education services to disabled children within the participating school corporations. The School Corporation is obligated by contract to remit its share of funds annually to supplement the Greene-Sullivan Special Education Cooperative. The Cooperative's continued existence depends on continued funding by the School Corporation. Complete financial statements for the Greene-Sullivan Special Education Cooperative can be obtained from 77 A Street Northeast, Linton, IN 47441.

The School Corporation is a participant with 9 other school corporations in a joint venture to operate Twin Rivers Vocational Area which was created to provide vocational educational services to students and citizens within the jurisdiction of the participating school corporations. The School Corporation is obligated by contract to annually remit its share of the funds necessary for operations to supplement the Twin Rivers Vocational Area. The Twin Rivers Vocational Area's continued existence depends on continued funding by the participating school corporations. Complete financial statements for the Twin Rivers Vocational Area can be obtained from 301 East South Street, Washington, IN 47501.

The School Corporation is a participant with 35 other school corporations in a joint venture to operate the Southern Indiana Education Center (SIEC). SIEC was created to operate and maintain an educational service center in order to allow participating schools to cooperate and share certain programs and services. The school corporation is obligated by contract to remit annually a fee for members in an amount determined by the governing board of the SIEC. The SIEC's continued existence depends on continued funding from the participating school corporations. The School Corporation is obligated for the debts of the SIEC. Complete financial statements can be obtained from Southwest Dubois County School Corporation, P.O. Box 238, 201 West Sunset Drive, Huntingburg, IN 47542.

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
NOTES TO FINANCIAL STATEMENTS
(Continued)

Related Organizations

The School Corporation's officials are also responsible for appointing the members of the boards of other organizations, but the School Corporation's accountability for these organizations does not extend beyond making the appointments. The School Corporation appoints the board members of the Jasonville Public Library.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The transportation operating fund accounts for financial resources for the transportation of school children to and from school.

The debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction, and interest on emergency and temporary loans.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

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

Additionally, the School Corporation reports the following fund types:

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

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Agency funds account for assets held by the School Corporation as an agent for employees' payroll withholding and serve as control of accounts for certain cash transactions during the time they are a liability to the School Corporation.

C. Measurement Focus and Basis of Accounting

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

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Property Taxes

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

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Compensated Absences

a. Sick Leave

Certified personnel are authorized 12 days per school year. Unused sick leave may be accumulated to a maximum of 250 days. Accumulated sick leave is paid to certified personnel through cash payments upon retirement. Noncertified personnel are authorized 6 to 9 days per year based upon the number of months of service during a year. Unused sick leave may be accumulated to a maximum of 70 to 100 days. Accumulated sick leave is paid to noncertified personnel, with 10 years of service, through cash payments upon retirement.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 9 days to 12 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 2 to 3 days per year. Personal leave does not accumulate from year to year. Unused personal leave days are transferred to sick days if not used during the school year.

4. Capital Assets

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

5. Long-Term Debt

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

6. Equity Classification

Government-Wide Statements

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

a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

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

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

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

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

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

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

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

Government-Wide Financial Statements

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

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Cash and Investments and the Statement of Cash Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Cash and Investments and the Statement of Cash Activities.

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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.

B. Cash and Investment Balance Deficits

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

Fund	2005	2006
General Fund	\$ -	\$ 52,010
Transportation Operating Fund	79,585	-
Textbook Rental Fund	22,047	29,653

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

III. Detailed Notes on All Funds

A. Deposits

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.

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Interfund Transfers

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

<u>Transfer From</u>	<u>Transfer To</u>	<u>2005</u>	<u>2006</u>
General Fund	Other governmental	\$ -	\$ 40,141
Debt Service Fund	General Fund	656,325	232,353
Debt Service Fund	Other governmental	-	15,340
Capital Projects Fund	Other governmental	-	19,114
Transportation Operating Fund	Other governmental	-	10,394
School Bus Replacement Fund	Other governmental	-	3,684
Other governmental	Debt Service Fund	-	10,000
Other governmental	Capital Projects Fund	-	60,000
Other governmental	Other governmental	33,000	10,263
Totals		<u>\$ 689,325</u>	<u>\$ 401,289</u>

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

IV. Other Information

A. Risk Management

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

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.

B. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
NOTES TO FINANCIAL STATEMENTS
(Continued)

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	\$	31,963
Interest on net pension obligation		(2,691)
Adjustment to annual required contribution		3,067
Annual pension cost		32,339
Contributions made		39,161
Decrease in net pension obligation		(6,822)
Net pension obligation, beginning of year		(37,124)
Net pension obligation, end of year	\$	(43,946)
Contribution rates:		
School Corporation		5.75%
Plan members		3%
Actuarial valuation date		07-01-05
Actuarial cost method		Entry age
Amortization method		Level percentage of projected payroll, closed
Amortization period		40 years
Amortization period (from date)		07-01-97
Asset valuation method		75% of expected actuarial value plus 25% of market value

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
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	\$ 35,813	104%	\$ (26,505)
	06-30-04	29,569	136%	(37,124)
	06-30-05	32,339	132%	(43,946)

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,

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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, 2004, 2005, and 2006, were \$84,499, \$94,525, and \$95,623, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 651,824	\$ 567,120	\$ 84,704	115%	\$ 728,579	12%
07-01-04	667,565	635,553	32,012	105%	678,557	5%
07-01-05	698,480	666,532	31,948	105%	739,152	4%

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The Jr.-Sr. High Extra-Curricular textbook rental fund was overdrawn at June 30, 2005 and 2006. The Corporation transportation operating fund and general fund were overdrawn at June 30, 2005 and June 30, 2006, respectively. A similar comment appeared in prior reports.

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)

CAPITAL ASSET RECORDS

Information presented for audit did not indicate a current inventory or record of capital assets. The last inventory was taken June 30, 2004.

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)

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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 SHAKAMAK, GREENE COUNTY, INDIANA

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

STATE BOARD OF ACCOUNTS

January 4, 2007

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 44,299	\$ 46,768
National School Lunch Program	10.555		126,329	139,472
Total for Cluster			<u>170,628</u>	<u>186,240</u>
Team Nutrition Grants	10.574	CNTN-05-IN-1	-	475
Total for federal grantor agency			<u>170,628</u>	<u>186,715</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Greene-Sullivan Special Education Cooperative				
Special Education Cluster				
Special Education - Grants to States	84.027	FY 05 FY 06	46,983 -	- 70,095
Total for Cluster			<u>46,983</u>	<u>70,095</u>
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010	FY 04 FY 05 FY 06	86,087 172,788 -	- 96,296 154,036
Total for program			<u>258,875</u>	<u>250,332</u>
Pass-Through Twin Rivers Vocational Area				
Vocational Education - Basic Grants to States	84.048	FY 05 FY 06	5,027 -	- 5,027
Pass-Through Indiana Department of Education				
Vocational Education - Basic Grants to States	84.048	FY 05 FY 06	782 -	- 216
Total for program			<u>5,809</u>	<u>5,243</u>
Safe and Drug Free Schools and Communities - State Grants	84.186	SY 02-03 SY 03-04 SY 04-05	926 - -	- 1,900 8,361
Total for program			<u>926</u>	<u>10,261</u>
State Grants for Innovative Programs	84.298	SY 02-03 SY 03-04 SY 04-05	1,965 4,209 -	- 2,420 3,803
Total for program			<u>6,174</u>	<u>6,223</u>
Education Technology State Grants	84.318	SY 03-04 SY 04-05 SY 05-06	20,423 152,000 -	- - 91,862
Total for program			<u>172,423</u>	<u>91,862</u>
Class Size Reduction	84.340	SY 04-05	16,772	-
Improving Teacher Quality State Grants	84.367	FY 05 FY 06	65,576 -	- 73,100
Total for program			<u>65,576</u>	<u>73,100</u>
Total for federal grantor agency			<u>573,538</u>	<u>507,116</u>
<u>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>				
Pass-Through White River Valley School Corporation				
Learn and Serve America - School and Community Based Programs	94.004		458	3,434
Total federal awards expended			<u>\$ 744,624</u>	<u>\$ 697,265</u>

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

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

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

II. Noncash Assistance

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

Program Title	Federal CFDA Number	2005	2006
School Breakfast Program	10.553	\$ 2,678	\$ 4,011
National School Lunch Program	10.555	8,482	11,944

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weaknesses identified? no
 Reportable conditions identified that are not considered to be material weaknesses? none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:
 Material weaknesses identified? no
 Reportable conditions identified that are not considered to be material weaknesses? none reported

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

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

Identification of Major Programs:

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

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

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

METROPOLITAN SCHOOL DISTRICT OF SHAKAMAK
EXIT CONFERENCE

The contents of this report were discussed on January 4, 2006, with Pamela Jerrells, Treasurer; and C.G. Epple, Superintendent of Schools. The officials concurred with our audit findings.