

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

AUDIT REPORT
OF
MONROE-GREGG SCHOOL DISTRICT
MORGAN COUNTY, INDIANA
July 1, 2004 to June 30, 2006



FILED
04/10/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Kelly Dillon	07-01-04 to 06-30-07
Superintendent Of Schools	Joseph Wolfe Paul Kaiser	07-01-04 to 06-30-05 07-01-05 to 06-30-07
President of the School Board	Jack Elliott	07-01-04 to 06-30-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE MONROE-GREGG SCHOOL DISTRICT, MORGAN COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Monroe-Gregg School District (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. 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.

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Long-Term Debt is presented for additional analysis and is not a required part of the basic financial statements. The Schedule of Long-Term Debt has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

January 3, 2007

MONROE-GREGG SCHOOL DISTRICT
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 4,067,216
Restricted assets:	
Cash and investments	<u>366,097</u>
Total assets	<u>\$ 4,433,313</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 366,097
Unrestricted	<u>4,067,216</u>
Total net assets	<u>\$ 4,433,313</u>

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

MONROE-GREGG SCHOOL DISTRICT
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 4,754,755
Restricted assets:	
Cash and investments	<u>488,688</u>
Total assets	<u>\$ 5,243,443</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 488,688
Unrestricted	<u>4,754,755</u>
Total net assets	<u>\$ 5,243,443</u>

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

MONROE-GREGG SCHOOL DISTRICT
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	\$ 3,841,672	\$ -	\$ 62,833	\$ (3,778,839)
Support services	11,498,544	510,469	95,971	(10,892,104)
Community services	108,073	-	-	(108,073)
Nonprogrammed charges	212,189	-	-	(212,189)
Debt service	1,634,418	-	-	(1,634,418)
Total governmental activities	\$ 17,294,896	\$ 510,469	\$ 158,804	(16,625,623)
General receipts:				
Property taxes				4,109,361
Other local sources				956,653
State aid				4,741,266
Grants and contributions not restricted				399,447
Bonds and loans				7,712,152
Sale of property, adjustments, and refunds				1,995
Investment earnings				53,206
Transfers:				
Intergovernmental transfers				42,809
				18,016,889
				1,391,266
				3,042,047
				\$ 4,433,313

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

MONROE-GREGG SCHOOL DISTRICT
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	\$ 4,230,265	\$ -	\$ 52,357	\$ (4,177,908)
Support services	8,783,122	524,303	90,807	(8,168,012)
Community services	134,647	-	-	(134,647)
Nonprogrammed charges	600,927	-	-	(600,927)
Debt service	2,359,962	-	-	(2,359,962)
Total governmental activities	\$ 16,108,923	\$ 524,303	\$ 143,164	(15,441,456)
General receipts:				
Property taxes				5,063,762
Other local sources				1,013,220
State aid				4,932,998
Grants and contributions not restricted				398,064
Bonds and loans				4,453,485
Investment earnings				59,862
Transfers:				
Intergovernmental transfers				330,195
Total general receipts and transfers				16,251,586
Change in cash and investments				810,130
Net assets - beginning				4,433,313
Net assets - ending				\$ 5,243,443

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

MONROE-GREGG SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Construction Equipment	Common School Construction	Other	Totals
Receipts:									
Local sources	\$ 2,323,592	\$ 494,396	\$ 1,204,910	\$ 856,949	\$ 186,768	\$ 27,355	\$ -	\$ 535,616	\$ 5,629,586
Intermediate sources	103	-	-	-	-	-	-	-	103
State sources	4,791,649	-	-	-	-	-	-	70,537	4,862,186
Federal sources	-	-	-	-	-	-	-	437,331	437,331
Bonds and loans	807,156	-	-	-	-	-	6,904,996	-	7,712,152
Sale of property, adjustments and refunds	-	-	-	1,995	-	-	-	-	1,995
Intergovernmental transfers	-	25,000	-	-	-	-	-	17,809	42,809
Total receipts	<u>7,922,500</u>	<u>519,396</u>	<u>1,204,910</u>	<u>858,944</u>	<u>186,768</u>	<u>27,355</u>	<u>6,904,996</u>	<u>1,061,293</u>	<u>18,686,162</u>
Disbursements:									
Current:									
Instruction	3,488,090	2,266	-	-	-	-	-	351,316	3,841,672
Support services	3,027,470	595,896	-	697,310	-	1,703	6,559,746	616,419	11,498,544
Community services	106,241	-	-	-	-	-	-	1,832	108,073
Nonprogrammed charges	169,380	-	-	25,000	-	-	-	17,809	212,189
Debt services	748,299	-	886,119	-	-	-	-	-	1,634,418
Total disbursements	<u>7,539,480</u>	<u>598,162</u>	<u>886,119</u>	<u>722,310</u>	<u>-</u>	<u>1,703</u>	<u>6,559,746</u>	<u>987,376</u>	<u>17,294,896</u>
Excess (deficiency) of total receipts over (under) total disbursements	383,020	(78,766)	318,791	136,634	186,768	25,652	345,250	73,917	1,391,266
Cash and investments - beginning	588,880	298,380	47,306	864,333	(3,351)	1,000,000	38,294	208,205	3,042,047
Cash and investments - ending	<u>\$ 971,900</u>	<u>\$ 219,614</u>	<u>\$ 366,097</u>	<u>\$ 1,000,967</u>	<u>\$ 183,417</u>	<u>\$ 1,025,652</u>	<u>\$ 383,544</u>	<u>\$ 282,122</u>	<u>\$ 4,433,313</u>

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

MONROE-GREGG SCHOOL DISTRICT
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 Equipment	Common School Construction	Bond Construction	Other	Totals
Receipts:										
Local sources	\$ 2,547,153	\$ 519,364	\$ 1,866,534	\$ 913,140	\$ 268,326	\$ 506	\$ -	\$ -	\$ 546,020	\$ 6,661,043
Intermediate sources	103	-	-	-	-	-	-	-	-	103
State sources	4,972,906	-	-	-	-	-	-	-	70,967	5,043,873
Federal sources	-	-	-	-	-	-	-	-	430,354	430,354
Bonds and loans	642,831	167,798	-	333,731	-	-	1,329,125	1,980,000	-	4,453,485
Sale of property, adjustments and refunds	-	-	-	-	-	-	-	-	-	-
Intergovernmental transfers	43,319	76,369	-	-	-	-	-	-	210,507	330,195
Total receipts	8,206,312	763,531	1,866,534	1,246,871	268,326	506	1,329,125	1,980,000	1,257,848	16,919,053
Disbursements:										
Current:										
Instruction	3,877,198	-	-	-	-	-	-	-	353,067	4,230,265
Support services	3,307,638	680,345	-	1,568,989	273,815	984,099	1,262,669	-	705,567	8,783,122
Community services	131,825	-	-	-	-	-	-	-	2,822	134,647
Nonprogrammed charges	295,108	-	85,828	159,157	1,291	-	-	-	59,543	600,927
Debt services	677,438	9,816	1,658,115	14,593	-	-	-	-	-	2,359,962
Total disbursements	8,289,207	690,161	1,743,943	1,742,739	275,106	984,099	1,262,669	-	1,120,999	16,108,923
Excess (deficiency) of total receipts over (under) total disbursements	(82,895)	73,370	122,591	(495,868)	(6,780)	(983,593)	66,456	1,980,000	136,849	810,130
Cash and investments - beginning	971,900	219,614	366,097	1,000,967	183,417	1,025,652	383,544	-	282,122	4,433,313
Cash and investments - ending	\$ 889,005	\$ 292,984	\$ 488,688	\$ 505,099	\$ 176,637	\$ 42,059	\$ 450,000	\$ 1,980,000	\$ 418,971	\$ 5,243,443

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

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

	Private-Purpose Trust Funds
Additions:	
Local sources	\$ 12,718
Deductions:	
Instruction	1,801
Support services	10,335
Total deductions	12,136
Excess of total additions over total deductions	582
Cash and investments - beginning	24,946
Cash and investments - ending	\$ 25,528

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

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

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Additions:		
Local sources	\$ -	\$ 940
Bonds and loans	<u>1,245,000</u>	<u>-</u>
Total additions	<u>1,245,000</u>	<u>940</u>
Deductions:		
Instruction	-	1,000
Support services	<u>-</u>	<u>1,002</u>
Total deductions	<u>-</u>	<u>2,002</u>
Excess (deficiency) of total additions over (under) total deductions	1,245,000	(1,062)
Cash and investments - beginning	<u>-</u>	<u>25,528</u>
Cash and investments - ending	<u>\$ 1,245,000</u>	<u>\$ 24,466</u>

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

MONROE-GREGG SCHOOL DISTRICT
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	\$ <u>25,528</u>	\$ <u>43,398</u>
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ <u>25,528</u>	

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

MONROE-GREGG SCHOOL DISTRICT
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	\$ 1,245,000	\$ 24,466	\$ 35,408
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 1,245,000	\$ 24,466	

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

MONROE-GREGG SCHOOL DISTRICT
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: Monroe-Gregg School District

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 Avon Community School Corporation, Brownsburg School Corporation, Danville Community School Corporation, Eagle-Union School Corporation, Mooresville Consolidated Schools, Plainfield Community School Corporation, School Town of Speedway, and Metropolitan School District of Pike Township, Metropolitan School District of Wayne Township in a joint venture to operate West Central Indiana Joint Services Co-op which was created to provide special education instruction. The West Central Indiana Joint Services Co-op's continued existence depends on continued funding by the School Corporation. Complete financial statements for the West Central Indiana Joint Services Co-op can be obtained from the Metropolitan School District of Wayne Township, 1220 South High School Road, Indianapolis, IN 46241.

The School Corporation is a participant with Avon Community School Corporation, Brownsburg School Corporation, Danville Community School Corporation, Eagle-Union School Corporation, Mooresville Consolidated Schools, Plainfield Community School Corporation, School Town of Speedway, and Metropolitan School District of Pike Township, Metropolitan School District of Wayne Township in a joint venture to operate Area 7 Vocation Education Co-op which was created to provide vocation education instruction. The Area 7 Vocation Education Co-op's continued existence depends on continued funding by the School Corporation. Complete financial statements for the Area 7 Vocation Education Co-op can be obtained from the Metropolitan School District of Wayne Township, 1220 South High School Road, Indianapolis, IN 46241.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

MONROE-GREGG SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

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

The School Corporation reports the following major governmental funds:

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

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

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

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

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

The construction equipment fund is used to account for receipts and disbursements for loose equipment of the new elementary school and for loose equipment for the high school and the middle school.

The common school construction fund is used to account for receipts and disbursements concerning the construction of a new elementary school and the remodel of the high school and junior high school.

The bond construction fund is used to account for receipts and disbursements concerning the construction of a new elementary school and the remodel of the high school and junior high school.

Additionally, the School Corporation reports the following fund types:

The pension trust funds account for the activities of the retirement/severance bond fund, which accumulate resources for pension benefit payments.

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

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

MONROE-GREGG SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Measurement Focus and Basis of Accounting

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

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. Exceptions to this general rule are payments-in-lieu of taxes and other charges. 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.

MONROE-GREGG SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Compensated Absences

a. Sick Leave

Certified personnel and noncertified personnel who work 260 days out of the year earn sick leave at the rate of 10 days per school year. Noncertified personnel who work less than 260 days out of the year earn sick leave at the rate of 8 days per school year. Unused sick leave may be accumulated to a maximum of 90 days. Accumulated sick leave is paid to employees through cash payments upon termination.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate.

c. Personal Leave

Certified personnel and noncertified personnel who work 260 days out of the year earn personal leave at the rate of 3 days per school year. Noncertified personnel who work less than 260 days out of the year earn personal leave at the rate of 2 days per school year. These days are cumulative to a total of 6 days and 3 days, respectively. Any days earned that exceed the maximum days allowed are accumulated to sick leave.

2. Capital Assets

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

3. 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.

4. 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.

MONROE-GREGG SCHOOL DISTRICT
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.

MONROE-GREGG SCHOOL DISTRICT
 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. Disbursements in Excess of Appropriations

For the year ended June 30, 2006, disbursements exceeded budgeted appropriations in the following fund by the amount below:

<u>Fund</u>	<u>2004</u>	<u>2005</u>
Debt Service	<u>\$ -</u>	<u>\$ 4,524</u>

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

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

2. Investments

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

MONROE-GREGG SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Investment Policies

Indiana Code 5-13-9 authorizes the School Corporation to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the School Corporation and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the School Corporation may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

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>2004</u>	<u>2005</u>
Debt Service	Transporation Operating	\$ 25,000	\$ 76,369
	Other governmental	-	43,319
Capital Project	Other governmental	-	151,031
	Other governmental	-	43,319
	Other governmental	<u>17,809</u>	<u>16,157</u>
Totals		<u>\$ 42,809</u>	<u>\$ 330,195</u>

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

MONROE-GREGG SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Restatements and Reclassifications

For the year ended June 30, 2006, certain changes have been made to the financial statements to more appropriately reflect financial activity of the School Corporation. The following schedule presents a summary of restated beginning balances by opinion unit. New Funds represents the inclusion of existing funds which were not presented in the prior report. Prior period adjustments represent errors in combining textbook rental transactions.

Opinion Unit	Balance as Reported December 31, 2003	Fund Reclassification	New Funds	Prior Period Adjustments	Balance as Restated January 1, 2004
Net Assets	\$ 3,072,079	\$ (24,946)	\$ -	\$ (5,086)	\$ 3,042,047
General	619,422	(25,456)	-	(5,086)	588,880
Common Sch. Const.	-	38,294	-	-	38,294
Other Funds	245,989	(37,784)	-	-	208,205
Private-Purpose Trust	-	24,946	-	-	24,946

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

During 1999, the School Corporation joined with other governmental entities to form the Hoosier Heartland School Trust, a public entity risk pool currently operating as a common risk management and insurance program for eight member governmental entities. The purpose of the risk pool is to provide a medium for the funding and administration of medical benefits to employees. The School Corporation pays an annual premium to the risk pool for its medical benefit coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$75,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$5,000,000 limit.

B. Holding Corporations

The School Corporation has entered into a capital lease with Monroe-Gregg School Building and Renovation Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the year totaled \$267,467.

MONROE-GREGG SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

The School Corporation has entered into a capital lease with Monroe-Gregg Elementary Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the year totaled \$962,675.

C. Pension Plans

1. 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.

MONROE-GREGG SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 62,158
Interest on net pension obligation	(14,352)
Adjustment to annual required contribution	16,355
Annual pension cost	64,161
Contributions made	75,039
Decrease in net pension obligation	(10,878)
Net pension obligation, beginning of year	197,957
Net pension obligation, end of year	\$ 187,079
Contribution rates:	
School Corporation	7.25%
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%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 79,611	92%	\$ (185,441)
	06-30-04	61,101	120%	(197,957)
	06-30-05	64,161	123%	(208,835)

MONROE-GREGG SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$121,526, \$97,628, and \$77,317, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

MONROE-GREGG SCHOOL DISTRICT
 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	\$ 1,153,497	\$ 1,259,731	\$ (106,234)	92%	\$ 1,096,791	(10%)
07-01-04	1,182,317	1,288,568	(106,251)	92%	1,113,301	(10%)
07-01-05	1,241,623	1,508,573	(266,950)	82%	1,095,647	(24%)

MONROE-GREGG SCHOOL DISTRICT
 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 Renovation	\$ 1,255,000	\$ 210,000
Grade School Building	12,450,000	590,000
Notes and loans payable		
Common School A0303	450,000	75,000
Common School A0515	9,000,000	221,868
Tax Warrants	1,150,267	1,150,267
Bonds payable:		
General obligation bonds:		
Energy Saving	2,000,000	-
Pension Bonds	1,245,000	-
 Total governmental activities long-term debt	 <u>\$ 27,550,267</u>	 <u>\$ 2,247,135</u>

MONROE-GREGG SCHOOL DISTRICT
AUDIT RESULTS AND COMMENTS

DEPOSITS (Applies to Hall Elementary School and Monrovia Middle School)

Receipts in numerous instances were deposited late.

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

RECEIPT ISSUANCE (Applies to Monrovia Elementary School)

Receipts were not always issued.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

OFFICIAL BOND

The Extra-Curricular Treasurer official bonds have not been filed in the Office of the County Recorder since 2003.

Indiana Code 5-4-1-5.1(b) states in part: “Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder . . .”

TICKET SALES (Applies to Monrovia High School)

The tickets sold for events at the Monrovia High School were not always prenumbered. Also, the first and last ticket used for each event was not attached to SA-4 Ticket Sale Form.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

CAPITAL ASSET RECORDS

Information presented for audit did not indicate an inventory or record of capital assets.

Every governmental unit should have a complete inventory of all fixed assets owned which reflect their acquisition value. Such inventory should be recorded on the applicable General Fixed Asset Account Group Form. 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)

MONROE-GREGG SCHOOL DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

CONDITION OF RECORDS

The following deficiencies relating to the recordkeeping were noted.

Some transactions were recorded as “negative” receipts and disbursements.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

APPROPRIATIONS

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

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
Debt Service	2005	<u>\$ 4,524</u>

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

OLD OUTSTANDING CHECKS

Our review of the bank reconciliements as of June 30, 2006, revealed warrants outstanding in excess of two years.

Indiana Code 5-11-10.5-2 states in part: “All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void.”

Indiana Code 5-11-10.5-3 states in part: “Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the: (1) board of finance of the political subdivision; or (2) the fiscal body of a city or town. The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer.”

MONROE-GREGG SCHOOL DISTRICT
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-10.5-5 states:

“(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision.”

MONROE-GREGG SCHOOL DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on January 25, 2007, with Kelly Dillon, Treasurer; and Barry Newman, Director of Technology. The officials concurred with our audit findings.