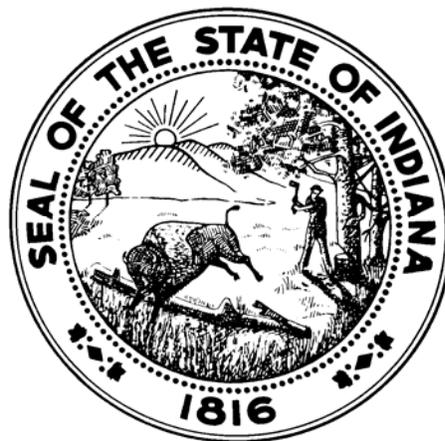


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF
MUNCIE COMMUNITY SCHOOLS
DELAWARE COUNTY, INDIANA
July 1, 2004 to June 30, 2006



FILED
04/12/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Mark A. Burkhart	07-01-04 to 06-30-07
Superintendent of Schools	Dr. Marlin B. Creasy	07-01-04 to 06-30-07
President of the School Board	Jennifer J. Abrell Robert E. Kellems	07-01-04 to 06-30-06 07-01-06 to 06-30-07



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

TO: THE OFFICIALS OF MUNCIE COMMUNITY SCHOOLS, DELAWARE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Muncie Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In 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 March 12, 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.

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

March 12, 2007



STATE OF INDIANA
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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 MUNCIE COMMUNITY SCHOOLS, DELAWARE COUNTY, INDIANA

We have audited the financial statements of the Muncie Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated March 12, 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School Corporation's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

A material weakness is a condition in which the design or operation of one or more of the internal control 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

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

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that are also considered to be material weaknesses. Of the reportable conditions described above, we consider item 2006-1 to be a material weakness.

We noted other matters involving the internal control over financial reporting that we have discussed with the management of the School Corporation on March 12, 2007. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

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

STATE BOARD OF ACCOUNTS

March 12, 2007

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 20,886,050
Restricted assets:	
Cash and investments	<u>1,645,930</u>
Total assets	<u>\$ 22,531,980</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,645,930
Unrestricted	<u>20,886,050</u>
Total net assets	<u>\$ 22,531,980</u>

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

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

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 53,296,241
Restricted assets:	
Cash and investments	<u>1,746,266</u>
Total assets	<u>\$ 55,042,507</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,746,266
Unrestricted	<u>53,296,241</u>
Total net assets	<u>\$ 55,042,507</u>

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

MUNCIE COMMUNITY SCHOOLS
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	\$ 36,610,027	\$ -	\$ 738,104	\$ (35,871,923)
Support services	44,199,778	996,176	2,167,449	(41,036,153)
Community services	822,700	-	-	(822,700)
Nonprogrammed charges	10,025,274	-	-	(10,025,274)
Debt service	13,685,116	-	-	(13,685,116)
Total governmental activities	<u>\$ 105,342,895</u>	<u>\$ 996,176</u>	<u>\$ 2,905,553</u>	<u>(101,441,166)</u>
General receipts:				
Property taxes				39,593,705
Other local sources				5,797,624
State aid				36,748,409
Grants and contributions not restricted				13,186,009
Bonds and loans				9,500,000
Sale of property, adjustments, and refunds				2,413,871
Investment earnings				248,033
Transfers:				
Intergovernmental				<u>6,464,341</u>
Total general receipts and transfers				<u>113,951,992</u>
Change in cash and investments				12,510,827
Net assets - beginning				<u>10,021,153</u>
Net assets - ending				<u>\$ 22,531,980</u>

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

MUNCIE COMMUNITY SCHOOLS
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	\$ 34,076,780	\$ -	\$ 311,940	\$ (33,764,840)
Support services	47,016,286	910,106	2,714,560	(43,391,620)
Community services	751,354	-	-	(751,354)
Nonprogrammed charges	11,209,112	-	-	(11,209,112)
Debt service	14,077,970	-	-	(14,077,970)
Total governmental activities	<u>\$ 107,131,502</u>	<u>\$ 910,106</u>	<u>\$ 3,026,500</u>	<u>(103,194,896)</u>
General receipts:				
Property taxes				27,892,923
Other local sources				4,804,631
State aid				38,760,957
Grants and contributions not restricted				11,939,503
Bonds and loans				38,220,000
Sale of property, adjustments, and refunds				4,882,288
Investment earnings				927,384
Transfers:				
Intergovernmental				<u>8,277,737</u>
Total general receipts and transfers				<u>135,705,423</u>
Change in cash and investments				32,510,527
Net assets - beginning				<u>22,531,980</u>
Net assets - ending				<u>\$ 55,042,507</u>

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

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

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 24,447,660	\$ 4,264,636	\$ 5,976,801	\$ 7,911,552	\$ -	\$ 3,999,742	\$ 46,600,391
Intermediate sources	96	-	-	-	-	3,038	3,134
State sources	37,172,952	-	-	-	-	1,553,898	38,726,850
Federal sources	-	-	-	-	-	14,113,124	14,113,124
Bonds and loans	9,500,000	-	-	-	-	-	9,500,000
Sale of property, adjustments and refunds	144,554	-	-	3,120	-	13,800	161,474
Intergovernmental transfers	-	-	-	-	-	8,728,023	8,728,023
Total receipts	<u>71,265,262</u>	<u>4,264,636</u>	<u>5,976,801</u>	<u>7,914,672</u>	<u>-</u>	<u>28,411,625</u>	<u>117,832,996</u>
Disbursements:							
Current:							
Instruction	23,886,475	-	-	-	-	12,749,923	36,636,398
Support services	24,242,256	2,303,704	471	6,435,328	-	9,051,270	42,033,029
Community services	214,800	-	-	-	-	660,640	875,440
Nonprogrammed charges	6,420,377	150,139	213,827	285,737	-	5,218,876	12,288,956
Debt services	9,500,000	-	3,802,388	-	-	382,728	13,685,116
Total disbursements	<u>64,263,908</u>	<u>2,453,843</u>	<u>4,016,686</u>	<u>6,721,065</u>	<u>-</u>	<u>28,063,437</u>	<u>105,518,939</u>
Excess of total receipts over total disbursements	7,001,354	1,810,793	1,960,115	1,193,607	-	348,188	12,314,057
Cash and investments - beginning	8,226,547	645,842	(304,946)	187,850	254,698	(2,632,241)	6,377,750
Cash and investments - ending	<u>\$ 15,227,901</u>	<u>\$ 2,456,635</u>	<u>\$ 1,655,169</u>	<u>\$ 1,381,457</u>	<u>\$ 254,698</u>	<u>\$ (2,284,053)</u>	<u>\$ 18,691,807</u>

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

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ 12,314,057
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>196,770</u>
Change in cash and investments of governmental activities.	<u>\$ 12,510,827</u>

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

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	2006 Construction	Other	Totals
Receipts:								
Local sources	\$ 17,182,918	\$ 3,230,955	\$ 4,076,484	\$ 5,973,414	\$ -	\$ -	\$ 3,971,737	\$34,435,508
Intermediate sources	48	-	-	-	-	-	3,951	3,999
State sources	38,941,957	-	-	-	-	-	1,200,908	40,142,865
Federal sources	-	-	-	-	-	-	13,584,095	13,584,095
Bonds and loans	9,000,000	-	-	-	-	29,220,000	-	38,220,000
Sale of property, adjustments and refunds	87,758	-	-	1,809	-	-	2,086,984	2,176,551
Intergovernmental transfers	1,406,825	159,967	-	-	-	-	8,676,872	10,243,664
Total receipts	66,619,506	3,390,922	4,076,484	5,975,223	-	29,220,000	29,524,547	138,806,682
Disbursements:								
Current:								
Instruction	22,274,827	-	-	-	-	-	11,818,359	34,093,186
Support services	24,897,801	2,981,891	467	6,408,039	-	-	9,642,418	43,930,616
Community services	202,295	-	-	-	-	-	596,738	799,033
Nonprogrammed charges	7,147,199	453	149,609	806	-	-	5,872,603	13,170,670
Debt services	9,500,000	-	3,814,010	-	-	-	763,960	14,077,970
Total disbursements	64,022,122	2,982,344	3,964,086	6,408,845	-	-	28,694,078	106,071,475
Excess (deficiency) of total receipts over (under) total disbursements	2,597,384	408,578	112,398	(433,622)	-	29,220,000	830,469	32,735,207
Cash and investments - beginning	15,227,901	2,456,635	1,655,169	1,381,457	254,698	-	(2,284,053)	18,691,807
Cash and investments - ending	<u>\$ 17,825,285</u>	<u>\$ 2,865,213</u>	<u>\$ 1,767,567</u>	<u>\$ 947,835</u>	<u>\$ 254,698</u>	<u>\$ 29,220,000</u>	<u>\$ (1,453,584)</u>	<u>\$51,427,014</u>

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

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$32,735,207
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>(224,680)</u>
Change in cash and investments of governmental activities.	<u>\$32,510,527</u>

MUNCIE COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
PROPRIETARY FUNDS
For The Year Ended June 30, 2005

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 32,010
Sale of property, adjustments and refunds	<u>11,940,481</u>
Total receipts	<u>11,972,491</u>
Disbursements:	
Support services	<u>11,775,721</u>
Changes in cash and investments	196,770
Cash and investments - beginning	<u>3,643,403</u>
Cash and investments - ending	<u><u>\$ 3,840,173</u></u>

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

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

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 91,161
Sale of property, adjustments and refunds	<u>12,862,444</u>
Total receipts	<u>12,953,605</u>
Disbursements:	
Support services	<u>13,178,285</u>
Changes in cash and investments	(224,680)
Cash and investments - beginning	<u>3,840,173</u>
Cash and investments - ending	<u><u>\$ 3,615,493</u></u>

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

MUNCIE COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2005

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ -	\$ 587
Sale of property, adjustments and refunds	6,000,000	-
Total additions	6,000,000	587
Deductions:		
Instruction	-	3,907
Support services	27,099	1,500
Total deductions	27,099	5,407
Excess (deficiency) of total additions over (under) total deductions	5,972,901	(4,820)
Cash and investments - beginning	-	25,684
Cash and investments - ending	\$ 5,972,901	\$ 20,864

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

MUNCIE COMMUNITY SCHOOLS
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:		
Local sources	\$ -	\$ 677
Deductions:		
Instruction	-	3,329
Community services	-	200
Total deductions	-	3,529
Deficiency of total additions under total deductions	-	(3,529)
Cash and investments - beginning	5,972,901	20,864
Cash and investments - ending	\$ 5,972,901	\$ 17,335

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

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

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 5,972,901	\$ 20,864	\$ 321,328
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 5,972,901	\$ 20,864	

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

MUNCIE COMMUNITY SCHOOLS
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	\$ 5,972,901	\$ 17,335	\$ 327,222
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 5,972,901	\$ 17,335	

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

MUNCIE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Primary Government: Muncie Community Schools

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 several area schools in a joint venture to operate the Delaware/Blackford Special Education Cooperative which was created to provide special education services. The School Corporation is obligated for the debts of the Delaware/Blackford Special Education Cooperative. Complete financial statements for the Delaware/Blackford Special Education Cooperative can be obtained from the School Corporation.

The School Corporation is a participant with several area schools in a joint venture to operate the State District 22 Vocational Education Cooperative which was created to provide vocational education services. The Cooperative's continued existence depends on continued funding by the School Corporation. The School Corporation is obligated for the debts of the Cooperative. Complete financial statements for the Cooperative can be obtained from the School Corporation.

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. However, there are no business-type activities to report at this time.

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.

MUNCIE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 2006 construction fund is used to account for receipts and disbursements concerning the construction projects.

Additionally, the School Corporation reports the following fund types:

The internal service fund accounts for receipts and disbursements for employee health insurance benefits.

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 withholding authorities and serve as control of accounts for certain cash transactions during the time they are a liability to the School Corporation.

C. Measurement Focus and Basis of Accounting

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

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.

MUNCIE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to other departments or agencies primarily within the government (internal service funds). There is one internal service fund for self-insurance. This fund is supported by employee contributions through payroll deductions and school corporation contributions. The School Corporation does not have any enterprise funds.

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Property Taxes

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

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 7 to 10 days per year based on position. Unused sick leave may be accumulated to a maximum of 100 to 187 days based on position. Accumulated sick leave is paid to employees through cash payments upon severance of employment.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 10 to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

MUNCIE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

c. Personal Leave

School Corporation employees earn personal leave at the rate of 3 days per year. Unused personal leave is converted to sick leave.

4. Capital Assets

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

5. Long-Term Debt

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

6. Equity Classification

Government-Wide Statements

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

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

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

Fund Financial Statements

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

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

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

MUNCIE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

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

Government-Wide Financial Statements

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

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

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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.

MUNCIE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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	2004-2005	2005-2006
Textbook Rental	\$ -	\$ 300,284
2004-2005 Delaware-Blackford Special Ed Coop	5,069,043	-
2005-2006 Delaware-Blackford Special Ed Coop	-	4,788,974
2004-2005 Vocational Coop District 22 ACC	791,363	-
2005-2006 Vocational Coop District 22 ACC	-	787,932
Opportunity School	614,186	629,909
2005-2006 IDEA Pass-Through	-	1,100,956

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.

B. Interfund Transfers

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

Transfer From	Transfer To	2004-2005	2005-2006
General Fund	Other governmental	\$ 1,015,994	\$ 88,512
General Fund	Internal Service	6,353,340	7,396,462
Debt Service	Other governmental	213,827	149,609
Transportation	Other governmental	150,139	160,420
Transportation	Internal Service	49,833	71,058
Capital Projects	Other governmental	285,737	806
Capital Projects	Internal Service	255,228	-
Other governmental	General Fund	-	1,406,825
Other governmental	Other governmental	597,985	155,385
Other governmental	Internal Service	3,029,682	2,689,187
Totals		<u>\$ 11,951,765</u>	<u>\$ 12,118,264</u>

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

MUNCIE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

IV. Other Information

A. Risk Management

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

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees

The School Corporation has chosen to establish a risk financing fund for risks associated with medical benefits. The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund where assets are set aside for claim settlement. An excess policy through commercial insurance covers individual claims in excess of \$100,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. A premium is charged to each fund that accounts for payroll. The total charge allocated to each of the funds is calculated using actual claims experience. Provisions are also made for unexpected and unusual claims.

B. Holding Corporation

The School Corporation has entered into a capital lease with Muncie School 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 years ended June 30, 2005 and 2006, totaled \$3,612,916 and \$3,613,771.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 55 with at least 10 years of service. Currently, 189 retirees meet these eligibility requirements. The School Corporation and retirees provide 98% and 2%, respectively, of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$1,252,165 were recognized for postemployment benefits.

MUNCIE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plans

a. 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.

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

MUNCIE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plans

	PERF
Annual required contribution	\$ 493,574
Interest on net pension obligation	(71,749)
Adjustment to annual required contribution	81,763
Annual pension cost	503,588
Contributions made	648,772
Decrease in net pension obligation	(145,184)
Net pension obligation, beginning of year	(989,637)
Net pension obligation, end of year	\$ (1,134,821)
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%

MUNCIE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	<u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension Cost</u> <u>(APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
PERF	06-30-03	\$ 632,161	120%	\$ (766,898)
	06-30-04	487,291	146%	(989,637)
	06-30-05	503,588	133%	(1,134,821)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan(s)

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 \$1,252,444, \$1,214,872, and \$1,096,076, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

MUNCIE COMMUNITY SCHOOLS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	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	\$ 11,194,061	\$ 11,478,915	\$ (284,854)	98%	\$ 9,504,460	(3%)
07-01-04	11,472,405	11,898,381	(425,976)	96%	9,258,869	(5%)
07-01-05	11,994,176	13,799,993	(1,805,817)	87%	9,648,284	(19%)

MUNCIE COMMUNITY SCHOOLS
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
School facilities	\$ 23,675,000	\$ 1,270,000
Notes and loans payable	408,289	143,442
Bonds payable:		
General obligation bonds:		
School improvements	55,000,000	-
Revenue bonds:		
Pension Bonds	<u>5,285,000</u>	<u>265,000</u>
Total governmental activities long-term debt	<u>\$ 84,368,289</u>	<u>\$ 1,678,442</u>

MUNCIE COMMUNITY SCHOOLS
OTHER REPORT

The audit report presented herein was prepared in addition to other official reports prepared for the individual School Corporation offices listed below:

Mitchell Elementary School

MUNCIE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

RECEIPT ISSUANCE – SERVICE CENTER

Receipt forms were not being issued for building rental payments received at the Service Center.

Receipt forms 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 Indiana Public School Corporations, Chapter 9)

COMPENSATION AND BENEFITS

Stipends were being paid to certified personal and not included in the payroll system or on the salary or resolution. A similar comment appeared in Report B24922.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

AVERAGE DAILY MEMBERSHIP (ADM) – AMOUNT DUE THE STATE OF INDIANA DUE TO CORRECTED ENROLLMENT FIGURES AND INCORRECT REPORTS SUBSEQUENTLY SUBMITTED FOR YEARS 2000-2001 AND 2001-2002

Prior Report B24922 noted a difference between the student count reported for Average Daily Membership and the verified figures of Muncie Community Schools for the 2000-2001 and the 2001-2002 school years. The Audit Report concluded that that School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment the School Corporation has received or could receive in the future because of incorrect reporting.

The Department of Education notified the School Corporation by letter dated July 21, 2003, of the recalculation of the Basic Grant based upon the subsequent modified counts per Form 30A submitted for average daily membership which resulted in the School Corporation being required to refund a total of \$10,468.70 and \$23,957.14 to the State of Indiana for 2001 and 2002, respectively.

The subsequent modified counts shown on the revised Form 30A submitted to the Indiana Department of Education, Division of School Finance did not agree with the actual enrollment figures computed by the State Board of Accounts. The counts were still overstated by 14.5 and 19 for the 2000-2001 and 2001-2002 school years, respectively. The students were enrolled, however, the students were not receiving instructional services.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

MUNCIE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

AVERAGE DAILY MEMBERSHIP (ADM) - AMOUNT DUE THE STATE OF INDIANA DUE TO CORRECTED ENROLLMENT FIGURES FOR YEARS 2002-2003 AND 2003-2004

The information presented for audit indicated enrollment figures on Form 30A, Report of Average Daily Membership (ADM) for State Support, were incorrect for the school years ending June 30, 2003 and June 30, 2004 as noted in prior Report B24922. Enrollment figures on Form 30A included students who had withdrawn prior to the count date and students who were enrolled but did not receive instructional services. Enrollment lists were not signed by the principals.

The enrollment count dates for 2002-2003 and 2003-2004 were September 13, 2002, and September 12, 2003, respectively. Further research in 2007, of the revised Form 30A submitted by the School for 2002-2003 and 2003-2004 indicated an additional eight students for grades 1 through 12 and one student for grades 1 through 12 respectively, and are reflected in the Actual Enrollment Figures noted below. The difference between the count reported on the ADM and the verified figures are shown below:

<u>School Year</u>	<u>Grade</u>	<u>Count as Reported on Form Number 30A</u>	<u>Actual Enrollment Figures</u>	<u>Difference</u>
2002-2003	Kindergarten	306.0	303.5	2.5
	1 Through 12	7,654.7	7,633.7	21.0
2003-2004	Kindergarten	325.0	324.5	.5
	1 Through 12	7,442.4	7,430.4	12.0

A memorandum from the Indiana Department of Education, Division of School Finance, dated August 15, 2003, states in part, "In order for a student to be included in this count, the student must not only be enrolled, but must also be receiving instructional services during the 2003-2004 school year and as of the count date. A student who was enrolled and attending your school corporation during the 2002-2003 school year cannot be considered enrolled and attending your school corporation in the 2003-2004 school year unless that student is receiving instructional services from the school corporation as of September 12, 2003."

Officials should maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM. The building level official (Principal, Assistant Principal, etc.) responsible for reporting ADM to the School Corporation Central Office, should provide a written certification of ADM to properly document responsibility. The certification should at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (The School Administrator and Uniform Compliance Guidelines, Volume 123, September 1993, and Volume 142, June 1998)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment applicable to the School Corporation because of incorrect reporting. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

MUNCIE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

AVERAGE DAILY MEMBERSHIP (ADM) - INCORRECT REPORTING TO THE STATE

The information presented for audit indicated enrollment figures on Form Number 30A, Report of Average Daily Membership (ADM) for State Support, were incorrect for the school year ending June 30, 2005. Enrollment figures on Form 30A included students who had withdrawn prior to the count date and students who were enrolled but did not receive instructional services. Enrollment lists were not signed by the principals for the 2004-2005 and 2005-2006 years.

The enrollment count date for 2004-2005 was September 17, 2004. The difference between the count reported on the ADM and the verified figures are shown below:

<u>School Year</u>	<u>Grade</u>	<u>Count as Reported on Form Number 30A</u>	<u>Actual Enrollment Figures</u>	<u>Difference</u>
2004-2005	Kindergarten	327.20	324.00	3.20
	1 Through 12	7,271.23	7,242.40	28.79

Officials should maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM. The building level official (Principal, Assistant Principal, etc.) responsible for reporting ADM to the School Corporation Central Office, should provide a written certification of ADM to properly document responsibility. The certification should at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (The School Administrator and Uniform Compliance Guidelines, Volume 123, September 1993, and Volume 142, June 1998)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9).

School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment applicable to the School Corporation because of incorrect reporting. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

SALE OF MORRISON MOCK ELEMENTARY PROPERTY

The School Board approved the sale of the Morrison Mock Elementary facility to Comprehensive Mental Health Services, Inc., (CMHS) a not-for-profit on December 13, 2005. CMHS provides mental health services. The School Corporation did not publish a notice setting forth the terms and conditions of the sale. The sale was not made through an auctioneer or sealed bids. The School Corporation sold the property under Indiana Code 36-1-11-1(b).

Indiana Code 36-1-11-1(b) states in part: "This chapter does not apply to the following: (7) The sale or lease of property by a unit to an Indiana nonprofit corporation organized for educational, literary, scientific, religious, or charitable purposes that is exempt from federal income taxation under Section 501 of the Internal Revenue Code or the sale or reletting of that property by the nonprofit corporation."

MUNCIE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 36-1-2-23 states, "Unit' means county, municipality, or township."

Indiana Code 36-1-11-4 states in part: "(c) After the property is appraised, the disposing agent shall publish a notice in accordance with IC 5-3-1 setting forth the terms and conditions of the sale and, when subsection (e) is employed, may engage an auctioneer licensed under IC 25-6.1 to advertise the sale and to conduct a public auction. The advertising conducted by the auctioneer is in addition to any other notice required by law and shall include a detailed description of the property to be sold stating the key numbers, if any, of the tracts within that property The notice must state the following: (1) Bids will be received beginning on a specific date. (2) The sale will continue from day to day for a period determined by the disposing agent of not more than sixty (60) days. (3) The property may not be sold to a person who is ineligible under section 16 of this chapter. (4) A bid submitted by a trust (as defined in IC 30-4-1-1(a)) must identify each: (A) beneficiary of the trust; and (B) settlor empowered to revoke or modify the trust. (d) A bid must be open to public inspection. A bidder may raise the bidder's bid, and subject to subsection (e), that raise takes effect after the board has given written notice of that raise to the other bidders. (e) The disposing agent may also engage an auctioneer licensed under IC 25-6.1 to conduct a sale by public auction. The auction may be conducted either at the time for beginning the sale in accordance with the public notice or after the beginning of the sale. The disposing agent shall give each bidder who has submitted a bid written notice of the time and place of the auction."

Indiana Code 36-1-11-5.5 states, "Notwithstanding IC 5-22-22 and sections 4, 4.1, 4.2, and 5 of this chapter, a disposing agent of a school corporation may sell or transfer: (1) real property; or (2) tangible or intangible personal property, licenses, or any interest in the tangible or intangible personal property or licenses that are used in, or related to, the operation of a radio station by a school corporation; for no compensation or a nominal fee to a not-for-profit corporation created for educational or recreational purposes unless the corporation is subject to section 16 of this chapter."

CONFLICT OF INTEREST

The School Corporation sold the Morrison Mock Elementary building in December 2005 to Comprehensive Mental Health Services, Inc., for \$555,000. Jennifer J. Abrell was President of the School Board for the period June 1, 2004 to June 30, 2006. She is currently a board member. The firm she is employed by has provided legal services to the Comprehensive Mental Health Association. A Uniform Conflict of Interest Disclosure Statement does not appear to have been filed.

Indiana Code 35-44-1-3 states in part:

"(a) A public servant who knowingly or intentionally: (1) has a pecuniary interest in; or (2) derives a profit from; a contract or purchase connected with an action by the governmental entity served by the public servant commits conflict of interest, a Class D felony. . ."

"(c) This section does not prohibit a public servant from having a pecuniary interest in or deriving a profit from a contract or purchase connected with the governmental entity served ... (3) if the public servant; (A) is an elected public servant . . . and (B) makes a disclosure under subsection (d)(1) through (d)(6)."

"(d) A disclosure required by this section must: (1) be in writing; (2) describe the contract or purchase to be made by the governmental entity; (3) describe the pecuniary interest that the public servant has in the contract or purchase; (4) be affirmed under penalty of perjury; (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the

MUNCIE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

governmental entity prior to final action on the contract or purchase; (6) be filed within fifteen (15) days after final action on the contract or purchase with: (A) the state board of accounts; and (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase . . .”

“(g) A public servant has a pecuniary interest in a contract or purchase if the contract or purchase will result or is intended to result in an ascertainable increase in the income or net worth of: (1) the public servant; or (2) a dependent of the public servant who: (A) is under the direct or indirect administrative control of the public servant; or (B) receives a contract or purchase order that is reviewed, approved, or directly or indirectly administered by the public servant . . .”

CONSTRUCTION CONTRACTS

Construction contracts were signed by the Associate Superintendent/Treasurer. A paving contract was signed by the Director of Facilities and Operations.

Indiana Code 20-26-4-8 states in part: “Notwithstanding any other law, the president and secretary of the governing body of a school corporation are entitled, on behalf of the school corporation, to sign any contract . . .”

CAPITAL ASSET RECORDS

Capital asset records did not include Construction Work in Progress in the amount of \$1,089,453. Other capital asset additions were posted for improper amounts.

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)

RECEIPT ISSUANCE – ADMINISTRATION OFFICE

Receipts were not written until the time of deposit. Deposits were being made three times a week. A similar comment appeared in prior Report B24922

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 Indiana Public School Corporations, Chapter 9)

Indiana Code 5-13-6-1(c) states in part: “. . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . boards of finance.”

MUNCIE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

TRANSFER TUITION

The School Corporation has established transfer tuition rates prior to the beginning of the school year based on estimated student expenses and requiring transfer tuition to be paid in advance of student attendance. Individual schools were collecting tuition on an installment basis throughout the year. The Transfer Tuition Statements (Form 515) were not completed using actual expenditures.

Indiana Code 20-26-11-6 states in part: “(a) A school corporation may accept a transferring student without approval of the transferor corporation under section 5 of this chapter. (b) A transfer may not be accepted unless the requesting parents or student pays transfer tuition in an amount determined under the formula established . . .”

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) (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

OVERDRAWN CASH BALANCES

The cash balances of the following funds were overdrawn at June 30:

Fund	2004-2005	2005-2006
Textbook Rental	\$ -	\$ 300,284
2004-2005 Delaware-Blackford Special Ed Cooperative	5,069,043	-
2005-2006 Delaware-Blackford Special Ed Cooperative	--	4,788,974
2004-2005 Vocational Cooperative District 22 ACC	791,363	-
2005-2006 Vocational Cooperative District 22 ACC	-	787,932
Opportunity School	614,186	629,909
2005-2006 IDEA Pass-Through	-	1,100,956

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

ECA EDUCATIONAL FEES (Applies to Central High, Southside High, Wilson Middle, Garfield Elementary, Muncie Area Career Center, Mitchell Elementary, Storer Elementary, Sutton Elementary, Washington-Carver Elementary, and Westview Elementary Schools)

Some educational fees were being receipted to and retained in an extra-curricular fund.

Indiana Code 20-5-3-1(c) concerning duties of the School Corporation Treasurer, states in part: “The treasurer is the official custodian of all funds of the school corporation and is responsible for the proper safeguarding and accounting for all the funds . . .” Therefore, all grant monies and properly authorized fees at an individual building should be transferred to the School Corporation Central Office on a timely and regular basis for receipting into the appropriate school corporation fund. The School Corporation Attorney should provide written guidance concerning whether fees are appropriate in regards to Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 6)

MUNCIE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

ORDINANCES AND RESOLUTIONS (Applies to Central High, Wilson Middle, Claypool Elementary, Mitchell Elementary, Storer Elementary, and Washington-Carver Elementary Schools)

The Schools did not submit delinquent textbook rental fees collected to the School Corporation as required by school policy for the fiscal years ending 2005 and for 2006

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

INCORRECT USE OF TICKET SALES FORM SA-4 (Applies to Central High, Southside High, Northside Middle, and Wilson Middle Schools).

The following errors were noted concerning the preparation of ticket sales forms:

Reports were not prepared for all sporting events.

Reports were not signed by either the person receiving the money or the Athletic Director.

Several of the reports did not include the ticket number returned.

Several of the deposits did not agree to the ticket sales report by immaterial amounts.

The beginning ticket number of the subsequent event did not always agree with the last ticket number returned.

Free and reduced ticket sales were not identified.

Ticket sales reports in use were not a prescribed or approved form.

A similar comment appeared in prior Report B24922.

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)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Ticket sales conducted by any activity should be accounted for as follows:

The Treasurer should be responsible for the proper accounting for all tickets and should keep a record of the number purchased, the number issued for sale, and the number returned. The Treasurer should see that proper accounting is made for the cash received from those sold. All tickets shall be prenumbered, with a different ticket color and numerical series for each price group. When cash for ticket sales is deposited with the treasurer, the Treasurer's receipt issued therefore should show the number of tickets issued to the seller, the number returned unsold and the balance remitted in cash. All tickets (including free or reduced) must be listed and accounted for on the SA-4 Ticket Sales Form. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

MUNCIE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

Serially prenumbered tickets by the printing supplier should be used for all athletic and other extra-curricular activities and events for which admission is charged. Part of the prenumbered ticket should be given to the person paying for the ticket upon admission to the event. The other part of the ticket (which should also be prenumbered, referred to as the stub) should be retained. All tickets (unused tickets and stubs) should be retained for audit. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

Tickets for each price group should be different colors and/or different in their series number. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

ECA DEPOSITS (Applies to Central High, Mitchell Elementary, and Northview Elementary Schools)

Collections were not always deposited within a reasonable time. Receipts, in some instances, were held for periods in excess of 46 days before depositing. Receipts, in some cases, accumulated to over \$10,000 before a deposit was made.

A similar comment appeared in prior Report B24922.

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

RECEIPT ISSUANCE – ECA (Applies to Central High, Southside, High, Wilson Middle, Garfield Elementary, Mitchell Elementary, Morrison-Mock Elementary Schools, Southview Elementary, and Sutton Elementary Schools)

Receipts were not issued when money was received.

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)

PRESCRIBED FORMS (Applies to Central High School)

Prescribed Register of Investments Form 350 or approved forms was not always in use or was used incorrectly.

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)

PUBLIC RECORDS RETENTION (Applies to Mitchell Elementary School)

Deposit slips were not presented for audit.

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

MUNCIE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

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

The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of the payors. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9) (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

USE OF FORM SA-3, RECEIPT FORM (Applies to Mitchell Elementary, and Southview Elementary Schools)

The payment type and amount was not always noted on Form SA-3, Receipt 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)

USE OF FORM SA-7, CLAIM FOR PAYMENT (Applies to Mitchell Elementary and Washington-Carver Elementary Schools)

Prescribed form SA-7 (Claim for Payment) did not always have proper approval and were not always signed by the Treasurer.

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)

DEPOSITS (Applies to Morrison-Mock Elementary, Southview, Elementary, Sutton Elementary, Washington-Carver, and Westview Elementary Schools)

We could not verify that the collection of cash and checks as evidenced on the receipts examined were deposited in the same form (cash and checks) in which received. A similar comment appeared in prior Report B24922.

Indiana Code 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."

BANK ACCOUNT RECONCILIATIONS (Applies to Storer Elementary)

Depository reconciliations of the fund balances to the bank account balances were not correct as of June 15, 2005. An unidentified difference of \$240.88 was noted. A similar comment appeared in prior Report B24922.

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

MUNCIE COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROLS (Applies to Mitchell Elementary)

Original copies of receipt forms were not retained for voided receipts. Duplicate receipts were altered rather than being voided and a new receipt being issued.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

FUNDRAISERS (Applies to Mitchell Elementary)

Several fundraisers did not generate the profit that was expected. Fundraising records for the audit period were not on hand for review. The Treasurer handled the collections for all proceeds with no management oversight.

Governmental units which conduct fund raising events should have the express permission of the governing body for conducting the fund raiser as well as procedures in place concerning the internal controls and the responsibility of employees or officials. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF MUNCIE COMMUNITY SCHOOLS, DELAWARE COUNTY, INDIANA

Compliance

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

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

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-2, 2006-3, 2006-4, 2006-5, and 2006-6.

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

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)

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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School Corporation's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-2, 2006-3, 2006-4, 2006-5, and 2006-6.

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

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

STATE BOARD OF ACCOUNTS

March 12, 2007

MUNCIE COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Muncie Community School Corporation (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. Subrecipients

Of the federal expenditures presented in the schedule, the School Corporation provided federal awards to subrecipients as follows for the years ended June 30, 2005 and 2006:

Program Title	Federal CFDA Number	2005	2006
Special Education – Grants to States	84.027	\$ 2,361,580	\$ 1,931,698
Adult Education – State Grant Program	84.002	31,852	31,383

III. 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
National School Lunch Program	10.555	<u>\$ 70,806</u>	<u>\$ 65,072</u>

MUNCIE COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	yes
Reportable conditions identified that are not considered to be material weaknesses?	yes

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	yes

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? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.002	Child Nutrition Cluster
84.010	Adult Education – State Grant Program
84.048	Title I Grants to Local Educational Agencies
84.048	Vocational Education – Basic Grants to States
84.357	Reading First State Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$709,614

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2006-1 – FINANCIAL STATEMENT FINDINGS

Receipts were not written until deposits were made. Deposits were being made three times a week.

Indiana Code 5-13-6-1(c) states in part: “. . . all local officers...who collect public funds of their respective political subdivisions shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance”

MUNCIE COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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 Indiana Public School Corporations, Chapter 9)

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)

We recommended School Officials write receipts when the money is received and comply with the depository law.

Section III – Federal Award Findings and Questioned Costs

FINDING NO. 2006-2, TITLE I – CASH MANAGEMENT

Federal Agency: U.S. Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Pass-Through Entity: Indiana Department of Education

Muncie Community Schools has not implemented adequate internal controls to minimize the time elapsing between the transfer of funds and disbursement. We determined, through discussions held with Muncie Community School personnel, that the drawdown amount included in the Title I application as the total grant amount equally distributed each month from October through July. Of the 22 months reviewed, 14 months had surplus cash balances at the end of the month.

34 CFR 80.20 (b)(7) states in part: "Cash Management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used . . . Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

Failure to minimize the cash on hand as determined by the grant agreement and the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments may cause future funding to be reduced by the pass-through agency.

We recommended that Muncie Community Schools try to match their budgeted expenditures with the drawdown requests included in the Title I application and monitor monthly cash balances with the goal to minimize the amount of cash on hand at the end of the month.

FINDING 2006-3, ADULT EDUCATION – CASH MANAGEMENT

Federal Agency: U.S. Department of Education
Federal Program: Adult Education – State Grant Program
CFDA Number: 84.002
Pass-Through Entity: Indiana Department of Education

Muncie Community Schools has not implemented adequate internal controls to minimize the time elapsing between the transfer of funds and disbursement. We determined, through discussions held with Muncie Community Schools personnel, that the drawdown amount included in the Vocational Education application as 25% in September and 25% in January with the remaining grant equally distributed each month. All eight quarters during the audit period had surplus cash balances at the end of the quarter.

MUNCIE COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

34 CFR 80.20 (b)(7) states in part: "Cash Management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used . . . Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

Failure to minimize the cash on hand as determined by the grant agreement and the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments may cause future funding to be reduced by the pass-through agency.

We recommended that Muncie Community Schools try to match their budgeted expenditures with the drawdown requests included in the Adult Education application and monitor monthly cash balances with the goal to minimize the amount of cash on hand at the end of the month.

FINDING 2006-4, VOCATIONAL EDUCATION – CASH MANAGEMENT

Federal Agency: U.S. Department of Education
Federal Program: Vocational Education – Basic Grants to States
CFDA Number: 84.048
Pass-Through Entity: Indiana Department of Education

Muncie Community Schools has not implemented adequate internal controls to minimize the time elapsing between the transfer of funds and disbursement. We determined, through discussions held with Muncie Community Schools personnel, that the drawdown amount included in the Vocational Education application as the total grant amount equally distributed each quarter. Five of the eight quarters reviewed had surplus cash balances at the end of the month.

34 CFR 80.20 (b)(7) states in part: "Cash Management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used . . . Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

Failure to minimize the cash on hand as determined by the grant agreement and the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments may cause future funding to be reduced by the pass-through agency.

We recommended that Muncie Community Schools try to match their budgeted expenditures with the drawdown requests included in the Vocational Education application and monitor monthly cash balances with the goal to minimize the amount of cash on hand at the end of the month.

FINDING 2006-5, READING FIRST – CASH MANAGEMENT

Federal Agency: U.S. Department of Education
Federal Program: Reading First State Grants
CFDA Number: 84.357
Pass-Through Entity: Indiana Department of Education

Muncie Community Schools has not implemented adequate internal controls to minimize the time elapsing between the transfer of funds and their disbursement. We determined, through discussions held with Muncie Community Schools personnel, that the drawdown amount included in the Reading First application as the total grant amount equally distributed each month. Fifteen of the twenty-four months reviewed had surplus cash balances at the end of the month.

MUNCIE COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

34 CFR 80.20 (b)(7) states in part: "Cash Management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used . . . Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

Failure to minimize the cash on hand as determined by the grant agreement and the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments may cause future funding to be reduced by the pass-through agency.

We recommended that Muncie Community Schools try to match their budgeted expenditures with the drawdown requests included in the Reading First application and monitor monthly cash balances with the goal to minimize the amount of cash on hand at the end of the month.

FINDING 2006-6, ADULT EDUCATION – REPORTING

Federal Agency: U.S. Department of Education
Federal Program: Adult Education – State Grant Program
CFDA Number: 84.002
Pass-Through Entity: Indiana Department of Education

Muncie Community Schools prepared the financial status report prior to liquidating all funds and estimated final expenditures. Therefore, the amounts reported by functional category did not agree to the actual expenditures according to the School Corporation's records.

34 CFR 80.20(b)(1) states, "Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financials reporting requirements of the grant or subgrant."

Grantees must report their financial status to the pass-through agency.

Failure to minimize the cash on hand as determined by the grant agreement and the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments may cause future funding to be reduced by the pass-through agency.

We recommended that Muncie Community Schools correctly report their financial status.

Muncie Community Schools

2501 N. OAKWOOD AVENUE • MUNCIE, IN 47304-2399

Prepare Now - Anticipate the Future

November 15, 2006

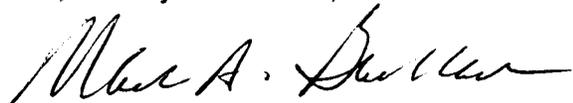
Summary Schedule of Audit Findings

Original SBA Audit Report #	B24922
Fiscal Years	2002-2004
Auditee Contact Person	Mark A. Burkhart
Title of Contact Person	Treasurer
Phone Number of Contact Person	765-747-5222

Status of Federal Finding 2004-3 Cash Management

To the best of my knowledge, the federal cash requests submitted with the program applications since the last audit have conformed to project guidelines. Title I regulations require a budget set-aside for supplemental services and for school choice transportation. These set-aside funds are usually not accessed timely by project clients although there is no local option to avoid these set-asides. Funds for these two (2) program components must be budgeted and drawn in anticipation of use. The anticipated use may never materialize. This requirement makes it difficult to anticipate Title I cash flow. For the 05/06 and the 06/07 Title I projects, the cash requests developed by the Project Director were delayed and back-loaded to try to avoid this situation. However, this action may result in an occasional deficit balance for such funds.

Respectfully Submitted,



Mark A. Burkhart
Associate Superintendent of Business



Muncie Community Schools

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March 19, 2007

Indiana State Board
of Accounts
302 W. Washington Street – Rm. E418
Indianapolis, IN 46204-2765

To Whom It May Concern:

Re: 2004-2006 Federal Audit Findings

In response to the federal findings in your agency's report for the Muncie Community Schools for the period of July 1, 2004, through June 30, 2006, please note the following:

2006-2 Title 1 Cash Management

The cited Title 1 surplus cash balance issue can be directly attributed to federal regulations mandating set-asides for school choice and supplemental services. The cash request for Title 1 appropriately assumed that all of the set-asides would be requisitioned and used by qualified students in a timely manner. This is the intent of the federal Title 1 regulations. Historically, the anticipated service requests never materialize thus causing this surplus cash situation.

In future Title 1 cash requests, through delayed draws the Muncie Community Schools will intentionally design cash flow to result in a continuous negative cash balance until the grant's final month of operation.

2006-3 Adult Education – Cash Management

2006-4 Vocational Education – Cash Management

2006-5 Reading First – Cash Management

The project directors for each of these three (3) federal grants have attempted to schedule program expenditures in conjunction with the cash request document. However, programming schedules are difficult to coordinate due to uncontrollable factors. The Muncie Community Schools will structure future federal cash draws on a delayed basis so as to assure a negative/deficit cash balance throughout the grant period until the final month.

2006-6 Adult Education – Reporting

The project director for the federal Adult Basic Education Program has been instructed to submit an amended final expenditure report if the initial – interim expenditure report does not reflect actual final expenditure amounts by program category.

Respectfully Submitted,



Mark A. Burkhart
Associate Superintendent-Treasurer



MUNCIE COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on March 12, 2007, with Mark A. Burkhart, Treasurer; Dr. Marlin B. Creasy, Superintendent of Schools; and Kevin P. Smith, Member of the School Board. The official response has been made a part of this report and may be found on pages 57 and 58.

Muncie Community Schools

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Prepare Now - Anticipate the Future

March 15, 2007

Indiana State Board
of Accounts
302 W. Washington Street – Rm. E418
Indianapolis, IN 46204-2765

To Whom It May Concern:

On March 12, 2007, Field Examiners from the Indiana State Board of Accounts (SBA) conducted an exit conference with representatives of the Muncie Community Schools to review the results of their audit of school records for the period of July 1, 2004, through June 30, 2006. The purpose of this correspondence is to provide an official, written response to selected issues raised during the Exit Conference. The Muncie Community Schools is in general agreement with all of the audit findings except as noted below:

- A. Stipends – We find no statutory reference prohibiting the payment of stipends to employees. As a result, the Muncie Community Schools Board of School Trustees has previously adopted a Home Rule Resolution to permit such stipend payments.
- B. ADM (Average Daily Membership) – The SBA has taken exception to Muncie's ADM figures for 01/02, 02/03, 03/04, 04/05 and 05/06. The audit findings for all of these years, except 05/06, have been addressed in a timely manner by the school district with appropriately corrected submissions. The issue maintained by SBA representatives has to do with the application of "dual enrollment" guidelines for inclusion in ADM. SBA applies these guidelines (must be receiving services) universally and not just to dual enrollment students. That universal interpretation exceeds the scope of the currently written ADM statute for all students other than dual enrolled students.

We have not yet addressed 05/06 ADM questions as they are new in this current audit period. However, we will respond timely to 05/06 issues also. Eventually, the Indiana Department of Education will have to intervene and bring closure to the dual enrollment unilaterally expanded interpretation.

- C. Sale of Morrison-Mock Property – The Muncie Community Schools, on the advice of local legal counsel, followed prescribed SBA procedures referenced for the sale of school properties (See 2005 Edition – SBA Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations – Page 18-3). If the SBA Manual is in error it needs to be corrected for future transactions.

- D. Conflict of Interest/Board Member – Historically, members of the Board of School Trustees have abstained from voting on agenda items whenever a conflict of interest is presented. It is the position of the Muncie Community Schools that this abstention appropriately addresses the conflict.
- E. Negative Cash Balances – Negative balances are unavoidable in funds operating on a reimbursement basis. Property Tax supported funds will consistently show negative balances late in a budget year since the December Property Tax settlement does not occur until the last day of the budget year.
- F. Excess Cash Balances – The cash management requirements for federal funds are conflicted. A school district can estimate expenditure pace but with various set-asides required in federal budgets it is impossible to anticipate if or when set-aside funds will be expended.

In conclusion, I would like to commend the work of your field staff – Stephanie Heath, Theresa Alexander and Patty Garrett. They were very professional, efficient and thorough in representing the Indiana State Board of Accounts.

Respectfully,



Mark A. Burkhart
Associate Superintendent-Treasurer

PC: Dr. Creasy

