

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

AUDIT REPORT
OF

ADAMS-WELLS SPECIAL
SERVICES COOPERATIVE
WELLS COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED
12/28/2006

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jeanette F. Jena	07-01-04 to 06-30-07
Executive Director	Connie J. Brown	07-01-04 to 06-30-07
President of the Board of Directors	Gina Berridge Thomas M. Johnson James D. Compton	07-01-04 to 06-30-05 07-01-05 to 06-30-06 07-01-06 to 06-30-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF ADAMS-WELLS SPECIAL SERVICES
COOPERATIVE, WELLS COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Adams-Wells Special Services Cooperative (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 November 22, 2006, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular 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 Capital Assets is presented for additional analysis and is not a required part of the basic financial statements. The Schedule of Capital Assets 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

November 22, 2006



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

TO: THE OFFICIALS OF ADAMS-WELLS SPECIAL SERVICES
COOPERATIVE, WELLS COUNTY, INDIANA

We have audited the financial statements of Adams-Wells Special Services Cooperative (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

November 22, 2006

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ <u>1,202,671</u>
 <u>Net Assets</u>	
Unrestricted	\$ <u>1,202,671</u>

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

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ <u>430,710</u>
<u>Net Assets</u>	
Unrestricted	\$ <u>430,710</u>

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

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 4,121,051	\$ -	\$ 1,657,228	\$ (2,463,823)
Support services	<u>2,351,402</u>	<u>1,048</u>	<u>-</u>	<u>(2,350,354)</u>
Total governmental activities	<u>\$ 6,472,453</u>	<u>\$ 1,048</u>	<u>\$ 1,657,228</u>	<u>(4,814,177)</u>
General receipts:				
Other local sources				12,922
State aid				135,217
Sale of property, adjustments, and refunds				6,938
Investment earnings				25,714
Intergovernmental transfers				<u>4,075,862</u>
Total general receipts and intergovernmental transfers				<u>4,256,653</u>
Change in cash and investments				(557,524)
Net assets - beginning				<u>1,760,195</u>
Net assets - ending				<u>\$ 1,202,671</u>

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

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 4,470,955	\$ -	\$ 1,692,464	\$ (2,778,491)
Support services	2,310,123	1,055	-	(2,309,068)
Nonprogrammed charges	<u>37,440</u>	-	-	<u>(37,440)</u>
Total governmental activities	<u>\$ 6,818,518</u>	<u>\$ 1,055</u>	<u>\$ 1,692,464</u>	<u>(5,124,999)</u>
General receipts:				
Other local sources				14,355
State aid				135,217
Sale of property, adjustments, and refunds				9,265
Investment earnings				20,596
Intergovernmental transfers				<u>4,173,605</u>
Total general receipts and intergovernmental transfers				<u>4,353,038</u>
Change in cash and investments				(771,961)
Net assets - beginning				<u>1,202,671</u>
Net assets - ending				<u>\$ 430,710</u>

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

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Special Education Preschool	Special Education Grants FY2004-2005	Capital Projects	Other	Totals
Receipts:						
Local sources	\$ 25,714	\$ 12,407	\$ -	\$ -	\$ 1,563	\$ 39,684
State sources	140,017	-	-	-	-	140,017
Federal sources	-	-	1,410,346	-	242,082	1,652,428
Sale of property, adjustments and refunds	6,938	-	-	-	-	6,938
Intergovernmental transfers	3,705,128	264,229	-	106,505	-	4,075,862
Total receipts	3,877,797	276,636	1,410,346	106,505	243,645	5,914,929
Disbursements:						
Current:						
Instruction	2,382,744	248,671	906,724	32,629	550,283	4,121,051
Support services	1,891,270	-	196,743	83,105	180,284	2,351,402
Total disbursements	4,274,014	248,671	1,103,467	115,734	730,567	6,472,453
Excess (deficiency) of total receipts over (under) total disbursements	(396,217)	27,965	306,879	(9,229)	(486,922)	(557,524)
Cash and investments - beginning	906,212	277,354	-	81,717	494,912	1,760,195
Cash and investments - ending	<u>\$ 509,995</u>	<u>\$ 305,319</u>	<u>\$ 306,879</u>	<u>\$ 72,488</u>	<u>\$ 7,990</u>	<u>\$ 1,202,671</u>

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

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Special Education Preschool	Special Education Grants FY2005-2006	Special Education Grants FY2004-2005	Capital Projects	Other	Totals
Receipts:							
Local sources	\$ 20,596	\$ 13,935	\$ -	\$ -	\$ -	\$ 1,475	\$ 36,006
State sources	136,897	-	-	-	-	-	136,897
Federal sources	-	-	1,125,000	470,119	-	95,665	1,690,784
Sale of property, adjustments and refunds	9,265	-	-	-	-	-	9,265
Intergovernmental transfers	<u>3,778,491</u>	<u>250,259</u>	<u>-</u>	<u>-</u>	<u>107,415</u>	<u>37,440</u>	<u>4,173,605</u>
Total receipts	<u>3,945,249</u>	<u>264,194</u>	<u>1,125,000</u>	<u>470,119</u>	<u>107,415</u>	<u>134,580</u>	<u>6,046,557</u>
Disbursements:							
Current:							
Instruction	2,563,899	250,209	975,692	575,145	5,655	100,355	4,470,955
Support services	1,735,881	-	281,619	195,943	89,317	7,363	2,310,123
Nonprogrammed charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,440</u>	<u>37,440</u>
Total disbursements	<u>4,299,780</u>	<u>250,209</u>	<u>1,257,311</u>	<u>771,088</u>	<u>94,972</u>	<u>145,158</u>	<u>6,818,518</u>
Excess (deficiency) of total receipts over (under) total disbursements	(354,531)	13,985	(132,311)	(300,969)	12,443	(10,578)	(771,961)
Cash and investments - beginning	<u>509,995</u>	<u>305,319</u>	<u>-</u>	<u>306,879</u>	<u>72,488</u>	<u>7,990</u>	<u>1,202,671</u>
Cash and investments - ending	<u>\$ 155,464</u>	<u>\$ 319,304</u>	<u>\$ (132,311)</u>	<u>\$ 5,910</u>	<u>\$ 84,931</u>	<u>\$ (2,588)</u>	<u>\$ 430,710</u>

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

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2005

	Private-Purpose Trust Funds
Additions:	
Total additions	\$ -
Deductions:	
Total deductions	-
Excess of total additions over total deductions	-
Cash and investments - beginning	529
Cash and investments - ending	\$ 529

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

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2006

	Private-Purpose Trust Funds
Additions:	
Local sources	\$ 167
Deductions:	
Total deductions	-
Excess of total additions over total deductions	167
Cash and investments - beginning	529
Cash and investments - ending	\$ 696

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

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ <u>529</u>
<u>Net Assets</u>	
Held in trust for employee benefits and other purposes	\$ <u>529</u>

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

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2006

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ <u>696</u>
<u>Net Assets</u>	
Held in trust for employee benefits and other purposes	\$ <u>696</u>

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

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
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.

A special services agreement for establishing and operating a special education program for Adams and Wells County Schools was signed and ratified on February 22, 1979, with the effective date of the agreement being July 1, 1979, (revised July 1, 2001). The participating schools are Adams Central Community Schools; South Adams Schools; North Adams Community Schools; Bluffton-Harrison M.S.D.; Northern Wells Community Schools; and Southern Wells Community Schools.

The purpose and intent of this joint venture agreement is to create an administrative entity for the purpose of creating, developing and operating a comprehensive program of special education services for handicapped children in order to comply with the requirements of the laws of the State of Indiana, rules and regulations of the Indiana Department of Education, and all applicable federal rules and regulations, and to provide in a meaningful way for the needs of the community which such a program will serve.

The Board of Directors consists of all the School Superintendents of the participating school corporations. The Executive Director is the principal administrator of the Adams-Wells Special Services Cooperative.

The School Corporation's financial reporting entity is composed of the primary government, Adams-Wells Special Services Cooperative. There are no significant component units which require inclusion.

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds 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.

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 special education preschool fund accounts for financial resources for special education programs for preschool age children.

The special education grants FY2004-2005 fund accounts for financial resources received from federal grants for the education of handicapped children.

The special education grants FY2005-2006 fund accounts for financial resources received from federal grants for the education of handicapped children.

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

Additionally, the School Corporation reports the following fund types:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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 people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any proprietary 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.

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

The School Corporation receives no property taxes. Funding for the School Corporation is through assessments from the participating schools.

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 10 days per year. Unused sick leave may be accumulated to a maximum of 226 days. Accumulated sick leave in excess of the maximum is paid to employees at the end of the school year.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

c. Personal Leave

School Corporation employees earn personal leave at rates from 2 days to 4 days per year. Unused personal leave may be accumulated to a maximum of 5 days. Accumulated personal leave is not paid to employees upon termination.

4. Capital Assets

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

5. 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.

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Program Receipts

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

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Cash and Investments and 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 in the respective funds.
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.

The operating budget is initially prepared and approved at the local level. Formal approval by the Indiana Department of Local Government Finance is not required.

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Cash and Investment Balance Deficits

At June 30, 2006, the following funds reported deficits in cash and investments, which is contrary to the Uniform Compliance Guidelines as referenced state statutes:

Fund	June 30, 2006
Special Education Grants FY2005-2006	\$ 132,311
Special Education Grants FY2003-2004	4,371
Special Education Supplemental Funding Grants	450

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 and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At June 30, 2006, the bank balance held at National City Bank in the amount of \$379,698 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-School Corporation's name. The remaining bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

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

Investment Policies

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

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the School Corporation and available for investment. The portfolio of an investment company

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

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

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The School Corporation does not have a formal investment policy for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The School Corporation must follow state statute and limit the stated final maturities of the investments to no more than two years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The School Corporation does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

Foreign Currency Risk

The School Corporation does not have a formal policy in regards to foreign currency risk.

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Interfund Transfers

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

Transfer From	Transfer To	July 1, 2005 to June 30, 2006
Other governmental	Other governmental	\$ <u>37,440</u>

The School Corporation typically uses transfers for cash flows purposes as authorized by various state statutes.

IV. Other Information

A. Risk Management

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

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

Medical Benefits to Employees

During 1980, the School Corporation joined with other governmental entities to form the School Employees' Benefit Trust, a public entity risk pool currently operating as a common risk management and insurance program for 14 member governmental entities. The purpose of the risk pool is to provide a medium for the funding and administration of medical benefits to employees. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$150,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$150,000 limit.

B. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 43,848
Interest on net pension obligation	(9,706)
Adjustment to annual required contribution	11,061
Annual pension cost	45,203
Contributions made	60,951
Decrease in net pension obligation	(15,748)
Net pension obligation, beginning of year	(133,881)
Net pension obligation, end of year	\$ (149,629)
Contribution rates:	
School Corporation	5.75%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Assumptions	PERF
Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 57,083	106%	\$ (125,308)
	06-30-04	48,584	118%	(133,881)
	06-30-05	45,203	125%	(149,629)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 7% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$142,631, \$122,572, and \$102,605, respectively. The School Corporation contributed 100% of the required contribution for each of the fiscal years.

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 515,147	\$ 512,686	\$ 2,461	100%	\$ 897,587	0%
07-01-04	547,389	540,661	6,728	101%	841,261	1%
07-01-05	595,845	624,463	(28,618)	95%	995,584	(3%)

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Machinery and equipment	<u>\$ 169,877</u>

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
AUDIT RESULT AND COMMENT

PENALTIES, INTEREST AND OTHER CHARGES

Penalties and interest totaling \$2,330 were paid to the Internal Revenue Service on December 14, 2005, for late filing of taxes for the payroll paid September 15, 2005. The tax filing was due on or before September 21, 2005, but was not made until October 5, 2005.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF ADAMS-WELLS SPECIAL SERVICES
COOPERATIVE, WELLS COUNTY, INDIANA

Compliance

We have audited the compliance of Adams-Wells Special Services Cooperative (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 its major federal program for the years ended June 30, 2005 and 2006. The School Corporation's major federal program is 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 its major federal program 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 its major federal program for the years ended June 30, 2005 and 2006.

Internal Control Over Compliance

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

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

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

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

STATE BOARD OF ACCOUNTS

November 22, 2006

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Special Education Cluster				
Special Education - Grants to States	84.027	14204-001-PN01	\$ 593,525	\$ -
		14205-001-PN01	1,103,468	771,088
		14206-001-PN01	-	1,257,311
		14205-001-SN01	21,341	4,022
		14205-002-DY01	-	24,924
Total for program			<u>1,718,334</u>	<u>2,057,345</u>
Special Education - Preschool Grants	84.173	45704-001-PN01	37,440	-
		45705-001-PN01	76,150	1,879
		45706-001-PN01	-	75,112
Total for program			<u>113,590</u>	<u>76,991</u>
Total for federal grantor agency			<u>1,831,924</u>	<u>2,134,336</u>
Total federal awards expended			<u>\$ 1,831,924</u>	<u>\$ 2,134,336</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Adams-Wells Special Services Cooperative (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.

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

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

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

Identification of Major Programs:

Name of Federal Program or Cluster

Special Education Cluster

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

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

ADAMS-WELLS SPECIAL SERVICES COOPERATIVE
EXIT CONFERENCE

The contents of this report were discussed on November 22, 2006, with Jeanette F. Jena, Treasurer; and Connie J. Brown, Executive Director. The officials concurred with our audit finding.