

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

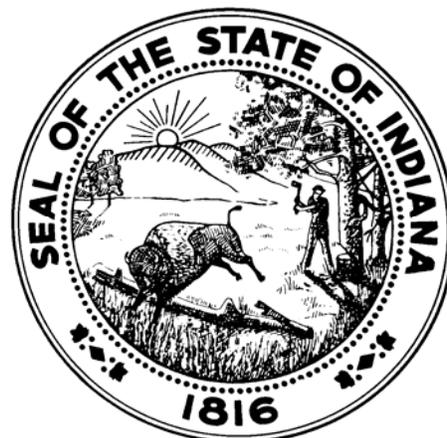
AUDIT REPORT

OF

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION

MARSHALL COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED

01/09/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jennifer Connolly	07-01-04 to 06-30-07
Director	Mary Kay Davis	07-01-04 to 06-30-07
Chairman of the Board of Managers	Roger Sutton	07-01-05 to 06-30-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE JOINT EDUCATIONAL SERVICES
IN SPECIAL EDUCATION, MARSHALL COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Joint Educational Services in Special Education (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 October 25, 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 this schedule.

STATE BOARD OF ACCOUNTS

October 25, 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 THE JOINT EDUCATIONAL SERVICES
IN SPECIAL EDUCATION, MARSHALL COUNTY, INDIANA

We have audited the financial statements of the Joint Educational Services in Special Education (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated October 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

We noted other matters involving internal control over financial reporting that we have discussed with the management of the School Corporation on November 16, 2006. 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.

October 25, 2006

STATE BOARD OF ACCOUNTS

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	<u>\$ 1,400,404</u>
 <u>Net Assets</u>	
Unrestricted	<u>\$ 1,400,404</u>

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

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	<u>\$ 1,693,412</u>
<u>Net Assets</u>	
Unrestricted	<u>\$ 1,693,412</u>

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

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Operating Grants and Contributions	Net (Disbursement) Receipts <u>Total</u>
Governmental activities:			
Instruction	\$ 6,492,917	\$ -	\$ (6,492,917)
Support services	3,955,249	49,932	(3,905,317)
Community services	527	-	(527)
Nonprogrammed charges	500	-	(500)
Total governmental activities	\$ 10,449,193	\$ 49,932	(10,399,261)
General receipts:			
Other local sources			7,530,771
Grants and contributions not restricted			3,304,062
Sale of property, adjustments, and refunds			4,121
Investment earnings			37,011
Total general receipts			10,875,965
Change in cash and investments			476,704
Net assets - beginning			923,700
Net assets - ending			\$ 1,400,404

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

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Operating Grants and Contributions	Net (Disbursement) Receipts Total
Governmental activities:			
Instruction	\$ 6,668,851	\$ -	\$ (6,668,851)
Support services	4,262,311	5,844	(4,256,467)
Total governmental activities	\$ 10,931,162	\$ 5,844	(10,925,318)
General receipts:			
Other local sources			7,597,666
Grants and contributions not restricted			3,530,531
Refunds			3,167
Investment earnings			86,962
Total general receipts			11,218,326
Change in cash and investments			293,008
Net assets - beginning			1,400,404
Net assets - ending			\$ 1,693,412

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

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Building and Replacement Fund	Special Education Grant	Other	Totals
Receipts:					
Local sources	\$ 7,473,151	\$ -	\$ -	\$ 1,951	\$ 7,475,102
State sources	187,968	-	-	-	187,968
Federal sources	-	-	2,959,536	206,490	3,166,026
Sale of property, adjustments and refunds	4,121	-	-	-	4,121
Interfund transfers	-	-	-	43,431	43,431
	<u>7,665,240</u>	<u>-</u>	<u>2,959,536</u>	<u>251,872</u>	<u>10,876,648</u>
Disbursements:					
Current:					
Instruction	4,124,658	-	2,153,328	214,931	6,492,917
Support services	2,971,607	-	849,100	41,862	3,862,569
Community services	527	-	-	-	527
Nonprogrammed charges	-	-	-	43,931	43,931
	<u>7,096,792</u>	<u>-</u>	<u>3,002,428</u>	<u>300,724</u>	<u>10,399,944</u>
Excess (deficiency) of total receipts over (under) total disbursements	568,448	-	(42,892)	(48,852)	476,704
Cash and investments - beginning	<u>539,750</u>	<u>187,863</u>	<u>-</u>	<u>174,187</u>	<u>901,800</u>
Cash and investments - ending	<u>\$ 1,108,198</u>	<u>\$ 187,863</u>	<u>\$ (42,892)</u>	<u>\$ 125,335</u>	<u>\$ 1,378,504</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	\$ 476,704
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.	-
Change in cash and investments of governmental activities	\$ 476,704

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	<u>General</u>	<u>Building and Replacement Fund</u>	<u>Special Education Grant</u>	<u>Other</u>	<u>Totals</u>
Receipts:					
Local sources	\$ 7,573,243	\$ 31,509	\$ -	\$ 525	\$ 7,605,277
State sources	187,568	-	-	-	187,568
Federal sources	-	-	3,187,153	161,655	3,348,808
Sale of property, adjustments and refunds	3,167	-	-	-	3,167
Interfund transfers	-	-	-	41,920	41,920
	<u>7,763,978</u>	<u>31,509</u>	<u>3,187,153</u>	<u>204,100</u>	<u>11,186,740</u>
Disbursements:					
Current:					
Instruction	4,302,136	-	2,182,734	183,981	6,668,851
Support services	3,203,787	-	951,843	27,332	4,182,962
Nonprogrammed charges	-	-	41,920	-	41,920
	<u>7,505,923</u>	<u>-</u>	<u>3,176,497</u>	<u>211,313</u>	<u>10,893,733</u>
Excess (deficiency) of total receipts over (under) total disbursements	258,055	31,509	10,656	(7,213)	293,007
Cash and investments - beginning	<u>1,108,197</u>	<u>187,863</u>	<u>(42,892)</u>	<u>125,337</u>	<u>1,378,505</u>
Cash and investments - ending	<u>\$ 1,366,252</u>	<u>\$ 219,372</u>	<u>\$ (32,236)</u>	<u>\$ 118,124</u>	<u>\$ 1,671,512</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	\$ 293,007
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>-</u>
Change in cash and investments of governmental activities	<u>\$ 293,007</u>

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
PROPRIETARY FUND
For The Year Ended June 30, 2005

	Internal Service Fund
Receipts:	
Local sources	\$ 31,867
Transfers	60,813
Total receipts	92,680
Disbursements:	
Support services	92,680
Changes in cash and investments	-
Cash and investments - beginning	21,900
Cash and investments - ending	\$ 21,900

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

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
PROPRIETARY FUND
For The Year Ended June 30, 2006

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 61,936
Transfers	<u>17,414</u>
Total receipts	<u>79,350</u>
Disbursements:	
Support services	<u>79,350</u>
Changes in cash and investments	-
Cash and investments - beginning	<u>21,900</u>
Cash and investments - ending	<u><u>\$ 21,900</u></u>

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

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

<u>Assets</u>	<u>Agency Funds</u>
Cash and investments	<u>\$ 152,233</u>

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

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2006

<u>Assets</u>	<u>Agency Funds</u>
Cash and investments	<u>\$ 228,661</u>

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

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
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 Managers form of government and provides educational services. The Board consists of Superintendents of ten participating school corporations.

These financial statements present the School Corporation (primary government). There are no significant component units which require inclusion.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis 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 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 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. 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 building and replacement fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

The special education fund receives funds from federal grants. The grants are used to assist the School Corporation in teaching children with physical or mental learning disabilities.

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Additionally, the School Corporation reports the following fund types:

The internal service fund accounts for assets set aside for dental and vision claim settlements. Noncertified employees pay for insurance through payroll deductions.

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

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. Receipts are recorded when received and disbursements are recorded when paid.

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

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

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

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 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.

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Compensated Absences

a. Sick Leave

Certified School Corporation Employees earn sick leave at the rate of 10 days sick leave in the first year of employment and 8 days per year thereafter. Unused sick leave may be accumulated to a maximum of 187 days for certified employees and 66 days for noncertified employees. Accumulated sick leave is not paid to aides but all other employees through cash payments upon termination after 10 years of continuous service. The accumulated sick leave is paid in the form of a severance benefit based on a formula which factors unused sick days and years of experience.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 10 days to 15 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year. Unused vacation leave as of December 31 is paid to employees through cash payments.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 2 days per year. Personal leave does not accumulate from year to year. Unused personal leave may be accumulated to a maximum of 3 days. Accumulated personal leave is not paid to employees.

3. 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.

4. Equity Classification

Government-Wide Statements

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

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

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

Fund Financial Statements

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

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include services, or privileges provided, 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 the proprietary fund 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.

II. Stewardship, Compliance and Accountability

Budgetary Information

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

The operating budget is prepared and approved at the local level for the General Fund.

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	2005	2006
Special Education Grant	Nonmajor Fund	\$ 43,431	\$ 41,920

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
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; dental and vision 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.

Dental and Vision Benefits

The School Corporation has chosen to establish a risk financing fund for risks associated with dental and vision benefits to employees. The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. The employees are allowed up to \$200 per year for vision and dental claims. Amounts are paid into the fund by all funds with payrolls and are available to pay claims, claim reserves, and administrative costs of the program.

B. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age fifty with at least ten years of service. Currently, four retirees meet these eligibility requirements. The School Corporation and retirees provides 75% and 25%, 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 \$7,736 were recognized for postemployment benefits.

C. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees Retirement Fund

Plan Description

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

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 88,625
Interest on net pension obligation	(5,033)
Adjustment to annual required contribution	5,735
Annual pension cost	89,327
Contributions made	125,201
Decrease in net pension obligation	(35,874)
Net pension obligation, beginning of year	(69,419)
Net pension obligation, end of year	\$ (105,293)
Contribution rates:	
School Corporation	7%
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

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
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	\$ 78,614	116%	\$ 56,865
	06-30-04	81,767	115%	69,419
	06-30-05	89,327	153%	105,293

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

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 7.00% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2004, 2005, and 2006, were \$173,057, \$184,847, and \$176,212 respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
 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	\$ 669,579	\$ 680,289	\$ (10,710)	98%	\$ 1,553,962	(1%)
07-01-04	728,573	766,466	(37,893)	95%	1,647,345	(2%)
07-01-05	827,393	917,841	(90,448)	90%	1,558,325	(6%)

JOINT EDUCATION SERVICES IN SPECIAL EDUCATION
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:	
Machinery and equipment	<u>\$ 255,724</u>

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE JOINT EDUCATIONAL SERVICES
IN SPECIAL EDUCATION, MARSHALL COUNTY, INDIANA

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

STATE BOARD OF ACCOUNTS

October 25, 2006

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
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-Grant to States				
	84.027			
Part B, IDEA (P.L. 105-17) FY05		14205-032-SN01	\$ 39,696	\$ -
Part B, IDEA (P.L. 105-17) FY05		14205-032-PN01	3,078,336	-
Part B, IDEA (P.L. 105-17) FY06		14206-032-PN01	-	3,069,387
Part B, IDEA (P.L. 105-17) FY06		14203-032-PY02	-	41,919
			<u>3,118,032</u>	<u>3,111,306</u>
Total for program				
Special Education - Preschool Grants				
	84.173			
P.L. 105-17 Preschool FY05		45704-032-PN01	116,162	-
P.L. 108-446 Preschool FY06		45706-032-PN01	-	114,415
			<u>116,162</u>	<u>114,415</u>
Total for program				
Total federal awards expended			<u>\$ 3,234,194</u>	<u>\$ 3,225,721</u>

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

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
NOTE 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 Joint Educational Services in Special Education (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.

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
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.

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

JOINT EDUCATIONAL SERVICES IN SPECIAL EDUCATION
EXIT CONFERENCE

The contents of this report were discussed on November 16, 2006, with Mary Kay Davis, Director; and Jennifer Connolly, Treasurer. Our audit disclosed no material items that warrant comment at this time.