

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

AUDIT REPORT

OF

PORTER COUNTY EDUCATION SERVICES  
(Formerly known as Porter County Education Interlocal)

PORTER COUNTY, INDIANA

July 1, 2005 to June 30, 2007



**FILED**

01/07/2008



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Dr. Janice Rees Ruth Kenny	07-01-05 to 06-30-07 07-01-07 to 06-30-08
Executive Director	Fred McNulty Michael Galbreath Dr. Janice Rees	07-01-05 to 12-31-05 01-01-06 to 05-12-06 05-15-06 to 06-30-08
President of the Board	Dr. Dirk E. Baer Dr. Rod Gardin	07-01-05 to 06-30-07 07-01-07 to 06-30-08



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

TO: THE OFFICIALS OF PORTER COUNTY EDUCATION SERVICES, PORTER COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Porter County Education Services (School Corporation), as of and for the years ended June 30, 2006 and 2007, 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, 2006 and 2007, 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 23, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

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.

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, Schedule of Long-Term Debt, Combining Schedule of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances – Cash and Investment Basis – Other Governmental Funds, and Combining Schedule of Cash and Investment Balances – Agency Funds are presented for additional analysis and are not required parts of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have 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 them.

STATE BOARD OF ACCOUNTS

October 23, 2007



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF PORTER COUNTY EDUCATION SERVICES, PORTER COUNTY, INDIANA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Porter County Education Services (School Corporation), as of and for the years ended June 30, 2006 and 2007, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated October 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

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

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management in a separate letter dated November 21, 2007.

The School Corporation's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, the School Board, 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 23, 2007

PORTER COUNTY EDUCATION SERVICES  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For the Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Disbursements</u>	Program Receipts		Net (Disbursement) Receipts and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Totals
Governmental activities:				
Instruction	\$ 10,560,405	\$ -	\$ 3,619,241	\$ (6,941,164)
Support services	8,757,496	315	1,615,156	(7,142,025)
Community services	5,000	-	-	(5,000)
Nonprogrammed charges	3,619,990	-	-	(3,619,990)
Total governmental activities	\$ 22,942,891	\$ 315	\$ 5,234,397	(17,708,179)
General receipts:				
Other local sources				15,784,179
State aid				1,535,198
Grants and contributions not restricted to specific programs				121,962
Sale of property, adjustments, and refunds				19,912
Investment earnings				154,208
Total general receipts				17,615,459
Change in net assets				(92,720)
Net assets - beginning				3,829,474
Net assets - ending				\$ 3,736,754
 <u>Assets</u>				
Cash and investments				\$ 3,736,754
 <u>Net Assets</u>				
Unrestricted				\$ 3,736,754

The notes to the financial statements are an integral part of this statement.

PORTER COUNTY EDUCATION SERVICES  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For the Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>	<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
		Operating Grants and Contributions	Totals
Governmental activities:			
Instruction	\$ 10,299,361	\$ 3,381,784	\$ (6,917,577)
Support services	9,028,938	1,692,536	(7,336,402)
Community services	5,000	-	(5,000)
Nonprogrammed charges	3,970,325	-	(3,970,325)
Debt service	<u>223,157</u>	-	<u>(223,157)</u>
Total governmental activities	<u>\$ 23,526,781</u>	<u>\$ 5,074,320</u>	<u>(18,452,461)</u>
General receipts:			
Other local sources			17,495,390
State aid			1,516,300
Grants and contributions not restricted to specific programs			184,591
Sale of property, adjustments, and refunds			59,636
Investment earnings			<u>222,551</u>
Total general receipts			<u>19,478,468</u>
Change in net assets			1,026,007
Net assets - beginning			<u>3,736,754</u>
Net assets - ending			<u>\$ 4,762,761</u>
<u>Assets</u>			
Cash and investments			<u>\$ 4,762,761</u>
<u>Net Assets</u>			
Unrestricted			<u>\$ 4,762,761</u>

The notes to the financial statements are an integral part of this statement.

PORTER COUNTY EDUCATION SERVICES  
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2006

	General Fund	Vocational Education Co-op	Vocational Education Tuition/Rent	Flow-Through Grant 2005-2006	Capital Projects	Other	Totals
<b>Receipts:</b>							
Local sources	\$ 11,396,361	\$ 192,593	\$ 3,165,810	\$ -	\$ 483,626	\$ 686,173	\$ 15,924,563
Intermediate sources	-	-	-	-	-	14,139	14,139
State sources	394,865	-	-	-	-	1,140,933	1,535,798
Federal sources	-	-	-	4,291,852	-	1,063,907	5,355,759
Sale of property, adjustments and refunds	6,168	12,716	-	-	760	268	19,912
<b>Total receipts</b>	<b>11,797,394</b>	<b>205,309</b>	<b>3,165,810</b>	<b>4,291,852</b>	<b>484,386</b>	<b>2,905,420</b>	<b>22,850,171</b>
<b>Disbursements:</b>							
<b>Current:</b>							
Instruction	5,743,576	-	-	2,958,564	-	1,858,265	10,560,405
Support services	6,449,936	201,669	-	1,414,122	292,620	399,149	8,757,496
Community services	5,000	-	-	-	-	-	5,000
Nonprogrammed charges	-	-	2,999,603	-	-	620,387	3,619,990
<b>Total disbursements</b>	<b>12,198,512</b>	<b>201,669</b>	<b>2,999,603</b>	<b>4,372,686</b>	<b>292,620</b>	<b>2,877,801</b>	<b>22,942,891</b>
Excess (deficiency) of receipts over disbursements	(401,118)	3,640	166,207	(80,834)	191,766	27,619	(92,720)
<b>Other financing sources (uses):</b>							
Transfers in	-	292,946	-	-	-	23,794	316,740
Transfers out	(3,500)	-	-	-	-	(313,240)	(316,740)
<b>Total other financing sources (uses)</b>	<b>(3,500)</b>	<b>292,946</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(289,446)</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(404,618)	296,586	166,207	(80,834)	191,766	(261,827)	(92,720)
Cash and investments - beginning	1,559,917	153,127	1,289,214	-	427,785	399,431	3,829,474
Cash and investments - ending	\$ 1,155,299	\$ 449,713	\$ 1,455,421	\$ (80,834)	\$ 619,551	\$ 137,604	\$ 3,736,754
<b>Cash and Investment Assets - Ending</b>							
Cash and investments	\$ 1,155,299	\$ 449,713	\$ 1,455,421	\$ (80,834)	\$ 619,551	\$ 137,604	\$ 3,736,754
<b>Cash and Investment Fund Balance - Ending</b>							
Unrestricted	\$ 1,155,299	\$ 449,713	\$ 1,455,421	\$ (80,834)	\$ 619,551	\$ 137,604	\$ 3,736,754

The notes to the financial statements are an integral part of this statement.

PORTER COUNTY EDUCATION SERVICES  
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2007

	General Fund	Vocational Education Co-op	Vocational Education Tuition/Rent	Flow-Through Grant 2005-2006	Flow-Through Grant 2006-2007	Capital Projects	Other	Totals
<b>Receipts:</b>								
Local sources	\$ 12,573,271	\$ 256,438	\$ 3,243,447	\$ -	\$ -	\$ 475,704	\$ 1,154,083	\$ 17,702,943
Intermediate sources	-	-	-	-	-	-	14,998	14,998
State sources	394,265	-	-	-	-	-	1,122,035	1,516,300
Federal sources	-	-	-	462,415	4,109,722	-	686,774	5,258,911
Sale of property, adjustments and refunds	21,875	28,955	-	-	-	8,511	295	59,636
<b>Total receipts</b>	<u>12,989,411</u>	<u>285,393</u>	<u>3,243,447</u>	<u>462,415</u>	<u>4,109,722</u>	<u>484,215</u>	<u>2,978,185</u>	<u>24,552,788</u>
<b>Disbursements:</b>								
<b>Current:</b>								
Instruction	5,724,113	23,782	-	142,481	2,735,991	-	1,672,994	10,299,361
Support services	6,627,574	352,059	-	227,752	1,336,722	254,040	230,791	9,028,938
Community services	5,000	-	-	-	-	-	-	5,000
Nonprogrammed charges	-	-	3,105,871	-	-	-	864,454	3,970,325
Debt services	-	-	-	-	-	-	223,157	223,157
<b>Total disbursements</b>	<u>12,356,687</u>	<u>375,841</u>	<u>3,105,871</u>	<u>370,233</u>	<u>4,072,713</u>	<u>254,040</u>	<u>2,991,396</u>	<u>23,526,781</u>
Excess (deficiency) of receipts over disbursements	<u>632,724</u>	<u>(90,448)</u>	<u>137,576</u>	<u>92,182</u>	<u>37,009</u>	<u>230,175</u>	<u>(13,211)</u>	<u>1,026,007</u>
<b>Other financing sources (uses):</b>								
Transfers in	-	-	-	-	-	-	35,376	35,376
Transfers out	(3,500)	-	-	(11,348)	-	-	(20,528)	(35,376)
<b>Total other financing sources (uses)</b>	<u>(3,500)</u>	<u>-</u>	<u>-</u>	<u>(11,348)</u>	<u>-</u>	<u>-</u>	<u>14,848</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	629,224	(90,448)	137,576	80,834	37,009	230,175	1,637	1,026,007
Cash and investments - beginning	<u>1,155,299</u>	<u>449,713</u>	<u>1,455,421</u>	<u>(80,834)</u>	<u>-</u>	<u>619,551</u>	<u>137,604</u>	<u>3,736,754</u>
Cash and investments - ending	<u>\$ 1,784,523</u>	<u>\$ 359,265</u>	<u>\$ 1,592,997</u>	<u>\$ -</u>	<u>\$ 37,009</u>	<u>\$ 849,726</u>	<u>\$ 139,241</u>	<u>\$ 4,762,761</u>
<b>Cash and Investment Assets - Ending</b>								
Cash and investments	<u>\$ 1,784,523</u>	<u>\$ 359,265</u>	<u>\$ 1,592,997</u>	<u>\$ -</u>	<u>\$ 37,009</u>	<u>\$ 849,726</u>	<u>\$ 139,241</u>	<u>\$ 4,762,761</u>
<b>Cash and Investment Fund Balance - Ending</b>								
Unrestricted	<u>\$ 1,784,523</u>	<u>\$ 359,265</u>	<u>\$ 1,592,997</u>	<u>\$ -</u>	<u>\$ 37,009</u>	<u>\$ 849,726</u>	<u>\$ 139,241</u>	<u>\$ 4,762,761</u>

The notes to the financial statements are an integral part of this statement.

PORTER COUNTY EDUCATION SERVICES  
STATEMENT OF CASH AND INVESTMENT BALANCES  
FIDUCIARY FUNDS  
For the Year Ended June 30, 2006

	<u>Agency Funds</u>
Net Assets:	
Cash and investments	<u>\$ 93,062</u>

The notes to the financial statements are an integral part of this statement.

PORTER COUNTY EDUCATION SERVICES  
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
FIDUCIARY FUNDS  
For the Year Ended June 30, 2007

	Pension Trust Fund	Agency Funds
Additions:		
Contributions:		
Employer	\$ 3,400,200	\$ -
Deductions:		
Benefits	3,393,925	-
Refunds of contributions	200	-
Total deductions	3,394,125	-
Excess of total additions over total deductions	6,075	-
Cash and investment fund balance - beginning	-	-
Cash and investment fund balance - ending	\$ 6,075	\$ -
Net Assets:		
Cash and investments	\$ 6,075	\$ 96,196

The notes to the financial statements are an integral part of this statement.

PORTER COUNTY EDUCATION SERVICES  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

The School Corporation's financial reporting entity is composed of the primary government.

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 Activities and Net Assets - Cash and Investments Basis display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through intergovernmental revenues and other nonexchange revenues.

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.

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 vocational education co-op and tuition/rent funds are used to account for joint vocational education programs provided by participating school corporations.

The flow-through grant funds (2005-2006 and 2006-2007) are used to account for special education services provided which are funded through federal grants.

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

PORTER COUNTY EDUCATION SERVICES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Additionally, the School Corporation reports the following fund types:

The pension trust fund accounts for the activities of the retirement/severance benefit fund, which accumulates resources for pension benefit payments.

Agency funds account for assets held by the School Corporation as an agent for federal, state and other local governmental entities and payroll withholding remittances.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 5 to 12 days per year. Unused sick leave may be accumulated indefinitely for certified employees and to a maximum of 60 days for non-certified employees. Accumulated sick leave is not paid to employees upon separation of employment.

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.

PORTER COUNTY EDUCATION SERVICES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

c. Personal Leave

School Corporation employees earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year.

3. 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.

4. Long-Term Debt

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

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.

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

Program Receipts

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

F. Internal and Interfund Balances and Activities

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

PORTER COUNTY EDUCATION SERVICES  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

Fund Financial Statements

1. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
2. 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 fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following January 1. The governing board approves the budget for the next year.

Appropriations for the budgeted funds of the School Corporation are prepared in detail by expenditure classification.

B. Cash and Investment Balance Deficits

At June 30, 2006 and 2007, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines as established by state statute:

Fund	2006	2007
Flow Through Grant 2005-2006	\$ 80,834	\$ -
Perkins Grant 2005-2006	53,865	-
Perkins Grant 2006-2007	-	42,607

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.

PORTER COUNTY EDUCATION SERVICES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

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

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of June 30, 2007, the School Corporation had the following investments:

<u>Investment Type</u>	<u>Market Value</u>
Mutual funds	<u>\$ 3,400,000</u>

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 School Corporation to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

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

PORTER COUNTY EDUCATION SERVICES  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

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 School Corporation'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.

Investment Type	Investment Maturities (in Years)		
	Less Than 1	1-2	More Than 2
Mutual funds*	\$ 3,400,000	\$ -	\$ -

\*The mutual funds had a average maturity of 41 days.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below.

Standard and Poor's Rating	School Corporation's Investments  Mutual Funds
AAA	\$ 3,400,000

PORTER COUNTY EDUCATION SERVICES  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

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.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2006 and 2007, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2006</u>	<u>2007</u>
General Fund	Other governmental	\$ 3,500	\$ 3,500
Flow Through Grant 2005-2006	Other governmental	-	11,348
Other governmental	Vocational Education Co-op	292,946	-
Other governmental	Other governmental	<u>20,294</u>	<u>20,528</u>
Totals		<u>\$ 316,740</u>	<u>\$ 35,376</u>

The School Corporation typically uses transfers for cash flow purposes as provided by various statutory provisions.

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 for Employees, Retirees, and Dependents

During 1997, the School Corporation joined with other governmental entities in the Porter County Schools Employer's Insurance Trust, a public entity risk pool currently operating as a common risk management and insurance program for eight member governmental entities. This risk pool was formed in 1997. The purpose of the risk pool is to provide a medium for the funding and administration of medical benefits to employees, retirees, and dependents (excluding postemployment benefits). The School Corporation pays an annual premium to the risk pool for its medical benefits coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$5,000,000 per insured event.

PORTER COUNTY EDUCATION SERVICES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

B. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity 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	\$ 58,290
Interest on net pension obligation	(7,191)
Adjustment to annual required contribution	8,195
Annual pension cost	59,294
Contributions made	42,305
Increase in net pension obligation	16,989
Net pension obligation, beginning of year	(99,190)
Net pension obligation, end of year	\$ (82,201)

PORTER COUNTY EDUCATION SERVICES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	PERF
Contribution rates:	
School Corporation	5%
Plan members	3%
Actuarial valuation date	07-01-06
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-04	\$ 19,986	304%	\$ (80,531)
	06-30-05	31,709	159%	(99,190)
	06-30-06	59,294	133%	(82,201)

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.

PORTER COUNTY EDUCATION SERVICES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

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

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2007, 2006, and 2005, were \$262,819, \$254,377, and \$228,874, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

PORTER COUNTY EDUCATION SERVICES  
 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)
07-01-04	\$ 523,839	\$ 529,496	\$ (5,657)	99%	\$ 651,933	(1%)
07-01-05	563,832	701,565	(137,733)	80%	921,596	(15%)
07-01-06	543,778	918,840	(375,062)	59%	969,280	(39%)

PORTER COUNTY EDUCATION SERVICES  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,  
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2006

	Alternative Education	Vocational Day Care	Summer School 2005	Summer School 2006	Adult Education	Technology
<b>Receipts:</b>						
Local sources	\$ 559,395	\$ 48,722	\$ -	\$ -	\$ 15,269	\$ 50,287
Intermediate sources	-	-	-	-	-	-
State sources	-	-	2,189	14,473	1,124,271	-
Federal sources	-	-	-	-	-	-
Sale of property, adjustments and refunds	-	-	-	-	-	-
<b>Total receipts</b>	<u>559,395</u>	<u>48,722</u>	<u>2,189</u>	<u>14,473</u>	<u>1,139,540</u>	<u>50,287</u>
<b>Disbursements:</b>						
<b>Current:</b>						
Instruction	-	32,011	9,616	6,282	1,132,480	-
Support services	-	7,591	1,213	714	-	40,400
Nonprogrammed charges	<u>620,387</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total disbursements</b>	<u>620,387</u>	<u>39,602</u>	<u>10,829</u>	<u>6,996</u>	<u>1,132,480</u>	<u>40,400</u>
<b>Excess (deficiency) of receipts over disbursements</b>	<u>(60,992)</u>	<u>9,120</u>	<u>(8,640)</u>	<u>7,477</u>	<u>7,060</u>	<u>9,887</u>
<b>Other financing sources (uses):</b>						
Transfers in	-	-	-	20,294	-	-
Transfers out	<u>-</u>	<u>(292,946)</u>	<u>(20,294)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>(292,946)</u>	<u>(20,294)</u>	<u>20,294</u>	<u>-</u>	<u>-</u>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<u>(60,992)</u>	<u>(283,826)</u>	<u>(28,934)</u>	<u>27,771</u>	<u>7,060</u>	<u>9,887</u>
<b>Cash and investments - beginning</b>	<u>92,571</u>	<u>283,826</u>	<u>28,934</u>	<u>-</u>	<u>68,160</u>	<u>2,139</u>
<b>Cash and investments - ending</b>	<u>\$ 31,579</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,771</u>	<u>\$ 75,220</u>	<u>\$ 12,026</u>
<b><u>Cash and Investment Assets - Ending</u></b>						
<b>Cash and investments</b>	<u>\$ 31,579</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,771</u>	<u>\$ 75,220</u>	<u>\$ 12,026</u>
<b><u>Cash and Investment Fund Balance - Ending</u></b>						
<b>Unrestricted</b>	<u>\$ 31,579</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,771</u>	<u>\$ 75,220</u>	<u>\$ 12,026</u>

PORTER COUNTY EDUCATION SERVICES  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,  
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2006  
 (Continued)

	Juvenile Detention	County Inservice	County Wide Inservice	Preschool Grant 2005-2006	Perkins Grant 2004-2005	Perkins Grant 2005-2006
<b>Receipts:</b>						
Local sources	\$ -	\$ -	\$ 12,500	\$ -	\$ -	\$ -
Intermediate sources	14,139	-	-	-	-	-
State sources	-	-	-	-	-	-
Federal sources	-	-	-	135,965	73,586	211,689
Sale of property, adjustments and refunds	-	-	-	-	-	268
<b>Total receipts</b>	<b>14,139</b>	<b>-</b>	<b>12,500</b>	<b>135,965</b>	<b>73,586</b>	<b>211,957</b>
<b>Disbursements:</b>						
<b>Current:</b>						
Instruction	14,998	-	-	115,928	50,431	186,662
Support services	-	3,079	10,146	18,860	5,114	79,160
Nonprogrammed charges	-	-	-	-	-	-
<b>Total disbursements</b>	<b>14,998</b>	<b>3,079</b>	<b>10,146</b>	<b>134,788</b>	<b>55,545</b>	<b>265,822</b>
<b>Excess (deficiency) of receipts over disbursements</b>	<b>(859)</b>	<b>(3,079)</b>	<b>2,354</b>	<b>1,177</b>	<b>18,041</b>	<b>(53,865)</b>
<b>Other financing sources (uses):</b>						
Transfers in	-	3,500	-	-	-	-
Transfers out	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>3,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<b>(859)</b>	<b>421</b>	<b>2,354</b>	<b>1,177</b>	<b>18,041</b>	<b>(53,865)</b>
Cash and investments - beginning	15,857	2,683	5,700	-	(18,041)	-
Cash and investments - ending	<u>\$ 14,998</u>	<u>\$ 3,104</u>	<u>\$ 8,054</u>	<u>\$ 1,177</u>	<u>\$ -</u>	<u>\$ (53,865)</u>
<b><u>Cash and Investment Assets - Ending</u></b>						
Cash and investments	<u>\$ 14,998</u>	<u>\$ 3,104</u>	<u>\$ 8,054</u>	<u>\$ 1,177</u>	<u>\$ -</u>	<u>\$ (53,865)</u>
<b><u>Cash and Investment Fund Balance - Ending</u></b>						
Unrestricted	<u>\$ 14,998</u>	<u>\$ 3,104</u>	<u>\$ 8,054</u>	<u>\$ 1,177</u>	<u>\$ -</u>	<u>\$ (53,865)</u>

PORTER COUNTY EDUCATION SERVICES  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,  
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2006  
 (Continued)

	IDEA Flow-Through Carry-Over	IDEA Flow-Through 2004-2005	Sliver Grant	Vocational Adult Ed	Totals
<b>Receipts:</b>					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ 686,173
Intermediate sources	-	-	-	-	14,139
State sources	-	-	-	-	1,140,933
Federal sources	163,645	409,770	69,252	-	1,063,907
Sale of property, adjustments and refunds	-	-	-	-	268
<b>Total receipts</b>	<u>163,645</u>	<u>409,770</u>	<u>69,252</u>	<u>-</u>	<u>2,905,420</u>
<b>Disbursements:</b>					
<b>Current:</b>					
Instruction	122,947	132,397	51,712	2,801	1,858,265
Support services	40,698	192,174	-	-	399,149
Nonprogrammed charges	-	-	-	-	620,387
<b>Total disbursements</b>	<u>163,645</u>	<u>324,571</u>	<u>51,712</u>	<u>2,801</u>	<u>2,877,801</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>85,199</u>	<u>17,540</u>	<u>(2,801)</u>	<u>27,619</u>
<b>Other financing sources (uses):</b>					
Transfers in	-	-	-	-	23,794
Transfers out	-	-	-	-	(313,240)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(289,446)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>-</u>	<u>85,199</u>	<u>17,540</u>	<u>(2,801)</u>	<u>(261,827)</u>
Cash and investments - beginning	<u>-</u>	<u>(85,199)</u>	<u>-</u>	<u>2,801</u>	<u>399,431</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,540</u>	<u>\$ -</u>	<u>\$ 137,604</u>
<b>Cash and Investment Assets - Ending</b>					
Cash and investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,540</u>	<u>\$ -</u>	<u>\$ 137,604</u>
<b>Cash and Investment Fund Balance - Ending</b>					
Unrestricted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,540</u>	<u>\$ -</u>	<u>\$ 137,604</u>

PORTER COUNTY EDUCATION SERVICES  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,  
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2007

	Alternative Education	Summer School 2006	Summer School 2007	Adult Education	Technology	Juvenile Detention
<b>Receipts:</b>						
Local sources	\$ 832,875	\$ -	\$ -	\$ 38,539	\$ 50,612	\$ -
Intermediate sources	-	-	-	-	-	14,998
State sources	-	2,318	15,385	1,104,332	-	-
Federal sources	-	-	-	-	-	-
Sale of property, adjustments and refunds	-	-	-	-	-	-
<b>Total receipts</b>	<u>832,875</u>	<u>2,318</u>	<u>15,385</u>	<u>1,142,871</u>	<u>50,612</u>	<u>14,998</u>
<b>Disbursements:</b>						
<b>Current:</b>						
Instruction	-	8,238	6,247	1,122,658	-	14,998
Support services	-	1,323	466	-	32,427	-
Nonprogrammed charges	864,454	-	-	-	-	-
Debt services	-	-	-	-	-	-
<b>Total disbursements</b>	<u>864,454</u>	<u>9,561</u>	<u>6,713</u>	<u>1,122,658</u>	<u>32,427</u>	<u>14,998</u>
<b>Excess (deficiency) of receipts over disbursements</b>	<u>(31,579)</u>	<u>(7,243)</u>	<u>8,672</u>	<u>20,213</u>	<u>18,185</u>	<u>-</u>
<b>Other financing sources (uses):</b>						
Transfers in	-	-	20,528	-	-	-
Transfers out	-	(20,528)	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>(20,528)</u>	<u>20,528</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<u>(31,579)</u>	<u>(27,771)</u>	<u>29,200</u>	<u>20,213</u>	<u>18,185</u>	<u>-</u>
<b>Cash and investments - beginning</b>	<u>31,579</u>	<u>27,771</u>	<u>-</u>	<u>75,220</u>	<u>12,026</u>	<u>14,998</u>
<b>Cash and investments - ending</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,200</u>	<u>\$ 95,433</u>	<u>\$ 30,211</u>	<u>\$ 14,998</u>
<b>Cash and Investment Assets - Ending</b>						
<b>Cash and investments</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,200</u>	<u>\$ 95,433</u>	<u>\$ 30,211</u>	<u>\$ 14,998</u>
<b>Cash and Investment Fund Balance - Ending</b>						
<b>Unrestricted</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,200</u>	<u>\$ 95,433</u>	<u>\$ 30,211</u>	<u>\$ 14,998</u>

PORTER COUNTY EDUCATION SERVICES  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,  
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2007  
 (Continued)

	County Inservice	County Wide Inservice	Preschool Grant 2005-2006	Preschool Grant 2006-2007	Perkins Grant 2005-2006
<b>Receipts:</b>					
Local sources	\$ -	\$ 8,900	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	-	-
State sources	-	-	-	-	-
Federal sources	-	-	-	133,663	69,933
Sale of property, adjustments and refunds	-	-	-	-	95
<b>Total receipts</b>	<b>-</b>	<b>8,900</b>	<b>-</b>	<b>133,663</b>	<b>70,028</b>
<b>Disbursements:</b>					
<b>Current:</b>					
Instruction	-	-	-	114,017	8,535
Support services	4,495	7,986	1,177	18,717	7,628
Nonprogrammed charges	-	-	-	-	-
Debt services	-	-	-	-	-
<b>Total disbursements</b>	<b>4,495</b>	<b>7,986</b>	<b>1,177</b>	<b>132,734</b>	<b>16,163</b>
<b>Excess (deficiency) of receipts over disbursements</b>	<b>(4,495)</b>	<b>914</b>	<b>(1,177)</b>	<b>929</b>	<b>53,865</b>
<b>Other financing sources (uses):</b>					
Transfers in	3,500	-	-	-	-
Transfers out	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>3,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<b>(995)</b>	<b>914</b>	<b>(1,177)</b>	<b>929</b>	<b>53,865</b>
<b>Cash and investments - beginning</b>	<b>3,104</b>	<b>8,054</b>	<b>1,177</b>	<b>-</b>	<b>(53,865)</b>
<b>Cash and investments - ending</b>	<b>\$ 2,109</b>	<b>\$ 8,968</b>	<b>\$ -</b>	<b>\$ 929</b>	<b>\$ -</b>
<b>Cash and Investment Assets - Ending</b>					
<b>Cash and investments</b>	<b>\$ 2,109</b>	<b>\$ 8,968</b>	<b>\$ -</b>	<b>\$ 929</b>	<b>\$ -</b>
<b>Cash and Investment Fund Balance - Ending</b>					
<b>Unrestricted</b>	<b>\$ 2,109</b>	<b>\$ 8,968</b>	<b>\$ -</b>	<b>\$ 929</b>	<b>\$ -</b>

PORTER COUNTY EDUCATION SERVICES  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,  
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2007  
 (Continued)

	Perkins Grant 2006-2007	IDEA Flow-Through Carry-Over	Sliver Grant	Retirement/ Severance Debt Service	Totals
<b>Receipts:</b>					
Local sources	\$ -	\$ -	\$ -	\$ 223,157	\$ 1,154,083
Intermediate sources	-	-	-	-	14,998
State sources	-	-	-	-	1,122,035
Federal sources	202,465	280,013	700	-	686,774
Sale of property, adjustments and refunds	-	-	200	-	295
<b>Total receipts</b>	<u>202,465</u>	<u>280,013</u>	<u>900</u>	<u>223,157</u>	<u>2,978,185</u>
<b>Disbursements:</b>					
<b>Current:</b>					
Instruction	163,008	217,753	17,540	-	1,672,994
Support services	82,064	73,608	900	-	230,791
Nonprogrammed charges	-	-	-	-	864,454
Debt services	-	-	-	223,157	223,157
<b>Total disbursements</b>	<u>245,072</u>	<u>291,361</u>	<u>18,440</u>	<u>223,157</u>	<u>2,991,396</u>
Excess (deficiency) of receipts over disbursements	<u>(42,607)</u>	<u>(11,348)</u>	<u>(17,540)</u>	<u>-</u>	<u>(13,211)</u>
<b>Other financing sources (uses):</b>					
Transfers in	-	11,348	-	-	35,376
Transfers out	-	-	-	-	(20,528)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>11,348</u>	<u>-</u>	<u>-</u>	<u>14,848</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(42,607)</u>	<u>-</u>	<u>(17,540)</u>	<u>-</u>	<u>1,637</u>
Cash and investments - beginning	<u>-</u>	<u>-</u>	<u>17,540</u>	<u>-</u>	<u>137,604</u>
Cash and investments - ending	<u>\$ (42,607)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 139,241</u>
<b>Cash and Investment Assets - Ending</b>					
Cash and investments	<u>\$ (42,607)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 139,241</u>
<b>Cash and Investment Fund Balance - Ending</b>					
Unrestricted	<u>\$ (42,607)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 139,241</u>

PORTER COUNTY EDUCATION SERVICES  
 COMBINING SCHEDULE OF CASH AND INVESTMENT BALANCES  
 AGENCY FUNDS  
 For the Year Ended June 30, 2006

	Holding Account - Miscellaneous	State Tax	CAGIT	COBRA Payments	Group Life Insurance	Disability Insurance
Net assets:						
Cash and investments	\$ 21,985	\$ 31,249	\$ 4,737	\$ 1,501	\$ 4	\$ 4

PORTER COUNTY EDUCATION SERVICES  
 COMBINING SCHEDULE OF CASH AND INVESTMENT BALANCES  
 AGENCY FUNDS  
 For the Year Ended June 30, 2006  
 (Continued)

	Extra TRF Withholding	Extra PERF Withholding	United Way	Section 125	Colonial 125	Total
Net assets:						
Cash and investments	\$ 15,320	\$ 2,117	\$ 4,016	\$ 11,993	\$ 136	\$ 93,062

PORTER COUNTY EDUCATION SERVICES  
 COMBINING SCHEDULE OF CASH AND INVESTMENT BALANCES  
 AGENCY FUNDS  
 For the Year Ended June 30, 2007

	Holding Account - Miscellaneous	State Tax	CAGIT	Annuities	COBRA Payments	Group Life Insurance
Net assets:						
Cash and investments	<u>\$ 39,364</u>	<u>\$ 30,602</u>	<u>\$ 4,660</u>	<u>\$ 1,208</u>	<u>\$ 1,758</u>	<u>\$ 3</u>

PORTER COUNTY EDUCATION SERVICES  
 COMBINING SCHEDULE OF CASH AND INVESTMENT BALANCES  
 AGENCY FUNDS  
 For the Year Ended June 30, 2007  
 (Continued)

	<u>Disability Insurance</u>	<u>Extra TRF Withholding</u>	<u>Extra PERF Withholding</u>	<u>Texas/AFA Life Withholding</u>	<u>Cancer Ins Withholding</u>
Net assets:					
Cash and investments	<u>\$ 2</u>	<u>\$ 11,437</u>	<u>\$ 2,508</u>	<u>\$ 328</u>	<u>\$ 1,249</u>

PORTER COUNTY EDUCATION SERVICES  
 COMBINING SCHEDULE OF CASH AND INVESTMENT BALANCES  
 AGENCY FUNDS  
 For the Year Ended June 30, 2007  
 (Continued)

	Long-Term Care Withholding	United Way	Section 125	Colonial 125	Total
Net assets:					
Cash and investments	\$ 63	\$ 3,343	\$ (492)	\$ 163	\$ 96,196

PORTER COUNTY EDUCATION SERVICES  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS

June 30, 2007

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:	
Land	\$ 130,000
Buildings	4,668,910
Improvements other than buildings	69,773
Machinery and equipment	<u>288,255</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 5,156,938</u>

PORTER COUNTY EDUCATION SERVICES  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 June 30, 2007

The School Corporation has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Notes and loans payable	\$ 1,927,246	\$ 501,543

PORTER COUNTY EDUCATION SERVICES  
AUDIT RESULTS AND COMMENTS

INVESTMENTS NOT AUTHORIZED BY STATUTE

The School Corporation invested in a money market mutual fund in May 2007. The investment portfolio included commercial paper and bank obligations. Additionally, more than 50% of funds available to invest were invested in the money market mutual fund.

Indiana Code 5-13-9-2.5 states in part:

"(a) An officer designated in section 1 of this chapter may invest or reinvest funds that are held by the officer and available for investment in investments commonly known as money market mutual funds that are in the form of securities of or interests in an open-end, no-load, management-type investment company or investment trust registered under the provisions of the federal Investment Company Act of 1940, as amended (15 U.S.C. 80a et seq.).

(b) The investments described in subsection (a) may not exceed fifty percent (50%) of the funds held by the officer and available for investment. . . ."

Losses related to investments and investment procedures which are not authorized by statute may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

RETIREMENT LIABILITY

The Board approved a buyout on December 19, 2006, of the retirement liability for the special education teaching staff. The Board also approved a buyout of the retirement liability for administrators on May 8, 2007.

The member school corporations agreed to fund \$3,400,000 for the buyout; the remaining balance was paid from the General Fund (fund 130). Four of seven member school corporations paid a total of \$1,258,616 in May 2007, to the interlocal from available funds. The interlocal then borrowed \$2,141,384 through a loan from Centier Bank on May 8, 2007, for the remaining three school corporations (Valparaiso, Portage, and East Porter), which will be repaid over 5 years. The interlocal bills the three school corporations and upon receipt of funds pays the bank. The Board minutes originally provided for audit for the May 8<sup>th</sup> meeting were silent regarding the loan. Minutes provided after inquiry for the May 8<sup>th</sup> same date which addressed the loan were from an executive session, which was not a public meeting.

The first installment of the loan repayment occurred in June 2007. The receipt and disbursement of the funds for the buyout and the loan repayment were accounted for through a clearing fund.

Indiana Code 5-14-1.5-6.1 concerning executive sessions states in part:

"(b) Executive sessions may be held only in the following instances:

(1) Where authorized by federal or state statute.

(2) For discussion of strategy with respect to any of the following:

(A) Collective bargaining.

(B) Initiation of litigation or litigation that is either pending or has been threatened specifically in writing.

PORTER COUNTY EDUCATION SERVICES  
AUDIT RESULTS AND COMMENTS  
(Continued)

(C) The implementation of security systems.

(D) The purchase or lease of real property by the governing body up to the time a contract or option to purchase or lease is executed by the parties. . . .

- (3) For discussion of the assessment, design, and implementation of school safety and security measures, plans, and systems.
- (4) Interviews and negotiations with industrial or commercial prospects . . .
- (5) To receive information about and interview prospective employees.
- (6) With respect to any individual over whom the governing body has jurisdiction . . .
- (7) For discussion of records classified as confidential by state or federal statute.
- (8) To discuss before a placement decision an individual student's abilities, past performance, behavior, and needs.
- (9) to discuss a job performance evaluation of individual employees . . . .
- (10) When considering the appointment of a public official . . .
- (11) to train school board members with an outside consultant about the performance of role of the members as public officials.
- (12) To prepare or score examinations used in issuing licenses, certificates, permits, or registrations under Indiana Code 15-5-1.1 or Indiana Code 25.
- (13) To discuss information and intelligence intended to prevent, mitigate, or respond to the threat of terrorism.

(c) A final action must be taken at a meeting open to the public."

Requirements concerning regular meetings, statutory meetings and special meetings of the governing body are set out in the General School Powers Act. No action may be taken unless a quorum is present. A majority of the members shall constitute a quorum. All meetings shall be open to the public to the extent required by IC 5-14-1.5. (Indiana Open Door Law) (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

CONFLICT OF INTEREST

Several conflict of interest statements were filed with and approved by the Board. The Uniform Conflict of Interest Disclosure Statements were not filed with the State Board of Accounts.

PORTER COUNTY EDUCATION SERVICES  
AUDIT RESULTS AND COMMENTS  
(Continued)

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

"(d) A disclosure required by this section must: (1) be in writing; (2) describe the contract or purchase to be made by the governmental entity; (3) describe the pecuniary interest that the public servant has in the contract or purchase; (4) be affirmed under penalty of perjury; (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the governmental entity prior to final action on the contract or purchase; (6) be filed within fifteen (15) days after final action on the contract or purchase with: (A) the state board of accounts; and (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase . . ."

RECEIPT ISSUANCE

Receipts were not always issued at the time of collection. Some receipts were issued after the deposit was made.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

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

TO: THE OFFICIALS OF PORTER COUNTY EDUCATION SERVICES, PORTER COUNTY, INDIANA

Compliance

We have audited the compliance of Porter County Education Services (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, 2006 and 2007. 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 of America; 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, 2006 and 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2007-1.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

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 internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in a School Corporation's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in item 2007-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

The School Corporation's response to the findings identified in our audit is described in the accompanying Corrective Action Plan section of the report. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, the School Board, 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 23, 2007

PORTER COUNTY EDUCATION SERVICES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended June 30, 2006 and 2007

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 06-30-06	Total Federal Awards Expended 06-30-07
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Indiana Department of Education				
Special Education Cluster				
Special Education - Grants to States				
	84.027			
		14205-050-DY01	\$ 51,712	\$ 18,440
		14205-050-PY02	163,645	-
		14206-050-PY02	-	291,361
		14205-050-PN01	324,571	-
		14206-050-PN01	4,372,687	381,581
		14207-050-PN01	-	4,072,713
Total for program			<u>4,912,615</u>	<u>4,764,095</u>
Special Education - Preschool Grants				
	84.173			
		45706-050-PN01	134,788	1,177
		45707-050-PN01	-	132,734
Total for program			<u>134,788</u>	<u>133,911</u>
Total for cluster			<u>5,047,403</u>	<u>4,898,006</u>
Vocational Education - Basic Grants to States				
	84.048			
05-4700-6455			55,545	-
06-4700-6455			265,822	16,163
07-4700-6455			-	245,072
Total for program			<u>321,367</u>	<u>261,235</u>
Total federal awards expended			<u>\$ 5,368,770</u>	<u>\$ 5,159,241</u>

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

PORTER COUNTY EDUCATION SERVICES  
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 Porter County Education Services (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.

PORTER COUNTY EDUCATION SERVICES  
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?	yes

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.048	Special Education Cluster Vocational Education – Grants to States

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

FINDING 2007-1, PERIOD OF AVAILABILITY

Federal Agency: U.S. Department of Education  
 Federal Program: Vocational Education – Basic Grants to States  
 CFDA Numbers: 84.048  
 Federal Award Number: 06-4700-6455  
 Pass-Through: Indiana Department of Education

PORTER COUNTY EDUCATION SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

The grant for the Fiscal Year 2006 (July 1, 2005 to June 30, 2006) had expenditures which occurred on October 10, 2006, which was the date that the final report was prepared. Inquiry of staff indicated that one of the late payments was due to difficulty in obtaining the invoice as the vendor did not bill timely.

Expenditures also occurred after the period of obligation. A computer equipment purchase was paid on August 16, 2006, which was not obligated by June 30, 2006. Documentation provided to authorize the purchase, as well as the ordering of the items did not occur until July, 2006.

Obligations for the expenditure of the grant funds had to be made no later than June 30, 2006. The grantee had to liquidate all obligations within 90 days after the end of the funding period, but no later than September 30. The grantee was required to return to the grantor agency any amounts not expended at the end of the 90 day period. Inquiry of the staff indicated that controls were in place to ensure that grant funds were expended within the period of availability (before September 30th) and obligated timely, but review of the records determined that these controls were not effective.

The Notification of Grant Award Letter states in part that ". . . The grantee agrees to liquidate all obligations incurred under the award within 90 days after the end of the funding period, but no later than September 30 . . . Any amounts not expended at the end of the 90 day period are to be returned to the grantor agency . . ." The letter also stated in part that "All obligations for the expenditure of these funds must be made on or before the end of the grant period - June 30, 2006 . . . Any obligation made after June 30th cannot be funded with FY06 Perkins III funds." Circular 133 Subpart C (300) states in part that "The auditee shall . . . (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs."

The Code of Federal Regulations (34CFR80.23) states the following:

"(a) General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

(b) Liquidation of obligations. A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee."

Failure to obligate and expend grants within the period of availability and failure to return funds which were not expended before September 30 or obligated by June 30th could result in the possible reduction or loss of future funding.

We recommended the School Corporation review and modify control procedures to ensure compliance with the period of availability requirements.

PORTER COUNTY EDUCATION SERVICES  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



**Corrective Action Plan**

Finding No. 2007-1

Fiscal Year 2005

Auditee Contact Person Jon Groth

Type of Contact Person Area Director Career & Technical Education

Phone Number 531-3170

**Planned Corrective Action:**

**Encumbrance Deadline Moved to June 15**

In order to prevent any similar, unusual and isolated occurrences in the future, we will implement a June 15 deadline for the encumbrance of funds from the federal Carl Perkins Act. This earlier deadline will give clerical staff two weeks rather than the previous one day to encumber authorized expenditures through the appropriate purchase order process.

Jon Groth J.G.

10/4/007

**DIVISION OF PORTER COUNTY EDUCATION SERVICES**

**Jon Groth**  
Director – Career & Technical Education

[www.porterco.org/pcve/](http://www.porterco.org/pcve/)

**Kelli Ellis**  
Student Support Coordinator

**Cheryl Leach**  
Career Planning Coordinator

**Beverly DeFrance**  
Administrative Assistant

**Michelle Tuttle**  
Student Support Coordinator

PORTER COUNTY EDUCATION SERVICES  
EXIT CONFERENCE

The contents of this report were discussed on October 24, 2007, with Dr. Janice Rees, Executive Director; Dr. Rod Gardin, President of the Board; George Letz, Vice President Board; and Ruth Kenny, Treasurer. The official response has been made a part of this report and may be found on pages 51 through 57.

**HOEPPNER  
WAGNER &  
EVANS LLP**  
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October 14, 2007

Janice Rees, Ph.D.  
Porter County Education Services  
750 Ransom Road  
Valparaiso, IN 46383

Re: **Porter County Education Services**  
**State Board of Accounts Audit**  
**Our File No. 802**

Dear Ms. Rees:

This letter is in response to the State Board of Account's Audit results and comments. The Porter County Educational Services was formed by Duneland School Corporation, Portage Township Schools, Porter Township School Corporation, Valparaiso Community Schools, Union Township School Corporation, East Porter County Schools and MSD Boone Township. In accordance with I.C. 36-1-7-1 through 36-1-7-13. That chapter provided for the creation of an interlocal cooperation. At the time the Interlocal was formed it was known as Porter County Educational Interlocal, that name has since been changed to Porter County Educational Services. The statute that allows for the creation of the Interlocal states that any parties establishing the Interlocal must enter into a written agreement and the Interlocal only has the powers delegated to it by the agreement. The statute does provide that the treasurer of the Interlocal, or the disbursing officer, has the duty to receive, disburse, and account for all monies of the joint undertaking. In addition, it provides that the entity that is created has the power to appropriate monies to carry out the agreement.

The terms of the written agreement that created the Porter County Educational Interlocal (now Porter County Educational Services) set forth that the Interlocal was to develop such programs or services as from time to time it may be deemed necessary or beneficial to the members. Under Section 2.02 which sets forth the powers that the Interlocal shall have, Paragraph 4 authorizes the Interlocal to apply for, accept, unitize, disburse and expand loans, etc. In addition, Paragraph 5 states that the Interlocal has the power to enter into, assume the obligations of, and to enforce contractual obligations; and to charge and collect the cost of any program or services rendered by the Interlocal. Paragraph 8 provides that the Interlocal without limiting any of the foregoing powers, is to do any act necessary or desirable from a business or educational standpoint in carrying out the programs and providing the services herein authorized and the powers in respect thereto delegated to each of the members or public agencies. Lastly, under the Power Section of the Agreement, the Interlocal acknowledges that the Home Rule law applies to it. Under Article 3 of the Agreement, it states that the Interlocal is to take any necessary or desirable action to carry out the work of the Interlocal.

The school corporations that created the Interlocal have certain specific powers under I.C. 20-26-5-4 (14) and one of those is to borrow money against current tax collections. In the year 2006 a decision was made to enter into a pension buyout with regard to the teachers employed by the Interlocal. On December 19, 2006 the Board did approve the buyout of the Retirement Plan for all Porter County Educational Services personnel. The vote to approve the buyout was passed unanimously. [See Exhibit A]

On May 8<sup>th</sup> of 2007 the Board of Directors of the Porter County Educational Services set forth a procedure to fund the buyout as a retirement plan and further set forth how a procedure should evolve. IN addition, the resolution provided that the President and Secretary were authorized and directed to execute and deliver all documents required for the loan. [See Exhibit B]

On the issue of funding and retirement liability. I.C. 20-48-1-2 is an inaccurate site to the Indiana Code. The correct site is I.C. 21-2-21-1.8 and it's predecessor I.C. 20-5-4-1.7. However, neither of these statutory sections apply to the Interlocal. Therefore, the July 1, 2006 deadline is irrelevant as it is contained in a statute that does not apply to the Interlocal. Similarly, the separate debt service fund for payment is equally irrelevant as it is contained in the same inapplicable statute.

Regardless of the inapplicability of I.C. 21-2-21-1.8, the Interlocal did not issue bonds to fund its unfunded severance liability. The Interlocal calculated it's unfunded liability and billed its member's school corporations for their share of the buyout. As noted in the audit, four (4) of the members paid their share in May of 2007. The other three (3) members promised to pay their respective share over a five (5) year period. The Interlocal then took the promises to pay to Centier Bank and borrowed against those promises so that it could obtain cash to fund it's negotiated buyout. This is no different than borrowing against future tax collections or unpaid text book rental fees. Promise to pay represents an asset of the Interlocal which is sold to Centier Bank for cash. I.C. 20-26-5-4 specifically gives the power to school corporations to borrow money against current tax collections and the language of the Interlocal Agreement allows for the Interlocal to enter into loans.

On the issue of power to incur indebtedness, it would appear that the State Board of Accounts maintains that a governmental unit may not incur indebtedness unless specifically allowed by statute. This is not a correct statement of the law. It would be true if the school corporations were still under Dillons' Rule. However, the adoption of the statute which gives school corporations home rule powers, now found that I.C. 20-26-3, Dillons' Rule has been legislatively abolished. Incurring indebtedness is not one of the powers expressly denied school corporations by the constitution, by statute or by rule of the State Board of Education. The State Board of Accounts in their audit lists the prohibited powers, and incurring indebtedness in not listed. Therefore, home rule gives school corporations the power to incur indebtedness.

I.C. 20-26-3-1 through 20-26-3-7 specifically provides that not withstanding any other

law and subject to Chapter 7 of this Chapter, the policy of the state is to grant each school corporation all the powers needed for the effective operation of the school corporation. It further states that any doubt as to the existence of the power of the school corporation must be resolved in favor of the existence of the power. It specifically states that all other powers necessary or desirable in the conduct of school corporations affairs even if the power is not granted by statute or rule. The omission of a power from a list does not imply that the school corporation lacks that power. Lastly, a school corporation may exercise any powers the school corporation possesses to the extent of that power unless it is expressly denied by the Constitution of the state of Indiana, by statute or by rule of the State Board of Education in this particular instance as set forth above, there are no denials by the constitution, by statute or by rule of State Board of Education.

The Interlocal can incur indebtedness by following a statutory procedure permitting a specific manner or exercising a similar power or by creating a procedure of its own. In this case, I.C. 21-2-21-8 provides a procedure for exercising a similar power, i.e. borrowing money in anticipation of the receipt of tax revenues. The Interlocal could follow a similar procedure which involves a board adopting a resolution authorizing the borrowing in anticipation of the receipt of future revenues and selling such indebtedness to a willing buyer. In this case, the future revenues are those payments the three member school corporation had promised to make over the next five (5) years. Centier Bank is the willing buyer.

Similarly, it could follow its own written procedure for incurring indebtedness. In this case, the procedure and the authorization are contained in the same written action. The Interlocal determined to borrow money against future payments to be made by some of its member school corporations by adopting a resolution and authorizing the borrowing. The authorizing resolution is in fact a statement of the policy creating the procedure while at the same time implementing the procedure. The loan was then negotiated with Centier bank to complete the financing.

In conclusion, it is my opinion that Porter County Educational Services and its Board of Directors have the power to borrow money for the purposes of funding some of the member's obligation to satisfy their portion of the pension buyout and followed the proper procedure in doing so. If you should have any questions please contact me at your convenience.

Very truly yours,

**HOEPPNER WAGNER & EVANS LLP**



William F. Satterlee, III

WFS/drg

**Porter County  
Education Services**

Many Learners. Many Paths.

750 Ransom Road  
Valparaiso, IN 46385-8973  
Ph (219) 464-9607  
Fax (219) 462-0867

**MINUTES OF SPECIAL MEETING OF THE  
BOARD OF DIRECTORS OF  
PORTER COUNTY EDUCATION SERVICES**

A special meeting of the Board of Directors of Porter County Education Services was held on May 8, 2007. The following Directors were present: Dirk Baer, Michael Benway, George Letz, Michael Berta, Rod Gardin and John Hunter.

In order to fund the buy-out of the retirement plan for the Corporation's personnel, which was approved on December 19, 2006, it is necessary for the Corporation to borrow the sum of Two Million One Hundred Forty-One Thousand Three Hundred Eighty-Four Dollars (\$2,141,384.00). Centier Bank has offered to loan the Corporation this sum, at a fixed rate of 3.990%, with the note due and owing on December 15, 2011 ("Loan").

Upon motion duly made and seconded, the following resolution was adopted:

RESOLVED, that the Corporation will borrow the sum of \$2,141,384.00 from Centier Bank pursuant to a promissory note at an interest rate of 3.990%, with the note due and owing December 15, 2011.

RESOLVED, that the following entities will be responsible for paying their designated percentage of the outstanding balance of the Loan, as payments are due from time to time.

<u>Entity</u>	<u>Percentage</u>
East Porter County School Corporation	0.1414
Portage Township School Corporation	0.5233
Valparaiso Community Schools	0.3353

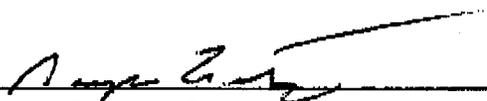
MINUTES OF SPECIAL MEETING OF THE  
BOARD OF DIRECTORS OF  
PORTER COUNTY EDUCATION SERVICES (cont'd.)

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RESOLVED, that Dirk Baer, President, and/or  
George Letz, Secretary, are authorized and  
directed to execute and deliver all documents  
required for the Loan.

There being no further business to come before the Board, upon  
motion duly made and seconded, the meeting was adjourned.

Respectfully submitted,

  
\_\_\_\_\_  
George Letz, Secretary

**PORTER COUNTY EDUCATION SERVICES**

Secretary's Report  
December 19, 2006

**Board Members Present:** Nick Brown, John Hunter, Mike Benway  
Mike Berta, George Letz, Dirk Baer, Rod Gardin

**Administrators Present:** Jan Rees

The regular meeting of Porter County Education Services was called to order by Dirk Baer, President. The meeting was held at the Special Education Learning Facility Board Room on Tuesday, December 19, 2006.

**APPROVAL OF MINUTES** The minutes of the November 14th meeting were presented, along with the Executive Session. John Hunter moved, seconded by George Letz, to approve the minutes as submitted. The motion passed unanimously.

**FINANCE/CLAIMS** Dr. Rees presented the Financial Report/Claim Docket for November and December. The November Business Docket included 121 claims totaling \$534,094.19 and the December Business Docket included 64 claims totaling \$1,759,070.86. The totals would be 185 claims totaling \$2,293,165.05. There were two (2) payrolls in November totaling \$1,018,356.88. Mike Benway moved, seconded by Mike Berta, to approve the reports. The motion passed unanimously.

**PERSONNEL** Jan Rees presented the personnel report for December and asked that it be approved. John Hunter moved, seconded by Mike Berta, to approve the report. The motion passed unanimously. [A copy of the report is attached.]

**\*OLD BUSINESS** Dr. Rees asked that the name change from Porter County Education Interlocal to Porter County Education Services be finalized. John Hunter moved, seconded by George Letz, to approve the request. The motion passed unanimously.

**NEW BUSINESS** Jan Rees noted that negotiations with the Special Education Teachers' Association (SETA) have been completed and the agreement was ratified by SETA on December 1, 2006. Dr. Rees noted there were some minor language changes. The teachers will be given a 1% pay increase retroactive to the first day of contract for this school year and a 2% raise the following year. Mike Berta moved, seconded by Mike Benway, to approve the agreement. The motion passed unanimously.

**\*Dr. Rees** also asked that the Board approve the buy out of the retirement plan for all Porter County Education Services personnel which was also ratified by the teachers on December 1<sup>st</sup>. John Hunter moved, seconded by Nick Brown, to approve the plan. The motion passed unanimously.

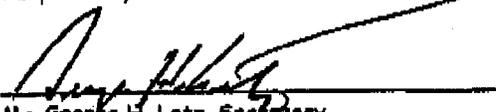
Jan Rees asked approval to hire a half time preschool teacher; she noted the half time position would be added to another half time position to make one teacher full time. This was approved in the 2007 Budget. Mike Berta moved, seconded by Nick Brown, to approve the request. The motion passed unanimously.

Dr. Rees then presented the PCES Office Calendar for 2007 and asked that it be approved. George Letz moved, seconded by Rod Gardin, to approve the calendar. The motion passed unanimously. [A copy is attached.]

**PUBLIC PARTICIPATION** There was no public participation.

**OTHER** The next Board meeting will be on Tuesday, January 9<sup>th</sup> at the new Hebron High School with the Executive Session at 11:00 a.m. and the public meeting at 1:00 p.m. There being no other business, John Hunter moved, seconded by Nick Brown, to adjourn the meeting. The motion passed unanimously and the meeting was adjourned.

Respectfully submitted,

  
Mr. George H. Letz, Secretary

GHL/mog

10/11/2007 11:08 FTP HWE LLP  
 OCT-11-2007 11:34  
 05/01/2007 11:08 FAX

CENTIER BANK

→ Valpo\_Received 005/005  
 219 464 7758 P.05/05

**PORTER COUNTY EDUCATION SERVICES**  
 Secretary's Report  
 December 19, 2006

**Board Members Present:** Nick Brown, John Hunter, Mike Benway  
 Mika Berta, George Letz, Dirk Boer, Rod Gardin

**Administrators Present:** Jan Rees

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GHL/mog

TOTAL P.05