

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

AUDIT REPORT

OF

DAVISS-MARTIN SPECIAL EDUCATION COOPERATIVE

DAVISS COUNTY, INDIANA

July 1, 2005 to June 30, 2007



FILED

03/17/2008

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	C. Elaine Armes	07-01-05 to 06-30-08
Director	Don Adkins Mary Rodimel	07-01-05 to 06-30-06 07-01-06 to 07-01-08
President of the School Board	Dr. Tom Miller Dr. Brian Harmon	01-01-05 to 12-31-05 01-01-06 to 12-31-07



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 THE DAVIESS-MARTIN SPECIAL EDUCATION
COOPERATIVE, DAVIESS COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Daviess-Martin Special Education Cooperative (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 January 8, 2008, 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 is presented for additional analysis and is not a required part of the basic financial statements. The Schedule of Capital Assets has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

January 8, 2008



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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 THE DAVIESS-MARTIN SPECIAL EDUCATION
COOPERATIVE, DAVIESS COUNTY, INDIANA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Daviess-Martin Special Education Cooperative (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 January 8, 2008. 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.

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

STATE BOARD OF ACCOUNTS

January 8, 2008

DAVIESS-MARTIN SPECIAL EDUCATION COOPERATIVE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
Governmental activities:		
Instruction	\$ 2,942,087	\$ (2,942,087)
Support services	<u>2,000,044</u>	<u>(2,000,044)</u>
Total governmental activities	<u>\$ 4,942,131</u>	<u>(4,942,131)</u>
General receipts:		
Other local sources		3,063,443
Grants and contributions not restricted to specific programs		1,438,216
Sale of property, adjustments, and refunds		11,789
Investment earnings		<u>5,952</u>
Total general receipts		<u>4,519,400</u>
Change in net assets		(422,731)
Net assets - beginning		<u>1,272,724</u>
Net assets - ending		<u>\$ 849,993</u>
 <u>Assets</u>		
Cash and investments		<u>\$ 849,993</u>
 <u>Net Assets</u>		
Unrestricted		<u>\$ 849,993</u>

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

DAVIESS-MARTIN SPECIAL EDUCATION COOPERATIVE
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>Net (Disbursement) Receipts and Changes in Net Assets</u>
Governmental activities:		
Instruction	\$ 2,954,661	\$ (2,954,661)
Support services	<u>2,065,838</u>	<u>(2,065,838)</u>
Total governmental activities	<u>\$ 5,020,499</u>	<u>(5,020,499)</u>
General receipts:		
Other local sources		3,544,326
Grants and contributions not restricted to specific programs		1,398,458
Sale of property, adjustments, and refunds		13,342
Investment earnings		<u>5,035</u>
Total general receipts		<u>4,961,161</u>
Change in net assets		(59,338)
Net assets - beginning		<u>849,993</u>
Net assets - ending		<u>\$ 790,655</u>
 <u>Assets</u>		
Cash and investments		<u>\$ 790,655</u>
 <u>Net Assets</u>		
Unrestricted		<u>\$ 790,655</u>

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

DAVISS-MARTIN SPECIAL EDUCATION COOPERATIVE
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	Preschool	Transportation	Special Education - Grants to States	Capital Projects	Other	Totals
Receipts:							
Local sources	\$ 2,540,974	\$ 158,023	\$ 253,882	\$ -	\$ 116,516	\$ -	\$ 3,069,395
State sources	85,676	-	-	-	-	-	85,676
Federal sources	252	-	-	1,284,098	-	68,190	1,352,540
Sale of property, adjustments and refunds	11,789	-	-	-	-	-	11,789
Total receipts	<u>2,638,691</u>	<u>158,023</u>	<u>253,882</u>	<u>1,284,098</u>	<u>116,516</u>	<u>68,190</u>	<u>4,519,400</u>
Disbursements:							
Current:							
Instruction	2,091,726	127,738	-	673,395	-	49,228	2,942,087
Support services	1,038,487	4,879	192,815	622,810	119,798	21,255	2,000,044
Total disbursements	<u>3,130,213</u>	<u>132,617</u>	<u>192,815</u>	<u>1,296,205</u>	<u>119,798</u>	<u>70,483</u>	<u>4,942,131</u>
Excess (deficiency) of receipts over disbursements	(491,522)	25,406	61,067	(12,107)	(3,282)	(2,293)	(422,731)
Cash and investments - beginning	857,098	133,581	208,951	16,098	29,152	27,844	1,272,724
Cash and investments - ending	<u>\$ 365,576</u>	<u>\$ 158,987</u>	<u>\$ 270,018</u>	<u>\$ 3,991</u>	<u>\$ 25,870</u>	<u>\$ 25,551</u>	<u>\$ 849,993</u>
<u>Cash and Investment Assets - Ending</u>							
Cash and investments	<u>\$ 365,576</u>	<u>\$ 158,987</u>	<u>\$ 270,018</u>	<u>\$ 3,991</u>	<u>\$ 25,870</u>	<u>\$ 25,551</u>	<u>\$ 849,993</u>
<u>Cash and Investment Fund Balance - Ending</u>							
Unrestricted	<u>\$ 365,576</u>	<u>\$ 158,987</u>	<u>\$ 270,018</u>	<u>\$ 3,991</u>	<u>\$ 25,870</u>	<u>\$ 25,551</u>	<u>\$ 849,993</u>

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

DAVISS-MARTIN SPECIAL EDUCATION COOPERATIVE
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	Preschool	Transportation	Special Education - Grants to States	Capital Projects	Other	Totals
Receipts:							
Local sources	\$ 2,968,171	\$ 132,000	\$ 281,500	\$ -	\$ 167,691	\$ -	\$ 3,549,362
State sources	85,676	-	-	-	-	-	85,676
Federal sources	210	-	-	1,264,064	-	48,508	1,312,782
Sale of property, adjustments and refunds	13,341	-	-	-	-	-	13,341
Total receipts	<u>3,067,398</u>	<u>132,000</u>	<u>281,500</u>	<u>1,264,064</u>	<u>167,691</u>	<u>48,508</u>	<u>4,961,161</u>
Disbursements:							
Current:							
Instruction	2,149,257	138,276	-	618,801	-	48,327	2,954,661
Support services	1,133,697	8,524	177,011	632,439	111,731	2,436	2,065,838
Total disbursements	<u>3,282,954</u>	<u>146,800</u>	<u>177,011</u>	<u>1,251,240</u>	<u>111,731</u>	<u>50,763</u>	<u>5,020,499</u>
Excess (deficiency) of receipts over disbursements	(215,556)	(14,800)	104,489	12,824	55,960	(2,255)	(59,338)
Cash and investments - beginning	365,576	158,987	270,018	3,991	25,870	25,551	849,993
Cash and investments - ending	<u>\$ 150,020</u>	<u>\$ 144,187</u>	<u>\$ 374,507</u>	<u>\$ 16,815</u>	<u>\$ 81,830</u>	<u>\$ 23,296</u>	<u>\$ 790,655</u>
<u>Cash and Investment Assets - Ending</u>							
Cash and investments	<u>\$ 150,020</u>	<u>\$ 144,187</u>	<u>\$ 374,507</u>	<u>\$ 16,815</u>	<u>\$ 81,830</u>	<u>\$ 23,296</u>	<u>\$ 790,655</u>
<u>Cash and Investment Fund Balance - Ending</u>							
Unrestricted	<u>\$ 150,020</u>	<u>\$ 144,187</u>	<u>\$ 374,507</u>	<u>\$ 16,815</u>	<u>\$ 81,830</u>	<u>\$ 23,296</u>	<u>\$ 790,655</u>

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

DAVISS-MARTIN SPECIAL EDUCATION COOPERATIVE
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For the Year Ended June 30, 2006

	Pension Trust Funds	Agency Funds
Deductions:		
Benefits	\$ 46,169	
Deficiency of total additions under total deductions	(46,169)	
Cash and investment fund balance - beginning	238,963	
Cash and investment fund balance - ending	\$ 192,794	
Net assets:		
Cash and investments	\$ 192,794	\$ 13,286
Total net assets - cash and investment basis held in trust	\$ 192,794	\$ 13,286

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

DAVISS-MARTIN SPECIAL EDUCATION COOPERATIVE
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For the Year Ended June 30, 2007

	Pension Trust Funds	Agency Funds
Deductions:		
Benefits	\$ 37,014	
Deficiency of total additions under total deductions	(37,014)	
Cash and investment fund balance - beginning	192,794	
Cash and investment fund balance - ending	\$ 155,780	
Net assets:		
Cash and investments	\$ 155,780	\$ 3,811
Total net assets - cash and investment basis held in trust	\$ 155,780	\$ 3,811

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

DAVIESS-MARTIN SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Primary Government

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

Joint Venture

The School Corporation is a joint venture of North Daviess School Corporation, Washington Community School Corporation, Loogootee School Corporation, and Barr-Reeve Community School Corporation which was created to provide special education services for participating school corporations. The School Corporation's existence depends on continued funding by the member School Corporations. The member School Corporations are obligated for the debts of the joint venture.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statements of Activities and Net Assets – Cash and Investment 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 taxes, 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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

DAVIESS-MARTIN SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

The School Corporation reports the following major governmental funds:

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

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

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

The special education – grants to states fund accounts for the projects under the Special Education – Grants to States federal program.

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

Additionally, the School Corporation reports the following fund types:

The pension trust funds account for the activities of the buyout of the severance pay and retirement bridge for pension benefit payments.

Agency funds account for assets held by the School Corporation as an agent for payroll withholdings.

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.

DAVIESS-MARTIN SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Compensated Absences

a. Sick Leave

Certified employees earn sick leave at the rate of 14 days per year. Noncertified employees earn sick leave at the rate of up to 12 days per year depending on the number of hours worked. Unused sick leave may be accumulated to a maximum of 180 days for certified employees and 75 days for noncertified employees. Accumulated sick leave is not paid to employees.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rate of 10 days per year. Vacation leave may be accumulated indefinitely.

Accumulated vacation leave is not paid to employees.

c. Personal Leave

Certified employees earn personal leave at the rate of 3 days per year. Noncertified employees earn personal leave at the rate of 1 day per year. Unused personal leave rolls over to sick leave.

3. Capital Assets

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

4. Equity Classification

Government-Wide Statements

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

a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

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

DAVIESS-MARTIN SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

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

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

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

Government-Wide Financial Statements

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

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

DAVIESS-MARTIN SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

II. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America.

The Treasurer submits to the School Board a proposed budget for the year July 1 to June 30.

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board.

III. Detailed Notes on All Funds

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 no investments.

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; 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.

DAVIESS-MARTIN SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides the following postemployment benefits. Effective 2005-2006 each certified employee receives 1 ½% of their base salary into a retirement VEBA account. The employee is fully vested with 10 years eligible experience and at least the age of 55 upon separation of employment/retirement.

C. Pension Plans

1. Agent Multiple-Employer and Single-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.

DAVIESS-MARTIN SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 35,939
Interest on net pension obligation	(1,146)
Adjustment to annual required contribution	1,305
Annual pension cost	36,098
Contributions made	39,981
Decrease in net pension obligation	(3,883)
Net pension obligation, beginning of year	(15,800)
Net pension obligation, end of year	\$ (19,683)
Contribution rates:	
School Corporation	6.75%
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	\$ 25,718	129%	\$ (11,241)
	06-30-05	31,269	115%	(15,800)
	06-30-06	36,098	128%	(19,683)

DAVIESS-MARTIN SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Teachers' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Costs

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

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2007, 2006, and 2005, were \$84,886, \$84,546, and \$70,800, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

DAVISS-MARTIN SPECIAL EDUCATION COOPERATIVE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

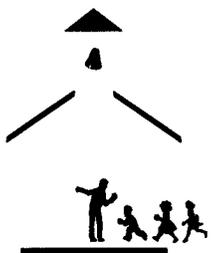
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 323,367	\$ 392,702	\$ (69,335)	82%	\$ 477,388	(15%)
07-01-05	353,303	448,012	(94,709)	79%	507,275	(19%)
07-01-06	423,808	512,671	(88,863)	83%	561,715	(16%)

DAVIESS-MARTIN SPECIAL EDUCATION COOPERATIVE
 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	Donations and Trusts and Gifts	Medicaid	CSPD	Sliver	Special Education - Preschool Grants	S-5 Wrap-Around	Totals
Receipts:								
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ 19,771	\$ 48,419	\$ -	\$ 68,190
Disbursements:								
Current:								
Instruction	907	-	-	-	-	48,321	-	49,228
Support services	1,386	-	-	-	18,163	1,706	-	21,255
Total disbursements	2,293	-	-	-	18,163	50,027	-	70,483
Excess (deficiency) of receipts over disbursements	(2,293)	-	-	-	1,608	(1,608)	-	(2,293)
Cash and investments - beginning	6,686	2	7,927	1,356	-	2,148	9,725	27,844
Cash and investments - ending	<u>\$ 4,393</u>	<u>\$ 2</u>	<u>\$ 7,927</u>	<u>\$ 1,356</u>	<u>\$ 1,608</u>	<u>\$ 540</u>	<u>\$ 9,725</u>	<u>\$ 25,551</u>
<u>Cash and Investment Assets - Ending</u>								
Cash and investments	<u>\$ 4,393</u>	<u>\$ 2</u>	<u>\$ 7,927</u>	<u>\$ 1,356</u>	<u>\$ 1,608</u>	<u>\$ 540</u>	<u>\$ 9,725</u>	<u>\$ 25,551</u>
<u>Cash and Investment Fund Balance - Ending</u>								
Unrestricted	<u>\$ 4,393</u>	<u>\$ 2</u>	<u>\$ 7,927</u>	<u>\$ 1,356</u>	<u>\$ 1,608</u>	<u>\$ 540</u>	<u>\$ 9,725</u>	<u>\$ 25,551</u>

DAVISS-MARTIN SPECIAL EDUCATION COOPERATIVE
 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	Donations and Trusts and Gifts	Medicaid	CSPD	Sliver	Special Education - Preschool Grants	S-5 Wrap-Around	Totals
Receipts:								
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,508	\$ -	\$ 48,508
Disbursements:								
Current:								
Instruction	1,432	-	-	-	-	46,895	-	48,327
Support services	823	-	-	-	-	1,613	-	2,436
Total disbursements	2,255	-	-	-	-	48,508	-	50,763
Deficiency of receipts under disbursements	(2,255)	-	-	-	-	-	-	(2,255)
Cash and investments - beginning	4,393	2	7,927	1,356	1,608	540	9,725	25,551
Cash and investments - ending	<u>\$ 4,393</u>	<u>\$ 2</u>	<u>\$ 7,927</u>	<u>\$ 1,356</u>	<u>\$ 1,608</u>	<u>\$ 540</u>	<u>\$ 9,725</u>	<u>\$ 25,551</u>
<u>Cash and Investment Assets - Ending</u>								
Cash and investments	<u>\$ 4,393</u>	<u>\$ 2</u>	<u>\$ 7,927</u>	<u>\$ 1,356</u>	<u>\$ 1,608</u>	<u>\$ 540</u>	<u>\$ 9,725</u>	<u>\$ 25,551</u>
<u>Cash and Investment Fund Balance - Ending</u>								
Unrestricted	<u>\$ 4,393</u>	<u>\$ 2</u>	<u>\$ 7,927</u>	<u>\$ 1,356</u>	<u>\$ 1,608</u>	<u>\$ 540</u>	<u>\$ 9,725</u>	<u>\$ 25,551</u>



Daviess-Martin

Special Education Cooperative

P.O. Box 637 • Washington, IN 47501

(812) 254-1530 • FAX (812) 254-1636

Mary Rodimel
Director

Chad Ballengee
Coordinator

Elaine Armes
Treasurer

Angie Truelove
Office Manager

Jane Haggard
Psychologist

Karen Wildman
Psychologist

Tracy Dorsett
Psychologist

Lori Horton
Psychologist

Mike Singleton
VI Consultant

Daviess Martin Special Education Cooperative Supplementary Information Schedule of Capital Assets

For the Year End 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.

General infrastructure assets (those reported by governmental activities) are included regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e. estimating the current replacement cost if the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquired additional capital assets each period, including infrastructure assets, they are reported at historical cost.

Ending Balance

Primary Government

Governmental activities:

Capital assets not being depreciated:

Building	\$ 35,500.00
Improvements other than buildings	\$ 24,704.00
Machinery and equipment	\$ <u>54,338.10</u>

Total governmental activities, capital,
Assets not being depreciated \$114,542.10

C. Elaine Armes, Treasurer

November 16, 2007

DAVISS-MARTIN SPECIAL EDUCATION COOPERATIVE
AUDIT RESULT AND COMMENT

PENALTIES, INTEREST AND OTHER CHARGES

Penalties and interest totaling \$828.44 were paid to the Indiana Department of Revenue for the period ending July 31, 2006.

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

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

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

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE DAVIESS-MARTIN SPECIAL EDUCATION
COOPERATIVE, DAVIESS COUNTY, INDIANA

Compliance

We have audited the compliance of the Daviess-Martin Special Education Cooperative (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to 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.

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

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)

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.

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.

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.

Our consideration of the internal control over compliance 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 compliance that we consider to be significant deficiencies or material weaknesses, as defined above.

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

January 8, 2008

DAVIESS-MARTIN SPECIAL EDUCATION COOPERATIVE
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>				
Pass-Through Indiana Department of Education				
Special Education Cluster				
Special Education - Grants to States				
	84.027			
		14205-009-DY01	\$ 18,163	\$ -
		14205-009-PN01	16,099	-
		14206-009-PN01	1,280,106	3,992
		14207-009-PN01	-	1,247,248
			<u>1,314,368</u>	<u>1,251,240</u>
Total for program				
			1,314,368	1,251,240
Special Education - Preschool Grants				
	84.173			
		45705-009-PN01	2,148	-
		45706-009-PN01	47,879	2,148
		45707-009-PN01	-	46,360
			<u>50,027</u>	<u>48,508</u>
Total for program				
			50,027	48,508
Total federal awards expended			<u>\$ 1,364,395</u>	<u>\$ 1,299,748</u>

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

DAVIESS-MARTIN SPECIAL EDUCATION COOPERATIVE
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Daviess-Martin Special Education Cooperative (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of School Corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

DAVISS-MARTIN SPECIAL EDUCATION COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

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

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
----------------	------------------------------------

Special Education Cluster

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

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

DAVISS-MARTIN SPECIAL EDUCATION COOPERATIVE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

DAVISS-MARTIN SPECIAL EDUCATION COOPERATIVE
EXIT CONFERENCE

The contents of this report were discussed on January 8, 2008, with C. Elaine Armes, Treasurer; and Mary Rodimel, Director. The officials concurred with our audit finding.