

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
MARION COUNTY, INDIANA

July 1, 2009 to June 30, 2011



FILED
03/23/2012

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Tom Pagen	07-01-09 to 12-31-09
	Tom Pagen (Interim)	01-01-10 to 02-18-10
	Dr. Mary Ann Dewan	02-19-10 to 06-30-12
Treasurer	Donna Hattenbach Calhoun	07-01-09 to 06-30-12
President of the Board	Dr. Walter Bourke	07-01-09 to 06-30-10
	Dr. Scott Robinson	07-01-10 to 06-30-11
	Kenneth Hull	07-01-11 to 06-30-12



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

TO: THE OFFICIALS OF THE CENTRAL INDIANA EDUCATIONAL
SERVICE CENTER, MARION COUNTY, INDIANA

We have audited the accompanying financial statement of the Central Indiana Educational Service Center (Service Center), for the years ended June 30, 2010 and 2011. The financial statement is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the financial statement 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 statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Service Center's internal control over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 opinion.

As discussed in Note 1, the Service Center prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting noted above is a different basis than that used in the prior year.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the Service Center for the years ended June 30, 2010 and 2011, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated February 23, 2012, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the Service Center's financial statement. 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 financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the Service Center's financial statement. The Combining Schedules of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances – Regulatory Basis, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the financial statement. The Combining Schedules of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances – Regulatory Basis, 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 financial statement and, accordingly, we express no opinion on them.

The Service Center's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the Service Center's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Service Center's management, Governing Board, others within the entity, 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

February 23, 2012



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

TO: THE OFFICIALS OF THE CENTRAL INDIANA EDUCATIONAL
SERVICE CENTER, MARION COUNTY, INDIANA

We have audited the financial statement of the Central Indiana Educational Service Center (Service Center), for the years ended June 30, 2010 and 2011, and have issued our report thereon dated February 23, 2012. 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 Service Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Service Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Service Center's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1 to be a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Service Center's financial statement is 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.

The Service Center's response to the finding identified in our audit is described in the accompanying sections of the report entitled Official Response and Corrective Action Plan. We did not audit the Service Center's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Service Center's management, Governing Board, others within the entity, 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

February 23, 2012

FINANCIAL STATEMENT

The financial statement and accompanying notes were prepared by management of the Service Center. The financial statement and notes are presented as intended by the Service Center.

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CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For the Years Ended June 30, 2010 and 2011

	Cash and Investments 07-01-09	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-10	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-11
General	\$ 889,387	\$ 3,660,846	\$ 3,658,012	\$ 200,001	\$ 1,092,222	\$ 3,994,517	\$ 3,982,205	\$ -	\$ 1,104,534
Joint Purchases	128,204	414,156	379,256	-	163,104	395,146	485,447	-	72,803
PATINS Sub Grant	-	-	-	-	-	37,930	45,494	-	(7,564)
Drivers Education	8,463	6,971	13,909	-	1,525	12,794	7,850	-	6,469
Project Lead the Way	2,886	-	-	-	2,886	-	2,886	-	-
Food Services	3,067	-	-	-	3,067	-	-	-	3,067
Miscellaneous	-	125,124	-	139,739	264,863	-	-	-	264,863
English Works	19	-	-	-	19	-	19	-	-
Teacher Internship	7,508	-	-	-	7,508	-	-	-	7,508
Economic Education Mini Grant	250	-	-	-	250	-	250	-	-
Technology Grants [IC 20-40-15]	6,712	-	-	-	6,712	-	-	-	6,712
Writing Using Computers	26,720	-	-	-	26,720	-	-	-	26,720
Learning Communities Network	811	-	-	-	811	-	811	-	-
EI Civics Adult Education	24,149	51,229	23,377	-	52,001	45,459	79,282	-	18,178
Lumina Grant	50	-	-	-	50	-	50	-	-
Investment Fund	180,464	160	39,086	(339,740)	(198,202)	-	-	-	(198,202)
PATINS Project	-	-	-	-	-	1,365,893	2,410,249	-	(1,044,356)
Adult Education and Family Literacy, Title II	42,461	901,691	814,954	-	129,198	523,549	781,166	-	(128,419)
Indiana Educational/CARE	5,789	-	152	-	5,637	-	-	-	5,637
Drug Free Schools	122	-	-	-	122	-	122	-	-
TEECA Technical Education	6,627	-	-	-	6,627	-	-	-	6,627
Engineering Seminars	548	-	-	-	548	-	548	-	-
CTE Grant	-	-	-	-	-	-	46,090	-	(46,090)
Summer AG Teacher	205	-	-	-	205	-	205	-	-
Curriculum Development	200	-	-	-	200	-	200	-	-
Leadership Development	800	-	-	-	800	-	800	-	-
Health/Science Curriculum	1,127	-	-	-	1,127	-	1,127	-	-
Advanced Life Science	750	-	-	-	750	-	750	-	-
Technical Honors Certificate	17,000	-	-	-	17,000	-	-	-	17,000
Safe and Drug Free Schools	3,800	-	-	-	3,800	-	-	-	3,800
Regional Training	10,266	-	-	-	10,266	-	-	-	10,266
2005-2006 End of Course Assessment	500	-	-	-	500	-	500	-	-
FACS Assessment	9,621	-	1,030	-	8,591	-	-	-	8,591
Project Lead the Way - Summer	2,770	-	-	-	2,770	-	2,770	-	-
Career Tech Staff/Market	8,874	-	-	-	8,874	-	-	-	8,874
Online Science Video	490	-	-	-	490	-	490	-	-
SES Program	109,181	1,287,369	888,672	-	507,878	1,137,659	1,031,380	-	614,157
Advanced Life Science	28,830	22,388	37,177	-	14,041	-	613	-	13,428
Racial Equity	10,000	-	8,821	-	1,179	-	1,179	-	-
High Ability Grant	1,047	-	349	-	698	-	-	-	698
Evaluation Educational Policy	900	600	1,500	-	-	-	-	-	-
Clearing Control	5,085	585,881	584,162	-	6,804	702,746	709,388	-	162
Totals	\$ 1,545,683	\$ 7,056,415	\$ 6,450,457	\$ -	\$ 2,151,641	\$ 8,215,693	\$ 9,591,871	\$ -	\$ 775,463

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

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Central Indiana Educational Services Center (CIESC) is an educational service center (ESC) operating in central Indiana in order to allow school corporations to voluntarily cooperate and share programs and services. As an ESC, CIESC is an extended agency of the member school corporations, per Indiana Code 20-20-1-2(a). The CIESC Board of Directors consists of superintendents from each of the participating School Districts. The member districts include Avon Community Schools, Beech Grove City Schools, Carmel Clay Schools, Center Grove Community School Corporation, Clark-Pleasant Community School Corporation, Franklin Township Community School Corporation, Hamilton South Eastern Schools, Indianapolis Public Schools, Lebanon Community School Corporation, Metropolitan School District of Decatur Township, Metropolitan School District of Lawrence Township, Metropolitan School District of Perry Township, Metropolitan School District of Pike Township, Metropolitan School District of Washington Township, Metropolitan School District of Wayne Township, School Town of Speedway, Westfield Washington Schools, and Zionsville Community Schools. The CIESC operates under a Board of School Trustees form of government and provides educational services.

The accompanying financial statement presents the financial information for the CIESC (primary government).

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The regulatory 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.

C. Cash and Investments

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

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Local sources which include, revenue from local governmental units other than school corporations, investment income, school corporation activities, revenue from community services activities, and other revenue from local sources. The majority of receipts for CIESC come from the member school corporations. These school corporations pay \$4.75 per student attending that school corporation on the ADM count day.

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
NOTES TO FINANCIAL STATEMENT
(Continued)

Intermediate sources which include distributions from the County for fees collected for or on behalf of the School Corporation including educational license plate fees, congressional interest, riverboat distributions, and other similar fees.

State sources, which include distributions from the State of Indiana to be used by the CIESC for various purposes. Included in state sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

Federal sources which include distributions from the federal government to be used by the CIESC for various purposes. Included in federal sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the CIESC.

Other receipts which include amounts received from various sources which include return of petty cash, return of cash change, insurance claims for losses, sale of securities, and other receipts not listed in another category above.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Instruction which includes outflows for regular programs, special programs, adult and continuing education programs, summer school programs, enrichment programs, remediation, and payments to other governmental units.

Support services which include outflows for support services related to students, instruction, general administration, and CIESC administration. It also includes outflows for central services, operation and maintenance of plant services, and student transportation.

Facilities acquisition and construction which includes outflows for the acquisition, development, construction, and improvement of new and existing facilities.

Nonprogrammed charges which include outflows for donations to foundations, securities purchased, indirect costs, scholarships, and self-insurance payments.

Other disbursements which include disbursements in the clearing control fund.

F. Other financing sources and uses

Other financing sources and uses are presented in the aggregate on the face of the financial statement. The aggregate other financing sources and uses include the following:

Transfers in which includes money received by one fund as a result of transferring money from another fund. The transfers are used for cash flow purposes as provided by various statutory provisions.

Transfers out which includes money paid by one fund to another fund. The transfers are used for cash flow purposes as provided by various statutory provisions.

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
NOTES TO FINANCIAL STATEMENT
(Continued)

G. Fund Accounting

Separate funds are established, maintained, and reported by the CIESC. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the CIESC. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the CIESC in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is prepared and approved at the local level. The fiscal officer of the CIESC submits a proposed operating budget to the governing board for the following fiscal year.

Note 3. Property Taxes

The CIESC does not receive any direct property taxes.

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the CIESC to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The CIESC may be 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; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the CIESC to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the CIESC by recording as a disbursement and replacement items purchased.

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is 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 this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the CIESC 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 members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS 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. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

B. Teachers' Retirement Fund

Plan Description

The Indiana Teachers' Retirement Fund (TRF) is 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 Indiana Public Retirement System (INPRS) Board, most requirements of the system, and gives the CIESC 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 members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The CIESC may elect to make the contributions on behalf of the member.

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

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
NOTES TO FINANCIAL STATEMENT
(Continued)

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 286-3544

Funding Policy and Annual Pension Cost

The CIESC 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 CIESC 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.

Note 7. Subsequent Event

The Central Indiana Educational Services Center (CIESC) is an educational service center (ESC) operating in central Indiana. CIESC was created to allow school corporations to voluntarily cooperate and share programs and services. Indiana Code 20-20-1-2(a) describes an ESC as an extended agency of the member school corporations.

The Board of School Trustees (School Board) of Franklin Township Community School Corporation (FTCSC) which is a member school corporation of CIESC, by resolution on July 14, 2011, decided that CIESC would provide transportation services to the students enrolled in FTCSC. FTCSC and CIESC entered into a Transportation Operating Agreement (Operating Agreement) with a term of June 20, 2011 through June 30, 2012, in order to specify the terms and conditions upon which CIESC would provide transportation services to FTCSC for certain students and those situations where CIESC entered into a Parents' Supplemental Transportation Contract (PST Contract) to transport FTCSC students. A parents' supplemental transportation contract must meet the requirements of Indiana Code 20-27-6-4.

Pursuant to a PST Contract, CIESC offered transportation services for a fee to the parents of students enrolled in FTCSC and collected fees from parents in payment for these services. The PST Contract provides that it was subject to approval by the governing body of FTCSC and contains a section that states: "This PST Contract was approved by the governing body of the Franklin Township Community School Corporation", followed by a signature block to be signed by a representative of FTCSC. For the period July 1, 2011 to December 31, 2011, CIESC deposited and posted \$522,177 in receipts and incurred \$629,750 in expenditures associated with the above agreement.

Official Opinion 2011-1 issued by Indiana Attorney General Greg Zoeller on November 10, 2011, stated that the transportation arrangement between parents of students enrolled in FTCSC and CIESC does not comply with state law. The parents of students enrolled in FTCSC who contracted with CIESC did not jointly contract with a school bus driver but rather contracted individually with CIESC. The Attorney General has determined that this arrangement did not meet the requirements of Indiana Code 20-27-6-3 because the contract was not a joint agreement between the parents and the school bus driver, but was between the parents and CIESC which is the agent of FTCSC. The Attorney general has determined that FTCSC is providing the bus transportation through its agent, CIESC, and that PST contracts were not permitted in this scenario under Indiana Code 20-27-6-3 because they are only available to parents of public school students not provided bus transportation by the school corporation.

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
NOTES TO FINANCIAL STATEMENT
(Continued)

In 2011, a lawsuit was filed by certain parents of students attending FTCSC contesting the validity of the CIESC bus transportation arrangement. Based on the Attorney General's opinion and the pending litigation, a potential liability exists that CIESC may be liable to refund the fees collected from parents for the transportation of FTCSC students.

In the Amended Complaint the two named Plaintiffs, Lora Hoagland and Donna Chapman, seek declaratory and injunctive relief, as well as damages and attorneys' fees from FTCSC and the CIESC for an alleged violation of their statutory and Constitutional rights. Specifically, they allege that the FTCSC and the CIESC illegally forced them to pay for transporting their students to school in violation of "Article 8, Section 1 of the Indiana Constitution. "(Amended Complaint, ¶ 8)

As both parties recently conceded at a status conference, this case is now a "one shot deal" covering only the 2011-12 school year, since HB 1134 bans the practice at issue effective July 1, 2012. Thus there is no likelihood of declaratory or injunctive relief from the Court. The only issue remaining for resolution by this Court is the issue of "[c]ompensatory damages . . . [and] reasonable attorney fees [and] interest" for the 2011-12 school year. (Amended Complaint, ¶ 27, p. 6)

According to the Amended Complaint, the Plaintiffs in this matter are "Lora Hoagland [who] has two children enrolled in Franklin Township public schools" and "Donna Chapman [who] is the biological mother of one boy, who attends Franklin Township Middle School East." (Amended Complaint, ¶ 2, 5) It is alleged in the Amended Complaint that "Plaintiff Hoagland cannot afford the Bus Fees, so she transports her children to and from school every day." *Id.*, ¶ 15. Ms. Hoagland and individuals similarly situated to her have no relationship whatsoever with the CIESC. In contrast, "[w]hen the School Corporation discontinued bus service, Plaintiff Chapman paid the Bus Fees and had her son ride a bus operated by CIESC." *Id.*, ¶ 16. According to the Amended Complaint Plaintiff Chapman did so by executing the "Parents' Supplemental Transportation Contract" with the CIESC, a copy of which is attached as Exhibit "A" to the Amended Complaint.

While there is always the potential for liability in connection with any lawsuit, with respect to the CIESC, any potential liability in this case is minimal for several reasons:

- **ITCA Notice Issues Bar Claims:** The Amended Complaint notwithstanding, the simple fact is that the parents' failure to file a timely tort claims notice bars any claims against the CIESC and precludes any liability in the litigation. This issue is discussed in detail in the CIESC's Motion to Dismiss previously filed with the Court.
- **The Hoagland Claims are Barred as a Matter of Law:** As noted in the Amended Complaint "Plaintiff Hoagland cannot afford the Bus Fees, so she transports her children to and from school every day." (Amended Complaint, ¶ 15) Because she did not seek transportation from the CIESC, the CIESC has no relationship with Plaintiff Hoagland and those who, like her, chose to simply transport their children to school themselves. These individuals' claims may only be pled against the FTCSC and not against the CIESC. Thus there is no potential liability for the CIESC on the Hoagland claims.
- **The Chapman Claims are Barred by the Contractual Limit on Liability:** In the Amended Complaint Ms. Chapman states that she seeks "a refund of all Bus Fees and other monies paid by persons similarly situated for bus transportation." (Amended Complaint, p. 6) The problem with such a claim against the CIESC is that it is precluded by the express terms of the PST Contract which Ms. Chapman acknowledges she signed. (Amended Complaint, ¶ 16)

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
NOTES TO FINANCIAL STATEMENT
(Continued)

That contract, which is attached to the Amended Complaint, provides as follows: "11. In the event that any court would determine that this PST Contract or PST Contract arrangement is contrary to law, than the parent will be reimbursed for only those fees for transportation services not rendered." (Amended Complaint, Exhibit "A", p. 2) Because the PST Contract by its express terms precludes precisely the type of relief sought in the Amended Complaint, the Amended Complaint fails to state a claim for which relief can be granted as against the CIESC. Thus even if successful, damages under the PST Contract are limited to amounts prepaid by parents for services not yet provided by the CIESC. Since services will be provided by the CIESC under the PST Contracts through the end of the 2011-12 school year, the Plaintiffs have no damages remedy against the CIESC and no financial liability exists.

- **FTCSC Agrees to Insure CIESC for Any Losses:** Under the Transportation Operating Agreement between the FTCSC and the CIESC, the FTCSC undertook the following: "FTCSC will continue to provide liability insurance coverage covering the transportation operation with coverage for the CIESC employees and with the CIESC named as an additional party." Based on the fact that the present lawsuit arises out of the transportation operation, this is an insured loss, and to the extent that there could be any financial liability directed towards the CIESC, the FTCSC's insurance carrier is obligated to pay any damages and attorneys' fees, thus again minimizing the CIESC's liability exposure.

It is CIESC's legal counsel's opinion that based on the foregoing, while the parties may disagree regarding the applicability of the Attorney General's opinion, CIESC's individual exposure to any financial liability from the litigation and/or the PST Contracts is essentially nonexistent.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Service Center's Financial Reports can be found on the Indiana Department of Education website: <http://mustang.doe.state.in.us/TRENDS/fin.cfm>. This website is maintained by the Indiana Department of Education. More current financial information is available from the Service Center Treasurer's office.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Financial Reports of the Service Center which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was prepared and/or approved by management of the Service Center. It is presented as intended by the Service Center.

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
 COMBINING SCHEDULES OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2010

	General	Joint Purchases	PATINS Sub Grant	Drivers Education	Project Lead the Way	Food Services	Miscellaneous	English Works	Teacher Internship
Cash and investments - beginning	\$ 889,387	\$ 128,204	\$ -	\$ 8,463	\$ 2,886	\$ 3,067	\$ -	\$ 19	\$ 7,508
Receipts:									
Local sources	3,431,508	414,156	-	6,971	-	-	125,124	-	-
Intermediate sources	6,393	-	-	-	-	-	-	-	-
State sources	222,653	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Other	292	-	-	-	-	-	-	-	-
Total receipts	<u>3,660,846</u>	<u>414,156</u>	<u>-</u>	<u>6,971</u>	<u>-</u>	<u>-</u>	<u>125,124</u>	<u>-</u>	<u>-</u>
Disbursements:									
Current:									
Instruction	686,461	1,436	-	-	-	-	-	-	-
Support services	2,911,551	377,820	-	-	-	-	-	-	-
Facilities acquisition and construction	60,000	-	-	13,909	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total disbursements	<u>3,658,012</u>	<u>379,256</u>	<u>-</u>	<u>13,909</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>2,834</u>	<u>34,900</u>	<u>-</u>	<u>(6,938)</u>	<u>-</u>	<u>-</u>	<u>125,124</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):									
Transfers in	200,001	-	-	-	-	-	139,739	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>200,001</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>139,739</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>202,835</u>	<u>34,900</u>	<u>-</u>	<u>(6,938)</u>	<u>-</u>	<u>-</u>	<u>264,863</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ 1,092,222</u>	<u>\$ 163,104</u>	<u>\$ -</u>	<u>\$ 1,525</u>	<u>\$ 2,886</u>	<u>\$ 3,067</u>	<u>\$ 264,863</u>	<u>\$ 19</u>	<u>\$ 7,508</u>

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
 COMBINING SCHEDULES OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2010
 (Continued)

	Economic Education Mini Grant	Technology Grants [IC 20-40-15]	Writing Using Computers	Learning Communities Network	EI Civics Adult Education	Lumina Grant	Investment Fund	PATINS Project	Adult Education and Family Literacy, Title II
Cash and investments - beginning	\$ 250	\$ 6,712	\$ 26,720	\$ 811	\$ 24,149	\$ 50	\$ 180,464	\$ -	\$ 42,461
Receipts:									
Local sources	-	-	-	-	51,229	-	160	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-	901,691
Other	-	-	-	-	-	-	-	-	-
Total receipts	-	-	-	-	51,229	-	160	-	901,691
Disbursements:									
Current:									
Instruction	-	-	-	-	-	-	-	-	-
Support services	-	-	-	-	23,377	-	-	-	774,968
Facilities acquisition and construction	-	-	-	-	-	-	-	-	18,000
Nonprogrammed charges	-	-	-	-	-	-	39,086	-	21,986
Other	-	-	-	-	-	-	-	-	-
Total disbursements	-	-	-	-	23,377	-	39,086	-	814,954
Excess (deficiency) of receipts over disbursements	-	-	-	-	27,852	-	(38,926)	-	86,737
Other financing sources (uses):									
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	(339,740)	-	-
Total other financing sources (uses)	-	-	-	-	-	-	(339,740)	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	-	-	27,852	-	(378,666)	-	86,737
Cash and investments - ending	\$ 250	\$ 6,712	\$ 26,720	\$ 811	\$ 52,001	\$ 50	\$ (198,202)	\$ -	\$ 129,198

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
 COMBINING SCHEDULES OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2010
 (Continued)

	Indiana Educational/ CARE	Drug Free Schools	TEECA Technical Education	Engineering Seminars	CTE Grant	Summer AG Teacher	Curriculum Development	Leadership Development	Health/Science Curriculum
Cash and investments - beginning	\$ 5,789	\$ 122	\$ 6,627	\$ 548	\$ -	\$ 205	\$ 200	\$ 800	\$ 1,127
Receipts:									
Local sources	-	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total receipts	-	-	-	-	-	-	-	-	-
Disbursements:									
Current:									
Instruction	-	-	-	-	-	-	-	-	-
Support services	152	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total disbursements	152	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts over disbursements	(152)	-	-	-	-	-	-	-	-
Other financing sources (uses):									
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(152)	-	-	-	-	-	-	-	-
Cash and investments - ending	\$ 5,637	\$ 122	\$ 6,627	\$ 548	\$ -	\$ 205	\$ 200	\$ 800	\$ 1,127

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
 COMBINING SCHEDULES OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2010
 (Continued)

	Advanced Life Science	Technical Honors Certificate	Safe and Drug Free Schools	Regional Training	2005-2006 End of Course Assessment	FACS Assessment	Project Lead the Way - Summer	Career Tech Staff/Market	Online Science Video
Cash and investments - beginning	\$ 750	\$ 17,000	\$ 3,800	\$ 10,266	\$ 500	\$ 9,621	\$ 2,770	\$ 8,874	\$ 490
Receipts:									
Local sources	-	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total receipts	-	-	-	-	-	-	-	-	-
Disbursements:									
Current:									
Instruction	-	-	-	-	-	-	-	-	-
Support services	-	-	-	-	-	1,030	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total disbursements	-	-	-	-	-	1,030	-	-	-
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	(1,030)	-	-	-
Other financing sources (uses):									
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	-	-	-	-	(1,030)	-	-	-
Cash and investments - ending	\$ 750	\$ 17,000	\$ 3,800	\$ 10,266	\$ 500	\$ 8,591	\$ 2,770	\$ 8,874	\$ 490

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
 COMBINING SCHEDULES OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2010
 (Continued)

	SES Program	Advanced Life Science	Racial Equity	High Ability Grant	Evaluation Educational Policy	Clearing Control	Totals
Cash and investments - beginning	\$ 109,181	\$ 28,830	\$ 10,000	\$ 1,047	\$ 900	\$ 5,085	\$ 1,545,683
Receipts:							
Local sources	1,287,369	22,388	-	-	600	-	5,339,505
Intermediate sources	-	-	-	-	-	-	6,393
State sources	-	-	-	-	-	-	222,653
Federal sources	-	-	-	-	-	-	901,691
Other	-	-	-	-	-	585,881	586,173
Total receipts	<u>1,287,369</u>	<u>22,388</u>	<u>-</u>	<u>-</u>	<u>600</u>	<u>585,881</u>	<u>7,056,415</u>
Disbursements:							
Current:							
Instruction	-	-	-	-	-	-	687,897
Support services	888,672	37,177	8,821	349	1,500	-	5,025,417
Facilities acquisition and construction	-	-	-	-	-	-	91,909
Nonprogrammed charges	-	-	-	-	-	-	61,072
Other	-	-	-	-	-	584,162	584,162
Total disbursements	<u>888,672</u>	<u>37,177</u>	<u>8,821</u>	<u>349</u>	<u>1,500</u>	<u>584,162</u>	<u>6,450,457</u>
Excess (deficiency) of receipts over disbursements	<u>398,697</u>	<u>(14,789)</u>	<u>(8,821)</u>	<u>(349)</u>	<u>(900)</u>	<u>1,719</u>	<u>605,958</u>
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	339,740
Transfers out	-	-	-	-	-	-	(339,740)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>398,697</u>	<u>(14,789)</u>	<u>(8,821)</u>	<u>(349)</u>	<u>(900)</u>	<u>1,719</u>	<u>605,958</u>
Cash and investments - ending	<u>\$ 507,878</u>	<u>\$ 14,041</u>	<u>\$ 1,179</u>	<u>\$ 698</u>	<u>\$ -</u>	<u>\$ 6,804</u>	<u>\$ 2,151,641</u>

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
 COMBINING SCHEDULES OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011

	General	Joint Purchases	PATINS Sub Grant	Drivers Education	Project Lead the Way	Food Services	Miscellaneous	English Works	Teacher Internship
Cash and investments - beginning	\$ 1,092,222	\$ 163,104	\$ -	\$ 1,525	\$ 2,886	\$ 3,067	\$ 264,863	\$ 19	\$ 7,508
Receipts:									
Local sources	3,993,531	395,146	37,930	12,794	-	-	-	-	-
State sources	986	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total receipts	<u>3,994,517</u>	<u>395,146</u>	<u>37,930</u>	<u>12,794</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Disbursements:									
Current:									
Instruction	791,269	-	-	7,850	-	-	-	-	-
Support services	3,040,893	485,447	45,494	-	2,886	-	-	-	-
Facilities acquisition and construction	150,043	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	19	-
Other	-	-	-	-	-	-	-	-	-
Total disbursements	<u>3,982,205</u>	<u>485,447</u>	<u>45,494</u>	<u>7,850</u>	<u>2,886</u>	<u>-</u>	<u>-</u>	<u>19</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>12,312</u>	<u>(90,301)</u>	<u>(7,564)</u>	<u>4,944</u>	<u>(2,886)</u>	<u>-</u>	<u>-</u>	<u>(19)</u>	<u>-</u>
Other financing sources (uses):									
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>12,312</u>	<u>(90,301)</u>	<u>(7,564)</u>	<u>4,944</u>	<u>(2,886)</u>	<u>-</u>	<u>-</u>	<u>(19)</u>	<u>-</u>
Cash and investments - ending	<u>\$ 1,104,534</u>	<u>\$ 72,803</u>	<u>\$ (7,564)</u>	<u>\$ 6,469</u>	<u>\$ -</u>	<u>\$ 3,067</u>	<u>\$ 264,863</u>	<u>\$ -</u>	<u>\$ 7,508</u>

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
 COMBINING SCHEDULES OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011
 (Continued)

	Economic Education Mini Grant	Technology Grants [IC 20-40-15]	Writing Using Computers	Learning Communities Network	El Civics Adult Education	Lumina Grant	Investment Fund	PATINS Project	Adult Education and Family Literacy, Title II
Cash and investments - beginning	\$ 250	\$ 6,712	\$ 26,720	\$ 811	\$ 52,001	\$ 50	\$ (198,202)	\$ -	\$ 129,198
Receipts:									
Local sources	-	-	-	-	45,459	-	-	1,365,893	-
State sources	-	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-	523,549
Other	-	-	-	-	-	-	-	-	-
Total receipts	-	-	-	-	45,459	-	-	1,365,893	523,549
Disbursements:									
Current:									
Instruction	-	-	-	-	-	-	-	-	-
Support services	250	-	-	811	79,282	-	-	2,410,249	755,298
Facilities acquisition and construction	-	-	-	-	-	-	-	-	25,868
Nonprogrammed charges	-	-	-	-	-	50	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total disbursements	250	-	-	811	79,282	50	-	2,410,249	781,166
Excess (deficiency) of receipts over disbursements	(250)	-	-	(811)	(33,823)	(50)	-	(1,044,356)	(257,617)
Other financing sources (uses):									
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(250)	-	-	(811)	(33,823)	(50)	-	(1,044,356)	(257,617)
Cash and investments - ending	\$ -	\$ 6,712	\$ 26,720	\$ -	\$ 18,178	\$ -	\$ (198,202)	\$ (1,044,356)	\$ (128,419)

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
 COMBINING SCHEDULES OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011
 (Continued)

	Indiana Educational/ CARE	Drug Free Schools	TEECA Technical Education	Engineering Seminars	CTE Grant	Summer AG Teacher	Curriculum Development	Leadership Development	Health/Science Curriculum
Cash and investments - beginning	\$ 5,637	\$ 122	\$ 6,627	\$ 548	\$ -	\$ 205	\$ 200	\$ 800	\$ 1,127
Receipts:									
Local sources	-	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total receipts	-	-	-	-	-	-	-	-	-
Disbursements:									
Current:									
Instruction	-	-	-	-	-	-	-	-	-
Support services	-	-	-	548	46,090	-	200	800	1,127
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	122	-	-	-	205	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total disbursements	-	122	-	548	46,090	205	200	800	1,127
Excess (deficiency) of receipts over disbursements	-	(122)	-	(548)	(46,090)	(205)	(200)	(800)	(1,127)
Other financing sources (uses):									
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(122)	-	(548)	(46,090)	(205)	(200)	(800)	(1,127)
Cash and investments - ending	<u>\$ 5,637</u>	<u>\$ -</u>	<u>\$ 6,627</u>	<u>\$ -</u>	<u>\$ (46,090)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
 COMBINING SCHEDULES OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011
 (Continued)

	Advanced Life Science	Technical Honors Certificate	Safe and Drug Free Schools	Regional Training	2005-2006 End of Course Assessment	FACS Assessment	Project Lead the Way - Summer	Career Tech Staff/Market	Online Science Video
Cash and investments - beginning	\$ 750	\$ 17,000	\$ 3,800	\$ 10,266	\$ 500	\$ 8,591	\$ 2,770	\$ 8,874	\$ 490
Receipts:									
Local sources	-	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total receipts	-	-	-	-	-	-	-	-	-
Disbursements:									
Current:									
Instruction	-	-	-	-	-	-	-	-	-
Support services	750	-	-	-	500	-	2,770	-	490
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total disbursements	750	-	-	-	500	-	2,770	-	490
Excess (deficiency) of receipts over disbursements	(750)	-	-	-	(500)	-	(2,770)	-	(490)
Other financing sources (uses):									
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(750)	-	-	-	(500)	-	(2,770)	-	(490)
Cash and investments - ending	\$ -	\$ 17,000	\$ 3,800	\$ 10,266	\$ -	\$ 8,591	\$ -	\$ 8,874	\$ -

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
 COMBINING SCHEDULES OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011
 (Continued)

	SES Program	Advanced Life Science	Racial Equity	High Ability Grant	Evaluation Educational Policy	Clearing Control	Totals
Cash and investments - beginning	\$ 507,878	\$ 14,041	\$ 1,179	\$ 698	\$ -	\$ 6,804	\$ 2,151,641
Receipts:							
Local sources	1,137,659	-	-	-	-	-	6,988,412
State sources	-	-	-	-	-	-	986
Federal sources	-	-	-	-	-	-	523,549
Other	-	-	-	-	-	702,746	702,746
Total receipts	<u>1,137,659</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>702,746</u>	<u>8,215,693</u>
Disbursements:							
Current:							
Instruction	-	-	-	-	-	-	799,119
Support services	1,031,380	613	1,179	-	-	-	7,907,057
Facilities acquisition and construction	-	-	-	-	-	-	175,911
Nonprogrammed charges	-	-	-	-	-	-	396
Other	-	-	-	-	-	709,388	709,388
Total disbursements	<u>1,031,380</u>	<u>613</u>	<u>1,179</u>	<u>-</u>	<u>-</u>	<u>709,388</u>	<u>9,591,871</u>
Excess (deficiency) of receipts over disbursements	<u>106,279</u>	<u>(613)</u>	<u>(1,179)</u>	<u>-</u>	<u>-</u>	<u>(6,642)</u>	<u>(1,376,178)</u>
Other financing sources (uses):							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>106,279</u>	<u>(613)</u>	<u>(1,179)</u>	<u>-</u>	<u>-</u>	<u>(6,642)</u>	<u>(1,376,178)</u>
Cash and investments - ending	<u>\$ 614,157</u>	<u>\$ 13,428</u>	<u>\$ -</u>	<u>\$ 698</u>	<u>\$ -</u>	<u>\$ 162</u>	<u>\$ 775,463</u>

CENTRAL INDIANA EDUCATION SERVICE CENTER
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
June 30, 2011

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>Ending Balance</u>
Capital assets:	
Capital assets, not being depreciated:	
Machinery and equipment	<u>\$ 765,924</u>

CENTRAL INDIANA EDUCATION SERVICE CENTER
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2011

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Capital leases:		
Car leases	\$ 63,933	\$ 73,376

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

The controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient. Management does not review the monthly bank reconcilements prepared by the Treasurer.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

OVERDRAWN FUND BALANCES

The Investment Fund was overdrawn as of June 30, 2010. The PATINS Sub Grant Fund, Investment Fund, PATINS Project Fund, Adult Education and Family Literacy, Title II Fund, and the CTE Grant Fund were overdrawn as of June 30, 2011.

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

ERRORS ON CLAIMS

The following deficiencies were noted on claims reviewed for the audit period:

1. One claim did have a contract attached, however the contract did not state how much to pay the person for their services.
2. Claims and Payroll do not appear to be consistently approved by the governing board. Only 6 out of 24 months of credit card bills were approved by the board.

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services."

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
AUDIT RESULTS AND COMMENTS
(Continued)

- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

FILING OF FORM 100-R

The Service Center did not file the Form 100R with the State Board of Accounts.

Indiana Code 5-11-13-1 states:

"(a) Every state, county, city, town, township, or school official, elective or appointive, who is the head of or in charge of any office, department, board, or commission of the state or of any county, city, town, or township, and every state, county, city, town, or township employee or agent who is the head of, or in charge of, or the executive officer of any department, bureau, board, or commission of the state, county, city, town, or township, and every executive officer by whatever title designated, who is in charge of any state educational institution or of any other state, county, or city institution, shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents in their respective offices, departments, boards, commissions, and institutions, and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts. However, no more than one (1) report covering the same officers, employees, and agents need be made from the state or any county, city, town, township, or school unit in any one year.

(b) The department of local government finance may not approve the budget of a county, city, town, or township or a supplemental appropriation for a county, city, town, or township until the county, city, town, or township files an annual report under subsection (a) for the preceding calendar year."

OFFICIAL BOND

The official bond for Donna Hattenbach Calhoun, Treasurer, was not filed in the Office of the County Recorder.

The State Board of Accounts is of the audit position bonds should be filed and recorded in the office of the county recorder. No charge is made for recording official bonds, IC 36-2-7-10. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

SALES TAX

Sales tax was paid for some purchases. Sales tax paid during the audit period appeared to be mainly for catering, however, there were instances where sales taxes were paid for other purchases of the service center. The majority of sales taxes paid can be seen on the unit's credit card charges. The sales taxes paid on credit card charges totaled \$8,381.24 for our audit period.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
AUDIT RESULTS AND COMMENTS
(Continued)

CREDIT CARDS

The Service Center is using credit cards to purchase items without an approved credit card policy.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

FOLLOWING APPROVED POLICIES

The Service Center has a policy concerning travel; however, the service center did not follow this policy. The travel policy states in part: ". . . Amounts listed without receipts will NOT be reimbursed . . . Alcoholic beverages will not be reimbursed . . . Hotel incidentals (i.e. personal phone calls, movies, etc.) will not be reimbursed." However, the Service Center paid for these types of charges made by employees in travel status during our audit period. These items were charged to the Service Center's credit card.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
AUDIT RESULTS AND COMMENTS
(Continued)

ALCOHOL PURCHASES

Purchase of alcoholic beverages was paid from public funds. We noted charges to the Service Center's credit card which contained alcoholic beverage purchases at meals. Alcohol purchases charged to the Service Center's credit card totaled \$546.98 during our audit period. Employees repaid \$424.50 in alcohol charges, which left \$122.48 in alcohol charged to the Service Center's credit card and not reimbursed by the employee which charged it. The Service Center has a travel policy which states in part: ". . . Alcoholic beverages will not be reimbursed."

Purchases of alcoholic beverages may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (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 CENTRAL INDIANA EDUCATIONAL
SERVICE CENTER, MARION COUNTY, INDIANA

Compliance

We have audited the compliance of the Central Indiana Educational Service Center (Service Center) 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, 2010 and 2011. The Service Center'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 Service Center's management. Our responsibility is to express an opinion on the Service Center'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 Service Center'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 Service Center's compliance with those requirements.

In our opinion, the Service Center 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, 2010 and 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-02 and 2011-03.

Internal Control Over Compliance

Management of the Service Center 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 Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order

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)

to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Service Center's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies, or material weaknesses and therefore, there is no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2011-02 and 2011-03 to be material weaknesses.

The Service Center's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. We did not audit the Service Center's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Service Center's management, Governing Board, others within the entity, 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

February 23, 2012

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the Service Center. The schedule and notes are presented as intended by the Service Center.

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Years Ended June 30, 2010 and 2011

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 06-30-10	Total Federal Awards Expended 06-30-11
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Special Education Cluster				
Special Education - Grants to States	84.027			
PATINS Discretionary		EDS #A58-1-11DL-001	\$ -	\$ 2,455,744
Adult Education - Basic Grants to States	84.002			
El Civics		A58-0-10CI-143	23,377	79,282
Adult Education			<u>814,953</u>	<u>781,165</u>
Total for program			<u>838,330</u>	<u>860,447</u>
Career and Technical Education - Basic Grants to States	84.048			
CTE Grant		EDS #A58-1-11CI-236	-	46,090
Agricultural Education Strategic Planning		#04-1320-9580	-	205
FY 04 CTE Summit Grant		#04-1355-9580	-	200
Life Sciences Strategic Planning Grant		#04-4100-1320a	-	800
Health Sciences Curriculum Revision/Articulation project		#04-4100-1402	-	1,127
Advanced Life Science Foods		#07-1415-9580	-	750
Development of End-of-Course Assessment Grant		#06-1302-9580	-	500
FACS Assessment Initiatives Grant		#06-1333d-9580	1,030	-
Project Lead the Way			-	2,770
New Curriculum Project - Family & Consumer Sciences		#07/09-1415-9580	<u>37,177</u>	<u>614</u>
Total for Program			<u>38,207</u>	<u>53,056</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186		-	<u>122</u>
Total federal awards expended			<u>\$ 876,537</u>	<u>\$ 3,369,369</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Central Indiana Educational Service Center (CIESC) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

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 Indiana Code (IC 5-11-1 et seq.), audits of Educational Service Centers shall be conducted biennially. Such audits shall include both years within the biennial period.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the Service Center provided federal awards to subrecipients as follows for the years ended June 30, 2010 and 2011:

Program Title	Federal CFDA Number	2011
Special Education - Grants To States	84.027	\$ <u>1,276,246</u>

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiency identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiency identified?	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?	yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.002	Special Education Cluster Adult Education – Basic Grants to States

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2011-01 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted deficiencies in the internal control system of the Service Center related to financial transactions and reporting. We believe the following deficiencies constitute a material weakness:

Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the service center to reduce risks to achievement of financial reporting objectives. The service center has not separated incompatible activities related to receipts, payroll and related liabilities, transfers and adjustments, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to undetected.

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Bank Reconcilements: Control activities should be selected and developed at various levels to reduce risks of error and/or fraud of the financial statement. Bank Reconcilements were not reviewed by the appropriate level of management or another appropriate person (such as a governing body member). Failure to review bank reconcilements and correct reconciling items by the unit on a timely basis could result in a material misstatement.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Section III – Federal Award Findings and Questioned Costs

FINDING 2011-02 - INTERNAL CONTROLS/CASH MANAGEMENT

Federal Agency: U.S. Department of Education
Federal Program: Adult Education - Basic Grants to States
CFDA Number: 84.002
Pass-Through Entity: Indiana Department of Education

The Service Center is not effectively monitoring the cash balance of the grant in order to ensure that the time between the receipt and disbursement of federal funds is minimized. The Service Center does not have proper procedures or controls in place which allows for the cash requests to be modified when excess cash is on hand in the grant fund. Due to the lack of proper procedures and controls, the cash balance for the grant was excessive for 19 of 24 months of the audit period.

34 CFR 80.20 (b)(7) states:

"Cash Management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

Surplus cash indicates noncompliance with the cash management requirement as set forth by the grant agreement. Additionally, failure to minimize the cash on hand may cause future funding to be reduced by the pass-through agency.

We recommended that Service Center Officials develop and implement procedures and controls to ensure that the time between the receipt and disbursement of federal funds is minimized according to the grant requirements.

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2011-03 - ACTIVITIES ALLOWED

Federal Agency: U. S. Department of Education
Federal Program: Adult Education - Basic Grants to States
CFDA Number: 84.002
Pass-Through Entity: Indiana Department of Education

Federal Agency: U.S. Department of Education
Federal Program: Special Education - Grants to States
CFDA Number: 84.027
Pass-Through Entity: Indiana Department of Education

Established procedures require claims to be approved by the governing board before payment is made. There were claims paid out of the Adult Education - Basic Grants to States grant and the Special Education - Grants to States grant which did not have governing board approval for payment. The Service Center has credit cards available for use to certain employees. The statements received each month are broken down between the cardholder names. The credit card payments are automatically withdrawn from the Service Centers bank account without a claim being prepared, and payments are not normally approved by the governing board. Due to this practice, both the Adult Education - Basic Grants to States and Special Education - Grants to States grant funds had expenses paid out which were not approved by the Governing Board.

34 CFR 80.20 states in part:

". . . (b) The financial management systems of other grantees and subgrantees must meet the following standards: . . . (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. . . ."

Internal controls in place were bypassed resulting in claims being processed without Board approval.

We recommended that the Service Center take steps to enforce established internal controls.



CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
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SUMMARY OF PRIOR AUDIT FINDINGS

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

FINDING 2009-01, CASH MANAGEMENT

Previous to the 2009-2010 and 2010-2011 fiscal years the grant was on a disbursement pay schedule which was mandated by the grant and the Adult Education Director. The Adult Education grant was on a reimbursement for the 2009-2010 and the 2010-2011 fiscal year. CIESC paid the expenses and then CIESC was reimbursed when an expense report was filed with DOE. If you need any further information please let me know. Thank you.

Sincerely,

A handwritten signature in black ink that reads "Donna Hattenbach Calhoun".

Donna Hattenbach Calhoun
Business Manager

February 24, 2012

State Board of Accounts
302 W. Washington Street, Room E-418
Indianapolis, IN 46204-2765

To Whom It May Concern:

This is the CIESC response to the most recent audit exception. Please include this information with our final audit report. Our corrective action plans are noted below.

Federal Finding 2011-01 Internal Controls over financial transactions and reporting

Corrective Action:

Segregation of Duties: Although no funds have been misappropriated, we recognize the value of segregating duties. We will request that the board appoint a deputy treasurer at our next meeting. The deputy treasurer will be responsible for reviewing the bank reconciliation process of the treasurer. Each month, after review, both the treasurer and the deputy treasurer will sign off on the bank reconciliation. The reviewed reconciliation will then be submitted as part of the claims docket on the agenda of the Governing Board meeting. As of February 1, 2012, we separated Accounts Payable such that another employee processes those separately from the treasurer. Additionally, another employee is responsible for entering the bank deposits and reconciling them to the bank statements.

Federal Finding 2011-02 Internal Controls/Cash Management

Corrective Action:

Surplus Cash: This statement refers to the Adult Education grant. The grant ended on June 30, 2011 and all funds expended as of September 2011. Additionally, a surplus cash balance is not possible on grants now as the grant recipients are required to expend funds and then seek reimbursement.

Federal Finding 2011-03 Questioned Costs/Activities Allowed

Response:

Credit Card Policy: A credit card policy was approved by the Governing Board on 2/22/2012. A new procedure has been implemented. Individual employees will no longer be issued a credit card. Service Center credit cards will be under the custody of the treasurer.

A handwritten signature in black ink that reads "Donna Hattenbach Calhoun". The signature is written in a cursive style with a large initial 'D'.

Donna Hattenbach Calhoun
Treasurer

CENTRAL INDIANA EDUCATIONAL SERVICE CENTER
EXIT CONFERENCE

The contents of this report were discussed on February 23, 2012, with Dr. Mary Ann Dewan, Executive Director; Donna Hattenbach Calhoun, Treasurer; Kenneth Hull, President of the Board; and Mike Reuter, Consultant. The Official Response has been made a part of this report and may be found on pages 49 through 54.

March 1, 2012

State Board of Accounts
302 W. Washington Street, Room E-418
Indianapolis, IN 46204-2765

To Whom It May Concern:

This is the CIESC official response to the most recent audit. Please include this information with our final audit report. The applicable corrective action plans are noted below.

Internal Controls

Corrective Action

Segregation of Duties: Although no funds have been misappropriated, we recognize the value of segregating duties. We will recommend that the board appoint a deputy treasurer at our next meeting. The deputy treasurer will be responsible for reviewing the bank reconciliation process of the treasurer. Each month, after review, both the treasurer and the deputy treasurer will sign off on the bank reconciliation. The reviewed reconciliation will then be submitted as part of the claims docket on the agenda of the Governing Board meeting. As of February 1, 2012, we separated Accounts Payable such that they are processed separately from the treasurer. Additionally, another employee is responsible for entering the bank deposits and reconciling them to the bank statements.

Overdrawn Fund Balances

Fund balances are shown as overdrawn from time to time due to the requirement that funds for grants and certain projects are funded through a reimbursement only process. Indiana requires us to expend funds and then seek reimbursement.

Errors on Claims

Corrective Action

The automatic payment of the credit card bill is in compliance with the board policy to avoid interest and penalties. This board policy was approved on June 25, 1996. All future credit card statements will be properly displayed on the claims approved by the board.

Filing of Form 100-R

Corrective Action

CIESC has not been required to submit this form in the past. Based upon this new guidance, the form has been filed.

Official Bond

Corrective Action

The treasurer was properly bonded throughout the entire audit period. There was disagreement in the county offices regarding where the official bond could be filed and recorded. This caused a delay in the recording. The official bond is now properly recorded. To prevent this from occurring in the future, the insurance company will be responsible for ensuring that the official bond is properly recorded each year.

Sales Tax

Corrective Action

In prior audits, Information Bulletin 10 has guided the application of sales tax exemptions for CIESC. The Department of Revenue's sales tax exemption policy, as stated in Information Bulletin 10, is generally consistent with what is found in the statutes and the regulation (reproduced below), which are the definitive sources of the applicable rules. CIESC has been advised by legal counsel and by prior audits, that CIESC cannot count on being entitled to an Indiana sales tax exemption for food purchases, especially for catering, because providing meals to attendees at meetings, conventions or other events is not directly related to the our organization's nonprofit, tax-exempt purposes.

The fact that CIESC cannot count on being entitled to an Indiana sales tax exemption for food purchases was in part based upon the following statute that defines the nonprofit organizations that are eligible for an exemption:

IC 6-2.5-5-21

Exemption; sales of food and food ingredients by nonprofit entities to confined or hospitalized persons

Sec. 21. (a) For purposes of this section, "private benefit or gain" does not include reasonable compensation paid to an employee for work or services actually performed.

(b) Sales of food and food ingredients are exempt from the state gross retail tax if:

(1) the seller meets the filing requirements under subsection (d) and is any of the following:

(A) A fraternity, a sorority, or a student cooperative housing organization that is connected with and under the supervision of a postsecondary educational institution if no part of its income is used for the private benefit or gain of any member, trustee, shareholder, employee, or associate.

(B) Any:

(i) institution;

(ii) trust;

(iii) group;
(iv) united fund;
(v) affiliated agency of a united fund;
(vi) nonprofit corporation;
(vii) cemetery association; or
(viii) organization;
that is organized and operated exclusively for religious, charitable, scientific, literary, educational, or civic purposes if no part of its income is used for the private benefit or gain of any member, trustee, shareholder, employee, or associate.

(C) A group, an organization, or a nonprofit corporation that is organized and operated for fraternal or social purposes, or as a business league or association, and not for the private benefit or gain of any member, trustee, shareholder, employee, or associate.

(D) A:

(i) hospital licensed by the state department of health;
(ii) shared hospital services organization exempt from federal income taxation by Section 501(c)(3) or 501(e) of the Internal Revenue Code;
(iii) labor union;
(iv) church;
(v) monastery;
(vi) convent;
(vii) school that is a part of the Indiana public school system;
(viii) parochial school regularly maintained by a recognized religious denomination; or
(ix) trust created for the purpose of paying pensions to members of a particular profession or business who created the trust for the purpose of paying pensions to each other;
if the taxpayer is not organized or operated for private profit or gain;

As added by Acts 1980, P.L.52, SEC.1. Amended by Acts 1981, P.L.77, SEC.2; P.L.192-2002(ss), SEC.53; P.L.257-2003, SEC.26; P.L.2-2007, SEC.119.

The following regulation, then applies to purchases:

45 IAC 2.2-5-55 Not-for-profit organizations; acquisitions Sec. 55. (a) Sales to a qualified not-for-profit organization of tangible personal property or services used primarily in carrying out the not-for-profit purpose of the organization or in raising money for carrying on such purposes are exempt from the gross retail tax.

(b) In order to qualify for the sales tax exemption on purchases, as a qualified not-for-profit organization, the following conditions must prevail:

(1) The organization must be qualified by being named or described in IC 6-2.1-3-20, IC 6-2.1-3-21, or IC 6-2.1-3-22 which deals with fraternities, sororities, student cooperative housing organizations, etc. This includes not-for-profit organizations organized and operated exclusively for one (1) or more of the following purposes:

- (A) Religious.
- (B) Charitable.
- (C) Scientific.
- (D) Fraternal.
- (E) Educational.
- (F) Literary.
- (G) Civic.

(2) Also included are the following specifically named not-for-profit organizations:

- (A) Labor unions.
- (B) Licensed hospitals.
- (C) Churches.
- (D) Monasteries.
- (E) Convents.
- (F) Cemetery associations.
- (G) Public schools.
- (H) Parochial schools.
- (I) Pension trust.
- (J) Business leagues.

(3) The organization is not operated predominantly for social purposes. The article purchased must be used for the same purpose as that for which the organization is being exempted. Purchases for the private benefit of any member of the organization or for any other individual, such as meals or lodging, are not eligible for exemption. Purchases used for social purposes are never exempt.

(4) The fact that an organization is being exempted by the federal government or by the state of Indiana for income tax purposes does not necessarily mean that a purchase made by the not-for-profit organization is exempt.

(c) Purchases of tangible personal property by a qualified not-for-profit organization used to raise funds to further the exempt purpose of the organization are exempt even if the resale of such property is not subject to tax. The following are examples:

(1) A qualified religious organization purchases envelopes which are distributed to members for use in making weekly contributions to the church. The purchase of the envelopes by the church is exempt because the envelopes will be used to raise funds for the qualified not-for-profit organization.

(2) A qualified hospital purchases advertising posters to be used in a fundraising drive for the hospital. The purchase of the posters is exempt from the state gross retail tax because the posters will be used to raise funds for the qualified not-for-profit organization.

(d) Purchases of tangible personal property or services used primarily in carrying out the not-for-profit purpose of the qualified organization are exempt from tax. This exemption will not apply if such property is primarily used for a purpose other than the not-for-profit purpose of the organization. As used in this section, "primarily used in carrying out the not-for-profit purpose" means that the item or service is used more than fifty percent (50%) of the time to further the organization's not-for-profit purpose. The following are examples:

(1) A religious organization acquired building materials to construct a new church. The purchase of such materials by the church is exempt since the new church will further the not-for-profit purpose of the

organization. The fact that the church basement will occasionally be used for social events does not subject the purchase of construction materials to tax.

(2) A church sponsors a ski club for its teenage membership. The ski club purchases skis, boots, and poles to be used by the church ski club members on ski trips. These purchases are taxable because the skis, boots, and poles are used primarily to further the social purposes of the ski group and not the exempt purpose of the church.

(3) A fraternal lodge operated a golf club, a bowling alley, and a lounge where liquor is served. Purchases of property used in these facilities are taxable because the property is used for a purpose other than the not-for-profit fraternal purpose of the lodge. However, the purchase of ceremonial robes for use in fraternal meetings is exempt because the robes are used to further the not-for-profit purpose of the organization.

(4) Sales of meals at medical society meetings are taxable because the meals are provided for the convenience of the organization and its members. Such sales are taxable even when served in conjunction with a meeting which is furthering their not-for-profit purpose.

(e) A social organization will be deemed to exist for predominantly social purposes if more than fifty percent (50%) of its expenditures are for, or related to, social activities. Social activities include the following:

(1) Food and beverage services.

(2) Furnishing of sleeping rooms.

(3) Club rooms.

(4) Lounges.

(5) Recreational activities.

(6) Any other social activities.

(Department of State Revenue; Ch. 5, Reg. 6-2.5-5-25(a)(010); filed Dec 1, 1982, 10:35 a.m.: 6 IR 51; filed Dec 11, 1992, 5:00 p.m.: 16 IR 1367)

Credit Cards

Corrective Action

A credit card policy was approved by the Governing Board on 2/22/2012. A new procedure has been implemented. Individual employees will no longer be issued a credit card. Service Center credit cards will be under the custody of the treasurer.

Following Approved Policies

Corrective Action

The approved Travel policy has now been distributed to all employees. The Treasurer and Deputy Treasurer will be responsible for monitoring compliance with the approved Travel policy.

Alcohol Purchases

Corrective Action

Purchase of alcoholic beverages was noted on some credit card receipts. No alcohol purchases were reimbursed by CIESC to employees. In the event when an alcohol purchase was noted on a credit card receipt, the person who signed the credit card receipt reimbursed the service center. In the noted situations from the audit regarding a balance of \$122.48 in which the documentation for the reimbursement was missing from the credit card statement, the employee who charged it has been required to reimburse the service center. While this may mean that an employee will have reimbursed CIESC twice for the same purpose, it allows us to provide current documentation that all alcohol purchases have been repaid to CIESC in full. Employees who utilize CIESC credit cards for service center purchases in the future will be advised by the treasurer that alcohol purchases should not be charged to the CIESC credit card and that they are personally obligated to pay for any such purchases from personal funds.



Donna Hattenbach Calhoun
Treasurer