

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

AUDIT REPORT

OF

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS

JOHNSON COUNTY, INDIANA

July 1, 2005 to June 30, 2007



**FILED**

03/31/2008



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Brenda J. Bennett	07-01-05 to 06-30-08
Superintendent of Schools	Pamela T. Wright	07-01-05 to 06-30-08
President of Special Services Board	David E. Edds John Reed John T. Coopman	07-01-05 to 06-30-06 07-01-06 to 06-30-07 07-01-07 to 06-30-08



**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 FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE SPECIAL SERVICES, JOHNSON  
COUNTY SCHOOLS, JOHNSON COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Special Services, Johnson County Schools (School Corporation), as of and for the years ended June 30, 2006 and 2007, which collectively comprise the School Corporation's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2006 and 2007, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated March 4, 2008, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

The Schedule of Funding Progress is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Combining Schedules, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

STATE BOARD OF ACCOUNTS

March 4, 2008



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Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

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

TO: THE OFFICIALS OF THE SPECIAL SERVICES, JOHNSON  
COUNTY SCHOOLS, JOHNSON COUNTY, INDIANA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Special Services, Johnson County Schools (School Corporation), as of and for the years ended June 30, 2006 and 2007, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated March 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in item 2007-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

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

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

STATE BOARD OF ACCOUNTS

March 4, 2008

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

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Net (Disbursement) Receipts and Changes in Net Assets</u> <u>Totals</u>
Governmental activities:		
Instruction	\$ 1,758,264	\$ (1,758,264)
Support services	5,498,285	(5,498,285)
Nonprogrammed charges	2,157	(2,157)
Debt service	<u>10,987</u>	<u>(10,987)</u>
Total governmental activities	<u>\$ 7,269,693</u>	<u>(7,269,693)</u>
General receipts:		
Other local sources		2,818,642
State aid		263,303
Grants and contributions not restricted to specific programs		4,291,956
Sale of property, adjustments, and refunds		21,049
Investment earnings		<u>52,116</u>
Total general receipts		<u>7,447,066</u>
Change in net assets		177,373
Net assets - beginning		<u>1,376,708</u>
Net assets - ending		<u>\$ 1,554,081</u>
 <u>Assets</u>		
Cash and investments		<u>\$ 1,554,081</u>
 <u>Net Assets</u>		
Unrestricted		<u>\$ 1,554,081</u>

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

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

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Operating Grants and Contributions</u>	<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
			<u>Totals</u>
Governmental activities:			
Instruction	\$ 1,829,248	\$ 1,260	\$ (1,827,988)
Support services	5,642,662	-	(5,642,662)
Debt service	5,260	-	(5,260)
Total governmental activities	\$ 7,477,170	\$ 1,260	(7,475,910)
General receipts:			
Other local sources			2,736,917
State aid			263,303
Grants and contributions not restricted to specific programs			4,285,983
Sale of property, adjustments, and refunds			22,242
Investment earnings			67,185
Total general receipts			7,375,630
Change in net assets			(100,280)
Net assets - beginning			1,554,081
Net assets - ending			\$ 1,453,801
<u>Assets</u>			
Cash and investments			\$ 1,453,801
<u>Net Assets</u>			
Unrestricted			\$ 1,453,801

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

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

	General	Transportation Operating	Special Education Preschool	IDEA 2005-2006	IDEA 2003-2004
<b>Receipts:</b>					
Local sources	\$ 2,049,824	\$ 94,100	\$ 581,900	\$ -	\$ -
State sources	263,303	-	-	-	-
Federal sources	-	-	-	3,133,000	-
Sale of property, adjustments and refunds	11,312	-	15	86	-
<b>Total receipts</b>	<b>2,324,439</b>	<b>94,100</b>	<b>581,915</b>	<b>3,133,086</b>	<b>-</b>
<b>Disbursements:</b>					
<b>Current:</b>					
Instruction	132,526	-	380,970	872,751	10,739
Support services	2,098,646	71,084	145,628	2,234,023	8,167
Nonprogrammed charges	-	2,157	-	-	-
Debt services	-	-	-	-	-
<b>Total disbursements</b>	<b>2,231,172</b>	<b>73,241</b>	<b>526,598</b>	<b>3,106,774</b>	<b>18,906</b>
<b>Excess (deficiency) of receipts over disbursements</b>	<b>93,267</b>	<b>20,859</b>	<b>55,317</b>	<b>26,312</b>	<b>(18,906)</b>
<b>Other financing sources (uses):</b>					
Transfers in	31,815	5,119	-	-	-
Transfers out	(5,119)	(10,784)	-	-	-
<b>Total other financing sources (uses)</b>	<b>26,696</b>	<b>(5,665)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses</b>	<b>119,963</b>	<b>15,194</b>	<b>55,317</b>	<b>26,312</b>	<b>(18,906)</b>
Cash and investments - beginning	1,124,860	29,914	114,847	-	18,906
Cash and investments - ending	<u>\$ 1,244,823</u>	<u>\$ 45,108</u>	<u>\$ 170,164</u>	<u>\$ 26,312</u>	<u>\$ -</u>
<b>Cash and Investment Assets - Ending</b>					
Cash and investments	<u>\$ 1,244,823</u>	<u>\$ 45,108</u>	<u>\$ 170,164</u>	<u>\$ 26,312</u>	<u>\$ -</u>
<b>Cash and Investment Fund Balance - Ending</b>					
Unrestricted	<u>\$ 1,244,823</u>	<u>\$ 45,108</u>	<u>\$ 170,164</u>	<u>\$ 26,312</u>	<u>\$ -</u>

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

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2006  
(Continued)

	IDEA 2004-2005	Capital Projects	School Bus Replacement	Other	Totals
<b>Receipts:</b>					
Local sources	\$ -	\$ 134,933	\$ 10,000	\$ -	\$ 2,870,757
State sources	-	-	-	59,351	322,654
Federal sources	841,567	-	-	258,038	4,232,605
Sale of property, adjustments and refunds	188	-	-	9,449	21,050
<b>Total receipts</b>	<b>841,755</b>	<b>134,933</b>	<b>10,000</b>	<b>326,838</b>	<b>7,447,066</b>
<b>Disbursements:</b>					
<b>Current:</b>					
Instruction	171,270	-	-	190,008	1,758,264
Support services	661,864	117,798	-	161,075	5,498,285
Nonprogrammed charges	-	-	-	-	2,157
Debt services	-	10,987	-	-	10,987
<b>Total disbursements</b>	<b>833,134</b>	<b>128,785</b>	<b>-</b>	<b>351,083</b>	<b>7,269,693</b>
Excess (deficiency) of receipts over disbursements	8,621	6,148	10,000	(24,245)	177,373
<b>Other financing sources (uses):</b>					
Transfers in	-	-	-	-	36,934
Transfers out	-	(21,031)	-	-	(36,934)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(21,031)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	8,621	(14,883)	10,000	(24,245)	177,373
Cash and investments - beginning	(8,621)	57,584	20,000	19,218	1,376,708
Cash and investments - ending	\$ -	\$ 42,701	\$ 30,000	\$ (5,027)	\$ 1,554,081
<b>Cash and Investment Assets - Ending</b>					
Cash and investments	\$ -	\$ 42,701	\$ 30,000	\$ (5,027)	\$ 1,554,081
<b>Cash and Investment Fund Balance - Ending</b>					
Unrestricted	\$ -	\$ 42,701	\$ 30,000	\$ (5,027)	\$ 1,554,081

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

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

	General	Transportation Operating	Special Education Preschool	IDEA 2005-2006	IDEA 2006-2007
<b>Receipts:</b>					
Local sources	\$ 2,044,310	\$ 72,733	\$ 597,704	\$ -	\$ -
State sources	264,563	-	-	-	-
Federal sources	-	-	-	1,013,889	3,059,000
Sale of property, adjustments and refunds	16,836	-	-	555	229
<b>Total receipts</b>	<b>2,325,709</b>	<b>72,733</b>	<b>597,704</b>	<b>1,014,444</b>	<b>3,059,229</b>
<b>Disbursements:</b>					
<b>Current:</b>					
Instruction	203,044	-	404,813	202,839	880,423
Support services	2,312,513	78,144	126,258	837,917	2,144,929
Debt services	458	-	-	-	-
<b>Total disbursements</b>	<b>2,516,015</b>	<b>78,144</b>	<b>531,071</b>	<b>1,040,756</b>	<b>3,025,352</b>
Excess (deficiency) of receipts over disbursements	(190,306)	(5,411)	66,633	(26,312)	33,877
<b>Other financing sources (uses):</b>					
Transfers in	35,732	-	5,958	-	-
Transfers out	(5,958)	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>29,774</b>	<b>-</b>	<b>5,958</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(160,532)	(5,411)	72,591	(26,312)	33,877
Cash and investments - beginning	1,244,823	45,108	170,164	26,312	-
Cash and investments - ending	<u>\$ 1,084,291</u>	<u>\$ 39,697</u>	<u>\$ 242,755</u>	<u>\$ -</u>	<u>\$ 33,877</u>
<b>Cash and Investment Assets - Ending</b>					
Cash and investments	<u>\$ 1,084,291</u>	<u>\$ 39,697</u>	<u>\$ 242,755</u>	<u>\$ -</u>	<u>\$ 33,877</u>
<b>Cash and Investment Fund Balance - Ending</b>					
Unrestricted	<u>\$ 1,084,291</u>	<u>\$ 39,697</u>	<u>\$ 242,755</u>	<u>\$ -</u>	<u>\$ 33,877</u>

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

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2007  
(Continued)

	Capital Projects	School Bus Replacement	Other	Totals
<b>Receipts:</b>				
Local sources	\$ 79,355	\$ 10,000	\$ -	\$ 2,804,102
State sources	-	-	60,392	324,955
Federal sources	-	-	152,702	4,225,591
Sale of property, adjustments and refunds	-	-	4,622	22,242
	<u>79,355</u>	<u>10,000</u>	<u>217,716</u>	<u>7,376,890</u>
<b>Disbursements:</b>				
<b>Current:</b>				
Instruction	-	-	138,129	1,829,248
Support services	66,369	-	76,532	5,642,662
Debt services	4,802	-	-	5,260
	<u>71,171</u>	<u>-</u>	<u>214,661</u>	<u>7,477,170</u>
Excess (deficiency) of receipts over disbursements	<u>8,184</u>	<u>10,000</u>	<u>3,055</u>	<u>(100,280)</u>
<b>Other financing sources (uses):</b>				
Transfers in	-	-	-	41,690
Transfers out	(35,732)	-	-	(41,690)
	<u>(35,732)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(27,548)	10,000	3,055	(100,280)
Cash and investments - beginning	<u>42,701</u>	<u>30,000</u>	<u>(5,027)</u>	<u>1,554,081</u>
Cash and investments - ending	<u>\$ 15,153</u>	<u>\$ 40,000</u>	<u>\$ (1,972)</u>	<u>\$ 1,453,801</u>
<b><u>Cash and Investment Assets - Ending</u></b>				
Cash and investments	<u>\$ 15,153</u>	<u>\$ 40,000</u>	<u>\$ (1,972)</u>	<u>\$ 1,453,801</u>
<b><u>Cash and Investment Fund Balance - Ending</u></b>				
Unrestricted	<u>\$ 15,153</u>	<u>\$ 40,000</u>	<u>\$ (1,972)</u>	<u>\$ 1,453,801</u>

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

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
For the Year Ended June 30, 2006

	Private-Purpose Trust Funds	Agency Funds
Deductions:		
Benefits	\$ 64	
Deficiency of total additions over total deductions	(64)	
Cash and investment fund balance - beginning	64	
Cash and investment fund balance - ending	\$ -	
Net assets:		
Cash and investments	\$ -	\$ 20,276
Total net assets - cash and investment basis held in trust	\$ -	\$ 20,276

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

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
For the Year Ended June 30, 2007

	<u>Agency Funds</u>
Net assets:	
Cash and investments	\$ <u>32,967</u>
Total net assets - cash and investment basis held in trust	\$ <u><u>32,967</u></u>

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

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

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

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

The special education preschool fund accounts for programs for preschool education.

The IDEA grant funds account for federal funds for programs for special education students.

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

The school bus replacement fund is used to account for receipts and disbursements concerning the acquisition and disposition of school buses.

Additionally, the School Corporation reports the following fund types:

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the youth philanthropy grant.

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Agency funds account for assets held by the School Corporation as an agent for various payroll withholding funds and South Central Indiana School Trust payroll funds.

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any enterprise funds.

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Payment by Joint School Corporation Members

The joint school corporation members make General Fund payments at their discretion. Some school corporations pay when billed, while other school corporations divide the semi-annual budget over three or six months. The other funds are usually paid shortly after the billing is received from the Treasurer. All participating school corporation members were current on funding their share at June 30, 2006, and June 30, 2007. This revenue is reported in the financial statements in local sources.

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

3. Compensated Absences

a. Sick Leave

Instructional assistants, van monitors and bus drivers earn sick leave at the rate of 3 days per year. Unused sick leave may be accumulated to a maximum of 90 days. Non-certified employees will be paid a 1 time additional compensation upon retirement equal to the number of years of service to the School multiplied by  $\frac{1}{2}$  the number of accumulated sick days.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 10 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

c. Personal Leave

Noncertified school corporation employees earn personal leave at the rate of 1 day to 3 days per year. Personal leave does not accumulate from year to year.

d. Paid Time-Off

Certified school corporation employees, the Treasurer, and Office Manager earn 13 days paid time-off per contract year. Unused paid time-off accumulates as sick leave up to a maximum of 90 days, with the following exception. If a certified employee accumulated more than 90 days by the end of the 2004-2005 school year, the accumulated number of days became the maximum days for that certified employee.

2. Capital Assets

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

3. Long-Term Debt

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

4. Equity Classification

Government-Wide Statements

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

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

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

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

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

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

F. Internal and Interfund Balances and Activities

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

Fund Financial Statements

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

Government-Wide Financial Statements

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

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities and Net Assets – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

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

Budgets have been adopted by the Governing Board for the following funds:

General Fund, Transportation Operating, Capital Projects

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

B. Cash and Investment Balance Deficits

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

Fund	2005	2006
Alternative Services BW 1	\$ 3,648	\$ -
Alternative Services BW 2	-	1,995
Alternative Services HT	2,877	1,286

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At June 30, 2007, the bank balance held at

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Heartland Bank in the amount of \$218,789 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-School Corporation's name. The remaining bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Investment Policies

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

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

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

B. Interfund Transfers

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

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Transfer From	Transfer To	2006	2007
Transportation Operating Fund	General Fund	\$ 10,784	\$ -
General Fund	Transportation Operating Fund	5,119	-
Capital Projects Fund	General Fund	21,031	35,732
General Fund	Special Education Preschool Fund	-	5,958
Totals		<u>\$ 36,934</u>	<u>\$ 41,690</u>

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

C. Restatements and Reclassifications

For the year ended June 30, 2006, certain changes have been made to the financial statements to more appropriately reflect financial activity of the School Corporation. The following schedule presents a summary of restated beginning balances by opinion unit. New Funds represents the inclusion of existing funds which were not presented in the prior report.

Opinion Unit	Balance as Reported June 30, 2005	Fund Reclassification	New Funds	Balance as Restated July 1 2006
Private Purpose Funds	\$ 2,131	\$ (2,067)	\$ -	\$ 64
Agency Funds	-	2,067	20,895	22,962

IV. Other Information

A. Risk Management

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

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

Medical Benefits to Employees

During 1989, the School Corporation joined with other governmental entities to form the South Central Indiana School Trust, a public entity risk pool currently operating as a common risk management and insurance program for 11 member governmental entities. The purpose of the

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

risk pool is to provide a medium for the funding and administration of medical benefits to employees. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$2,000,000 maximum per lifetime. The risk pool obtains independent coverage for insured events in excess of the \$200,000 per covered person per year limit and independent aggregate stop loss coverage for up to \$14,955,154 in excess of a computed attachment point.

B. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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

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

Funding Policy and Annual Pension Cost

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

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 48,209
Interest on net pension obligation	(635)
Adjustment to annual required contribution	723
Annual pension cost	48,297
Contributions made	40,905
Increase in net pension obligation	7,392
Net pension obligation, beginning of year	(8,754)
Net pension obligation, end of year	\$ (1,362)
Contribution rates:	
School Corporation	7.5%
Plan members	3%
Actuarial valuation date	07-01-06
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

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

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-04	\$ 29,020	119%	\$ (7,952)
	06-30-05	37,626	102%	(8,754)
	06-30-06	48,297	85%	(1,362)

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

Teachers' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Costs

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

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2007, 2006, and 2005, were \$180,231, \$170,891, and \$169,486, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 375,656	\$ 529,271	\$ (153,615)	71%	\$ 517,338	(30%)
07-01-05	406,185	668,223	(262,038)	61%	523,145	(50%)
07-01-06	542,789	734,108	(191,319)	74%	500,007	(38%)

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

	ADTEC E-Rate	Alternative Services - BW 1	Alternative Services - BW 2	Alternative Services HT	IDEA Summer Program	IDEA Sliver 2004-2005
<b>Receipts:</b>						
State sources	\$ -	\$ 10,741	\$ 48,610	\$ -	\$ -	\$ -
Federal sources	-	-	-	-	52,800	46,375
Sale of property, adjustments and refunds	8,912	-	-	-	40	-
<b>Total receipts</b>	<b>8,912</b>	<b>10,741</b>	<b>48,610</b>	<b>-</b>	<b>52,840</b>	<b>46,375</b>
<b>Disbursements:</b>						
<b>Current:</b>						
Instruction	-	-	-	-	42,834	35,834
Support services	11,118	14,389	41,895	2,877	27,130	14,991
Community services	-	-	-	-	-	-
<b>Total disbursements</b>	<b>11,118</b>	<b>14,389</b>	<b>41,895</b>	<b>2,877</b>	<b>69,964</b>	<b>50,825</b>
Excess (deficiency) of receipts over disbursements	(2,206)	(3,648)	6,715	(2,877)	(17,124)	(4,450)
Cash and investments - beginning	2,206	-	(6,715)	-	17,124	4,982
Cash and investments - ending	\$ -	\$ (3,648)	\$ -	\$ (2,877)	\$ -	\$ 532
<b><u>Cash and Investment Assets - Ending</u></b>						
Cash and investments	\$ -	\$ (3,648)	\$ -	\$ (2,877)	\$ -	\$ 532
<b><u>Cash and Investment Fund Balance - Ending</u></b>						
Unrestricted	\$ -	\$ (3,648)	\$ -	\$ (2,877)	\$ -	\$ 532

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

	IDEA Counterpoint 2003-2004	IDEA Counterpoint	IDEA Preschool 2005-2006	IDEA EPICC	Totals
Receipts:					
State sources	\$ -	\$ -	\$ -	\$ -	\$ 59,351
Federal sources	-	20,000	102,963	35,900	258,038
Sale of property, adjustments and refunds	-	371	-	126	9,449
<b>Total receipts</b>	<b>-</b>	<b>20,371</b>	<b>102,963</b>	<b>36,026</b>	<b>326,838</b>
Disbursements:					
Current:					
Instruction	911	-	95,550	14,879	190,008
Support services	710	19,502	7,413	21,050	161,075
Community services	-	-	-	-	-
<b>Total disbursements</b>	<b>1,621</b>	<b>19,502</b>	<b>102,963</b>	<b>35,929</b>	<b>351,083</b>
Excess (deficiency) of receipts over disbursements	(1,621)	869	-	97	(24,245)
Cash and investments - beginning	1,621	-	-	-	19,218
Cash and investments - ending	\$ -	\$ 869	\$ -	\$ 97	\$ (5,027)
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ -	\$ 869	\$ -	\$ 97	\$ (5,027)
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	\$ -	\$ 869	\$ -	\$ 97	\$ (5,027)

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

	ADTEC E-Rate	Alternative Services - BW	Alternative Services - BW	Alternative Services- HT	IDEA Sliver 2004-2005
<b>Receipts:</b>					
State sources	\$ -	\$ 30,106	\$ 14,508	\$ 15,778	\$ -
Federal sources	-	-	-	-	10,464
Sale of property, adjustments and refunds	4,622	-	-	-	-
<b>Total receipts</b>	<u>4,622</u>	<u>30,106</u>	<u>14,508</u>	<u>15,778</u>	<u>10,464</u>
<b>Disbursements:</b>					
<b>Current:</b>					
Instruction	-	-	-	-	7,529
Support services	4,622	26,458	16,503	14,187	3,467
<b>Total disbursements</b>	<u>4,622</u>	<u>26,458</u>	<u>16,503</u>	<u>14,187</u>	<u>10,996</u>
Excess (deficiency) of receipts over disbursements	-	3,648	(1,995)	1,591	(532)
Cash and investments - beginning	-	(3,648)	-	(2,877)	532
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,995)</u>	<u>\$ (1,286)</u>	<u>\$ -</u>
<b><u>Cash and Investment Assets - Ending</u></b>					
Cash and investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,995)</u>	<u>\$ (1,286)</u>	<u>\$ -</u>
<b><u>Cash and Investment Fund Balance - Ending</u></b>					
Unrestricted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,995)</u>	<u>\$ (1,286)</u>	<u>\$ -</u>

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

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

	IDEA Counterpoint	IDEA Preschool 2006-2007	IDEA EPICC	Totals
<b>Receipts:</b>				
State sources	\$ -	\$ -	\$ -	\$ 60,392
Federal sources	-	103,602	38,636	152,702
Sale of property, adjustments and refunds	-	-	-	4,622
<b>Total receipts</b>	<u>-</u>	<u>103,602</u>	<u>38,636</u>	<u>217,716</u>
<b>Disbursements:</b>				
<b>Current:</b>				
Instruction	-	96,247	34,353	138,129
Support services	869	7,355	3,071	76,532
<b>Total disbursements</b>	<u>869</u>	<u>103,602</u>	<u>37,424</u>	<u>214,661</u>
Excess (deficiency) of receipts over disbursements	<u>(869)</u>	<u>-</u>	<u>1,212</u>	<u>3,055</u>
Cash and investments - beginning	<u>869</u>	<u>-</u>	<u>97</u>	<u>(5,027)</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,309</u>	<u>\$ (1,972)</u>
<b><u>Cash and Investment Assets - Ending</u></b>				
Cash and investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,309</u>	<u>\$ (1,972)</u>
<b><u>Cash and Investment Fund Balance - Ending</u></b>				
Unrestricted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,309</u>	<u>\$ (1,972)</u>

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

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
AUDIT RESULT AND COMMENT

RECEIPT ISSUANCE

Receipts were not always issued or recorded when the funds were received. We noted that receipts were only being issued several times a month.

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

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



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

TO: THE OFFICIALS OF THE SPECIAL SERVICES, JOHNSON  
COUNTY SCHOOLS, JOHNSON COUNTY, INDIANA

Compliance

We have audited the compliance of the Special Services, Johnson County Schools (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2006 and 2007. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

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

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2006 and 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2007-2 and 2007-3.

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)

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

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

A control deficiency in a School Corporation's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in item 2007-2 and 2007-3 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

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

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

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

STATE BOARD OF ACCOUNTS

March 4, 2008

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended June 30, 2006 and 2007

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-06	Total Federal Awards Expended 06-30-07
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Special Education Cluster				
Special Education - Grants to States				
	84.027			
		14204-044-DY01	\$ 57,948	\$ -
		14205-033-DY01	56,839	-
		14205-085-DY20	20,000	-
		14205-033-PY02	320,237	-
		14205-033-PN01	504,163	-
		14206-033-PN01	3,106,900	512,565
		14206-051-DY02	-	37,936
		14206-033-PY02	-	527,676
		14206-008-DN01	35,929	2,007
		14207-033-PN01	-	3,443,828
Total for program			<u>4,102,016</u>	<u>4,524,012</u>
Special Education - Preschool Grants				
	84.173			
		45706-033-PN01	102,963	-
		45707-033-PN01	-	103,602
Total for program			<u>102,963</u>	<u>103,602</u>
Total federal awards expended			<u>\$ 4,204,979</u>	<u>\$ 4,627,614</u>

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

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

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

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

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	yes

Noncompliance material to financial statements noted?	no
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Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	yes

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

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

Name of Federal Program or Cluster

Special Education Cluster

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

Auditee qualified as low-risk auditee?	no
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Section II – Financial Statement Findings

Finding 2007-1, Internal Controls over Revenue

The Treasurer's Office staff has not issued receipts in a timely manner. The Treasurer stated that she was writing receipts in batches only a few times a month, due in part to the lack of a dedicated printer for the specialized forms, and in part to a lack of time. As a result, receipts were not immediately issued as funds were received by staff, and revenues were not recorded in the financial records in a timely manner.

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

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)

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)

We recommended that internal controls be implemented to include the issuance of a receipt each time funds are received by School Corporation Officials. A receipt should be immediately presented to anyone paying in person. Additionally, if not paying in person, such as if information concerning electronic funds transfers is received, a receipt should also be immediately written for internal control purposes, to ensure that all funds are recorded, as well as to avoid the possibility of errors or theft, due to the lack of accountability of these funds. We also recommended receipts be posted to the financial ledger in a timely manner.

Section III – Federal Award Findings and Questioned Costs

Finding 2007-2, Allowable Costs/Cost Principles

Federal Agency: U.S. Department of Education  
Pass-Through Agency: Indiana Department of Education  
Federal Program: Special Education Cluster  
CFDA Number: 84.027

School Corporation Officials did not maintain the required time distribution documentation for the support of salaries and wages for the federal grant programs.

School Corporation Officials were not aware of the federal regulations concerning time distribution. As a result, the proper documentation was not maintained to support payroll charges to the federal programs.

2 CFR 225 states in part:

"Appendix B, 8(h) Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. . . .
- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation . . . Such documentary support will be required where employees work on:

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- (a) More than one Federal award,
  - (b) A Federal award and a non-Federal award,
  - (c) An indirect cost activity and a direct cost activity,
  - (d) Two or more indirect activities which are allocated using different allocation bases, or
  - (e) An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
  - (b) They must account for the total activity for which each employee is compensated,
  - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
  - (d) They must be signed by the employee."

We recommended that School Corporation Officials develop procedures in order to comply with the regulations concerning payroll supporting documentation.

Finding 2007-03, Equipment and Real Property Management

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

A physical inventory was taken as of June 30, 2003, of all capital assets. The inventory included only those items which were observed at Special Services, Johnson County Schools on that date. There was no further action taken to determine whether there were assets which should have been, but were not, on hand for the physical inventory. Also, the capital asset records did not specify the assets which were purchased with federal funds.

School Corporation Officials increased the threshold for recording capital assets to \$5,000 during the 2006-2007 school year. Also, there were no capital assets purchased with federal funds recorded for the audit period.

EDGAR 80.20(b) states in part: "(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."

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

School Corporation Officials as a result of not having sufficient capital asset records, are unable to assure that capital assets purchased with federal grant funds have been adequately safeguarded.

We recommended that School Corporation Officials record all capital assets in accordance with their capital asset policy and the federal regulations. Also, all assets purchased with federal funds should be specifically noted as such on the capital asset records.



**Earlywood Education Center**

500 Earlywood Drive, Franklin, Indiana 46131

Tel: (317) 736-8495, Fax: (317) 736-6967, www.ssics.k12.in.us

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Corporation

Clark-Pleasant  
Community School  
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Edinburgh  
Community School  
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Franklin  
Community School  
Corporation

Greenwood  
Community School  
Corporation

Nineveh-  
Hensley-Jackson  
United School  
Corporation

SUMMARY SCHEDULE OF AUDIT FINDINGS

Original SBA Audit Report Number:	B27143
Fiscal Year:	2003-2004; 2005-2006
Auditee Contact Person:	Ms. Brenda J. Bennett <i>Brenda J. Bennett 2-5-08</i>
Title of Contact Person:	Treasurer
Phone Number:	(317) 738-7009

**Finding Number 2005-01 Allowable Costs/Cost Principles**

Federal Agency: U.S. Department of Education  
 Federal Program: Special Education Cluster  
 CFDA Number: 84.027  
 Pass-Through Entity: Indiana Department of Education  
 Auditee Contact Persons: Dr. Pamela Wright, Director  
 Brenda Bennett, Treasurer  
 Telephone Number: 317-736-8495

Per the result of the complaint being resolved, on April 20, 2005 remitted to the Indiana Department of Education checks in the amount of \$3,815.00 and \$15,698.00. Cancelled checks are maintained as documentation of that transaction. Also the 2004-05 Sliver grant award amount was reduced by \$7435.00 which was reflected on the final report submitted to the Indiana Department of Education.

**Finding Number 2005-02 Equipment and Real Property Management**

Federal Agency: U.S. Department of Education  
 Federal Program: Special Education Center  
 CFDA Number: 84.027  
 Pass Through Entity: Indiana Department of Education  
 Auditee Contact Persons: Dr. Pamela Wright, Director  
 Brenda Bennett, Treasurer  
 Telephone Number: 317-736-8495

The employee that is responsible for maintaining our fixed asset inventory created a new file using data provided by American Appraisal. Documentation is made on the inventory of the fund the item was purchased from, the value, date of purchase and the disposal date. As equipment purchased from federal funds in previous years were not initially identified, it will continue to be an ongoing alignment until those items have been completely disposed of. All documentation that pertains to the above mentioned equipment is kept for back-up of all inventory.



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**CORRECTIVE ACTION PLAN**  
**Indiana State Board of Accounts**

Section II – Financial Statement Findings

Finding No. 2007-01 Internal Controls over Revenue

Auditee Contact Persons: Dr. Pamela Wright, Director  
Brenda Bennett, Treasurer  
Telephone Number: 317-736-8495  
Implementation Date: March 24, 2008

The treasurer has conversed with the Director, Dr. Pamela Wright, and the Technology Coordinator, Beth Crousore, regarding the possibility of having the signature writer networked to two printers. The technology coordinator is obtaining a quote from Hiram Hash to upgrade the signature writer. In regards to the receipts being posted in a timely manner, we are looking at the possibility of hiring part-time help or a current employee will be assigned extra duties in helping the treasurer to post receipts in a timely manner.

Section III – Federal Award Findings and Questioned Costs

Finding No. 2007-02 Allowable Costs/Cost Principles

Federal Agency: U.S. Department of Education  
Federal Program: Special Education Cluster  
CFDA Number: 84.027  
Pass-Through Entity: Indiana Department of Education  
Auditee Contact Persons: Dr. Pamela Wright, Director  
Brenda Bennett, Treasurer  
Telephone Number: 317-736-8495  
Implementation Date: March 24, 2008

We will review the federal regulations at 2 CFR 225 and prepare a written policy and forms for our employees to use, depending on how their salaries are funded. It is my understanding that this implementation will be directed by the Indiana Department of Education.



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### Finding Number: 2007-03 Reporting

Federal Agency: U.S. Department of Education

Federal Program: Special Education Cluster

CFDA Number: 84.027

Pass-Through Entity: Indiana Department of Education

Auditee Contact Persons: Dr. Pamela Wright, Director

Brenda Bennett, Treasurer

Telephone Number: 317-736-8495

Implementation Date: May 24, 2006

As per the previous audit corrective action plan, the Human Resource Coordinator will continue to maintain documentation of the fund the inventory was purchased from, the value, date of purchase, disposal date. It may take several years to get the equipment inventory in alignment because items purchased from federal funds were not initially identified.

The capital asset cap was changed from \$3,000 to \$5,000 by the Governing Board of Special Services. All equipment maintained on the capital assets records was reviewed and any equipment that was listed on the capital assets that was valued less than \$5,000 was removed from the capital assets records per the date of change in value approved by the Board. Per the Human Resource Coordinator, there is nothing remaining on the capital assets records that were purchased from federal funds.

SPECIAL SERVICES, JOHNSON COUNTY SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on March 24, 2008, with Pamela T. Wright, Director; and Brenda J. Bennett, Treasurer.