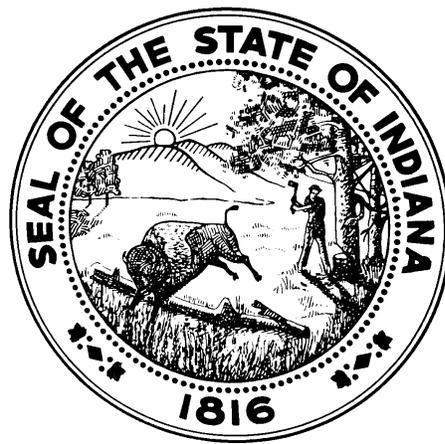


**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

AUDIT REPORT  
OF  
SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
ORANGE COUNTY, INDIANA  
July 1, 2005 to June 30, 2007



**FILED**  
03/27/2008



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Jean E. Hampton	07-01-05 to 02-22-06
	Vacant	02-23-06 to 03-22-06
	Ruth D. Gilbert (Interim)	03-23-06 to 04-25-06
	Ruth D. Gilbert	04-26-06 to 06-30-08
Director	Ronald J. Myers	07-01-05 to 06-30-06
	Melissa D. Lancaster	07-01-06 to 06-30-08
President of the School Board	Dr. Alva L. Sibbitt, Jr.	07-01-05 to 06-30-08



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

TO: THE OFFICIALS OF THE SOUTH CENTRAL AREA SPECIAL  
EDUCATION COOPERATIVE, ORANGE COUNTY, INDIANA

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

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

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

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

In accordance with Government Auditing Standards, we have also issued a report dated February 11 2008, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

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

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The 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

February 11, 2008



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

TO: THE OFFICIALS OF THE SOUTH CENTRAL AREA SPECIAL  
EDUCATION COOPERATIVE, ORANGE COUNTY, INDIANA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Central Area Special Education Cooperative (School Corporation), as of and for the years ended June 30, 2006 and 2007, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated February 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

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

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

STATE BOARD OF ACCOUNTS

February 11, 2008

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

<u>Functions/Programs</u>	<u>Disbursements</u>	Program Receipts			<u>Totals</u>
	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Disbursements) Receipts and Changes in Net Assets</u>	
Governmental activities:					
Instruction	\$ 2,987,498	\$ -	\$ -	\$ -	\$ (2,987,498)
Support services	<u>1,580,871</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,580,871)</u>
Total governmental activities	<u>\$ 4,568,369</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(4,568,369)</u>
General receipts:					
Other local sources					2,727,537
State aid					69,136
Grants and contributions not restricted to specific programs					2,326,934
Sale of property, adjustments, and refunds					42,112
Investment earnings					<u>15,349</u>
Total general receipts					<u>5,181,068</u>
Change in net assets					612,699
Net assets - beginning					<u>56,272</u>
Net assets - ending					<u>\$ 668,971</u>
<u>Assets</u>					
Cash and investments					<u>\$ 668,971</u>
<u>Net Assets</u>					
Unrestricted					<u>\$ 668,971</u>

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

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For the Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>			<u>Net (Disbursements) Receipts and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Totals</u>
Governmental activities:					
Instruction	\$ 3,710,202	\$ -	\$ -	\$ -	\$ (3,710,202)
Support services	1,837,997	-	-	-	(1,837,997)
Debt service	540	-	-	-	(540)
Total governmental activities	<u>\$ 5,548,739</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(5,548,739)</u>
General receipts:					
Other local sources					2,995,759
State aid					69,136
Grants and contributions not restricted to specific programs					2,211,106
Sale of property, adjustments, and refunds					18,076
Investment earnings					24,170
Total general receipts					<u>5,318,247</u>
Change in net assets					(230,492)
Net assets - beginning					668,971
Net assets - ending					<u>\$ 438,479</u>
<u>Assets</u>					
Cash and investments					<u>\$ 438,479</u>
<u>Net Assets</u>					
Unrestricted					<u>\$ 438,479</u>

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

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2006

	General	IDEA Part B SY 05-06	IDEA P.L. 105-17 Part B SY 05-06	Other	Totals
<b>Receipts:</b>					
Local sources	\$ 2,471,829	\$ -	\$ -	\$ 271,057	\$ 2,742,886
State sources	69,136	-	-	-	69,136
Federal sources	-	1,664,000	545,627	117,307	2,326,934
Sale of property, adjustments and refunds	42,112	-	-	-	42,112
<b>Total receipts</b>	<u>2,583,077</u>	<u>1,664,000</u>	<u>545,627</u>	<u>388,364</u>	<u>5,181,068</u>
<b>Disbursements:</b>					
<b>Current:</b>					
Instruction	1,592,427	906,897	237,886	250,288	2,987,498
Support services	617,981	622,208	273,923	66,759	1,580,871
<b>Total disbursements</b>	<u>2,210,408</u>	<u>1,529,105</u>	<u>511,809</u>	<u>317,047</u>	<u>4,568,369</u>
<b>Excess of receipts over disbursements</b>	<u>372,669</u>	<u>134,895</u>	<u>33,818</u>	<u>71,317</u>	<u>612,699</u>
<b>Other financing sources (uses):</b>					
Transfers in	-	-	22,118	-	22,118
Transfers out	-	(22,118)	-	-	(22,118)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>(22,118)</u>	<u>22,118</u>	<u>-</u>	<u>-</u>
<b>Excess of receipts and other financing sources over disbursements and other financing uses</b>	<u>372,669</u>	<u>112,777</u>	<u>55,936</u>	<u>71,317</u>	<u>612,699</u>
Cash and investments - beginning	<u>39,902</u>	<u>22,117</u>	<u>-</u>	<u>(5,747)</u>	<u>56,272</u>
Cash and investments - ending	<u>\$ 412,571</u>	<u>\$ 134,894</u>	<u>\$ 55,936</u>	<u>\$ 65,570</u>	<u>\$ 668,971</u>
<b><u>Cash and Investment Assets - Ending</u></b>					
Cash and investments	<u>\$ 412,571</u>	<u>\$ 134,894</u>	<u>\$ 55,936</u>	<u>\$ 65,570</u>	<u>\$ 668,971</u>
<b><u>Cash and Investment Fund Balance - Ending</u></b>					
Unrestricted	<u>\$ 412,571</u>	<u>\$ 134,894</u>	<u>\$ 55,936</u>	<u>\$ 65,570</u>	<u>\$ 668,971</u>

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

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2007

	General	IDEA Part B SY 05-06	IDEA Part B SY 06-07	IDEA P.L. 105-167 Part B SY 05-06	Other	Totals
<b>Receipts:</b>						
Local sources	\$ 2,729,981	\$ -	\$ -	\$ -	\$ 289,948	\$ 3,019,929
State sources	69,136	-	-	-	-	69,136
Federal sources	-	51,675	1,821,052	-	338,379	2,211,106
Sale of property, adjustments and refunds	18,076	-	-	-	-	18,076
Interfund loan	-	-	-	-	30,003	30,003
<b>Total receipts</b>	<b>2,817,193</b>	<b>51,675</b>	<b>1,821,052</b>	<b>-</b>	<b>658,330</b>	<b>5,348,250</b>
<b>Disbursements:</b>						
<b>Current:</b>						
Instruction	2,002,542	57,098	1,068,417	33,564	548,581	3,710,202
Support services	724,102	93,955	792,359	22,372	205,209	1,837,997
Debt services	-	-	-	-	540	540
Interfund loan	30,003	-	-	-	-	30,003
<b>Total disbursements</b>	<b>2,756,647</b>	<b>151,053</b>	<b>1,860,776</b>	<b>55,936</b>	<b>754,330</b>	<b>5,578,742</b>
Excess (deficiency) of receipts over (under) disbursements	60,546	(99,378)	(39,724)	(55,936)	(96,000)	(230,492)
<b>Other financing sources (uses):</b>						
Transfers in	-	-	-	-	35,516	35,516
Transfers out	-	(35,516)	-	-	-	(35,516)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(35,516)</b>	<b>-</b>	<b>-</b>	<b>35,516</b>	<b>-</b>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	60,546	(134,894)	(39,724)	(55,936)	(60,484)	(230,492)
Cash and investments - beginning	412,571	134,894	-	55,936	65,570	668,971
Cash and investments - ending	<u>\$ 473,117</u>	<u>\$ -</u>	<u>\$ (39,724)</u>	<u>\$ -</u>	<u>\$ 5,086</u>	<u>\$ 438,479</u>
<b>Cash and Investment Assets - Ending</b>						
Cash and investments	<u>\$ 473,117</u>	<u>\$ -</u>	<u>\$ (39,724)</u>	<u>\$ -</u>	<u>\$ 5,086</u>	<u>\$ 438,479</u>
<b>Cash and Investment Fund Balance - Ending</b>						
Unrestricted	<u>\$ 473,117</u>	<u>\$ -</u>	<u>\$ (39,724)</u>	<u>\$ -</u>	<u>\$ 5,086</u>	<u>\$ 438,479</u>

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

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
FIDUCIARY FUNDS  
For the Year Ended June 30, 2006

	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Fund</u>
Additions:		
Contributions:		
Employer	\$ 8,100	\$ -
Other	<u>-</u>	<u>24,535</u>
Total contributions	<u>8,100</u>	<u>24,535</u>
Deductions:		
Benefits	14,049	-
Administrative and general	<u>-</u>	<u>15,602</u>
Total deductions	<u>14,049</u>	<u>15,602</u>
Excess (deficiency) of total additions over (under) total deductions	(5,949)	8,933
Cash and investment fund balance - beginning	<u>85</u>	<u>(9,711)</u>
Cash and investment fund balance - ending	<u>\$ (5,864)</u>	<u>\$ (778)</u>
Net assets:		
Cash and investments	<u>\$ (5,864)</u>	<u>\$ (778)</u>
Total net assets - cash and investment basis held in trust	<u>\$ (5,864)</u>	<u>\$ (778)</u>

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

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
FIDUCIARY FUNDS  
For the Year Ended June 30, 2007

	Pension Trust Fund	Private-Purpose Trust Fund
Additions:		
Contributions:		
Employer	\$ 22,915	\$ -
Other	-	26,367
Total contributions	22,915	26,367
Deductions:		
Benefits	17,051	-
Administrative and general	-	23,087
Total deductions	17,051	23,087
Excess of total additions over total deductions	5,864	3,280
Cash and investment fund balance - beginning	(5,864)	(778)
Cash and investment fund balance - ending	\$ -	\$ 2,502
Net assets:		
Cash and investments	\$ -	\$ 2,502
Total net assets - cash and investment basis held in trust	\$ -	\$ 2,502

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

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Primary Government: South Central Area Special Education Cooperative

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The 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 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 IDEA, part B fund accounts for federal grants and distributions for the program.

The IDEA, P.L. 105-17, part B fund accounts for federal grants and distributions for the program.

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Additionally, the School Corporation reports the following fund types:

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

The private-purpose trust funds report trust arrangements under which principal and income benefit individuals.

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. All government-wide financials would be presented on the accrual basis of accounting.

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

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Compensated Absences

a. Sick Leave

Certified School Corporation employees earn sick leave at the rate of 10 days per year based on the number of months of service. Unused sick leave may be accumulated to a maximum of 183 days. Accumulated sick leave is paid to employees through cash payments upon retirement.

Noncertified School Corporation employees earn sick leave at the rate of 8 days per year. Unused sick leave may be accumulated to a maximum of 80 days for 12 month employees and 66 days for 9 month employees. Accumulated sick leave is paid to 12 month employees through cash payments upon retirement.

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 10 days to 15 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

c. Personal Leave

Certified School Corporation employees earn personal leave at the rate of 3 days per year. Noncertified School Corporation employees earn personal leave at the rate of 4 days per year for 12 month employees and 2 days per year for 9 month employees. Unused personal leave may be added to accumulated sick leave.

3. Capital Assets

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

4. Equity Classification

Government-Wide Statements

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

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

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

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

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. 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.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statements 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.

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

Fund Financial Statements

Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

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

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

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Fiscal budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All fiscal appropriations lapse at fiscal year end, June 30th.

The operating budget is initially prepared and approved at the local level by the local Board. The Board consists of superintendents or their designee of the six participating school corporations: Crawford County Community School Corporation, East Washington School Corporation, Paoli Community School Corporation, Salem Community Schools, Springs Valley Community School Corporation, and West Washington School Corporation.

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	2006-2007
Pension Trust Fund	\$ 5,864	\$ -
IDEA, Part B, SY06-07	-	39,724

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.

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

III. Detailed Notes on All Funds

A. Deposits

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

B. Interfund Transfers

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

Transfer From	Transfer To	2006	2007
IDEA, Part B, SY05-06 Fund	IDEA, P.L. 105-17, Part B, SY05-06 Fund	\$ 22,118	\$ -
IDEA, Part B, SY05-06 Fund	Other governmental funds	-	35,516
Totals		<u>\$ 22,118</u>	<u>\$ 35,516</u>

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

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and job related illnesses or injuries to employees; 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. Risk financing is not utilized for the other risks of loss.

B. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 55 with at least 15 years of service. Currently, 1 retiree meets these eligibility requirements. The School Corporation and retiree provide 51% and 49%, respectively, of these postemployment benefits. The School Corporation provides postemployment health, vision, and dental insurance benefits to the former director. The School Corporation provides 100% of these postemployment benefits. Disbursements for these postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2007, disbursements of \$8,169 were recognized for these postemployment benefits.

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

In addition to the postemployment benefits described above, the School Corporation provides postemployment wages to 3 retirees. Disbursements for these postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2007, disbursements of \$13,200 were recognized for these postemployment benefits.

C. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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.

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 66,773
Interest on net pension obligation	(6,219)
Adjustment to annual required contribution	7,087
Annual pension cost	67,641
Contributions made	72,879
Decrease in net pension obligation	(5,238)
Net pension obligation, beginning of year	(85,781)
Net pension obligation, end of year	\$ (91,019)
Contribution rates:	
School Corporation	8.0%
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	4 year smoothed market

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	\$ 48,337	137%	\$ (66,520)
	06-30-05	49,230	139%	(85,781)
	06-30-06	67,641	108%	(91,019)

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

Teachers' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Costs

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

Plan members are required to contribute 3% of their salary and 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, 2005, 2006, and 2007, were \$89,144, \$96,355, and \$129,421, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 342,463	\$ 488,555	\$ (146,092)	70%	\$ 706,102	(21%)
07-01-05	397,101	658,664	(261,563)	60%	850,952	(31%)
07-01-06	510,333	672,949	(162,616)	76%	856,387	(19%)

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,  
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2006

	Special Education Preschool	IDEA Capacity Building	Educational Preschool Handicapped SY 05-06	Totals
Receipts:				
Local sources	\$ 271,057	\$ -	\$ -	\$ 271,057
Federal sources	-	29,182	88,125	117,307
	<u>271,057</u>	<u>29,182</u>	<u>88,125</u>	<u>388,364</u>
Total receipts				
Disbursements:				
Current:				
Instruction	163,061	-	87,227	250,288
Support services	48,416	18,343	-	66,759
	<u>211,477</u>	<u>18,343</u>	<u>87,227</u>	<u>317,047</u>
Total disbursements				
Excess of receipts over disbursements	<u>59,580</u>	<u>10,839</u>	<u>898</u>	<u>71,317</u>
Cash and investments - beginning	(5,747)	-	-	(5,747)
Cash and investments - ending	<u>\$ 53,833</u>	<u>\$ 10,839</u>	<u>\$ 898</u>	<u>\$ 65,570</u>
<u>Cash and Investment Assets - Ending</u>				
Cash and investments	<u>\$ 53,833</u>	<u>\$ 10,839</u>	<u>\$ 898</u>	<u>\$ 65,570</u>
<u>Cash and Investment Fund Balance - Ending</u>				
Unrestricted	<u>\$ 53,833</u>	<u>\$ 10,839</u>	<u>\$ 898</u>	<u>\$ 65,570</u>

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,  
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS  
 OTHER GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2007

	Special Education Preschool	IDEA Capacity Building	IDEA P.L. 105-17 Part B SY 06-07	Educational Preschool Handicapped SY 05-06	Educational Preschool Handicapped SY 06-07	Totals
<b>Receipts:</b>						
Local sources	\$ 289,948	\$ -	\$ -	\$ -	\$ -	\$ 289,948
Federal sources	-	-	249,068	-	89,311	338,379
Interfund loan	30,003	-	-	-	-	30,003
<b>Total receipts</b>	<b>319,951</b>	<b>-</b>	<b>249,068</b>	<b>-</b>	<b>89,311</b>	<b>658,330</b>
<b>Disbursements:</b>						
<b>Current:</b>						
Instruction	317,836	600	139,936	898	89,311	548,581
Support services	55,948	10,239	139,022	-	-	205,209
Debt services	-	-	540	-	-	540
<b>Total disbursements</b>	<b>373,784</b>	<b>10,839</b>	<b>279,498</b>	<b>898</b>	<b>89,311</b>	<b>754,330</b>
Deficiency of receipts over disbursements	(53,833)	(10,839)	(30,430)	(898)	-	(96,000)
<b>Other financing sources:</b>						
Transfers in	-	-	35,516	-	-	35,516
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(53,833)	(10,839)	5,086	(898)	-	(60,484)
Cash and investments - beginning	53,833	10,839	-	898	-	65,570
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,086</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,086</u>
<b>Cash and Investment Assets - Ending</b>						
Cash and investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,086</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,086</u>
<b>Cash and Investment Fund Balance - Ending</b>						
Unrestricted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,086</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,086</u>

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
 PRIVATE-PURPOSE TRUST FUNDS  
 For the Year Ended June 30, 2006

	WHAS Crusade FY 04-05	WHAS Crusade FY 05-06	Donations	Totals
Additions:				
Contributions:				
Other	\$ 11,585	\$ 12,950	\$ -	\$ 24,535
Deductions:				
Administrative and general	1,475	14,127	-	15,602
Excess (deficiency) of total additions over (under) total deductions	10,110	(1,177)	-	8,933
Cash and investment fund balance - beginning	(10,110)	-	399	(9,711)
Cash and Investments - ending	\$ -	\$ (1,177)	\$ 399	\$ (778)
Net assets:				
Cash and investments	\$ -	\$ (1,177)	\$ 399	\$ (778)
Total net assets - cash and investment basis held in trust	\$ -	\$ (1,177)	\$ 399	\$ (778)

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES  
 PRIVATE-PURPOSE TRUST FUNDS  
 For the Year Ended June 30, 2007

	<u>WHAS Crusade FY 05-06</u>	<u>Donations</u>	<u>Totals</u>
Additions:			
Contributions:			
Other	\$ 26,367	\$ -	\$ 26,367
	<u>26,367</u>	<u>-</u>	<u>26,367</u>
Deductions:			
Administrative and general	23,087	-	23,087
	<u>23,087</u>	<u>-</u>	<u>23,087</u>
Excess of total additions over total deductions	3,280	-	3,280
Cash and investment fund balance - beginning	<u>(1,177)</u>	<u>399</u>	<u>(778)</u>
Cash and Investments - ending	<u>\$ 2,103</u>	<u>\$ 399</u>	<u>\$ 2,502</u>
Net assets:			
Cash and investments	\$ 2,103	\$ 399	\$ 2,502
	<u>2,103</u>	<u>399</u>	<u>2,502</u>
Total net assets - cash and investment basis held in trust	<u>\$ 2,103</u>	<u>\$ 399</u>	<u>\$ 2,502</u>

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
AUDIT RESULTS AND COMMENTS

CONTRACT - POSTEMPLOYMENT BENEFITS

Records presented for audit indicate payments were made on behalf of two retiree's for medical insurance in the amount of \$175 per month for the school year 2005-2006. The two retirees indicated have ceased receiving medical insurance benefits. The School Corporation contributed \$200 per month, for the school year 2005-2006, of the cost of single coverage towards medical insurance for teachers.

Article VIII, Bridge to Social Security, of the Master contract states in part: ". . . This amount will remain constant for each retiree and will not increase throughout the retiree's retirement years as does the amount contributed toward the retiree's medical insurance. In addition, the Cooperative will pay, on behalf of the retiree, the same amount the Cooperative contributes toward actively employed teachers of the cost of single medical insurance coverage through the month the retiree becomes eligible for full Social Security benefits. To remain eligible for the insurance benefit, the early retiree shall pay his/her share of the medical insurance premium to the business office by September 1st of each year . . . ."

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Persons, companies or governmental units that have overpaid amounts to a governmental unit are entitled to a repayment or refund by check or warrant. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

INTERNAL CONTROLS

Controls for disbursements from the payroll clearing accounts were insufficient.

Procedures were not in place to verify that disbursements from the payroll clearing accounts were in agreement with the receipts to the payroll clearing accounts. Procedures were not in place to reconcile the ending balance of the payroll clearing accounts. Some payroll clearing account balances were understated, some were overstated, and at least one balance was not remitted to the proper agency.

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)

TEMPORARY TRANSFERS TO DEPLETED FUNDS

A temporary transfer of \$30,002.81 was made on June 30, 2007, from the General Fund to the Special Education Preschool Fund for an insufficient balance. The temporary transfer was not authorized by a resolution adopted by the Board of School Trustees.

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
AUDIT RESULTS AND COMMENTS  
(Continued)

The board of school trustees instead of negotiating a temporary loan is authorized to transfer, by resolution, from a fund having sufficient balance to any fund in need of money for cash flow purposes. The resolution must specify the fund from which money is to be temporarily advanced or transferred, the fund to which said amount is to be advanced, the amount to be transferred and the time of such temporary borrowing. The time fixed by the resolution for repayment of a temporary transfer shall not extend beyond December 31, except as authorized by Indiana Code 36-1-8-4(b), of the year in which the temporary transfer is made. Any such transfer shall be made only from funds derived from the collection of property taxes, collection of special taxes and from other revenue derived from any operation of the school corporation, Indiana Code 36-1-8-4. No temporary transfers may be made from federal funds or from funds obtained by the sale of general obligation bonds. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

Indiana Code 36-1-8-4 concerning temporary loans states in part:

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs. (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . ."

"(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following: (1) Passes an ordinance or a resolution that contains the following: (A) A statement that the fiscal body has determined that an emergency exists. (B) A brief description of the grounds for the emergency. (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs. (2) Immediately forwards the ordinance or resolution to the state board of accounts and the Department of Local Government Finance."

OVERDRAWN FUND BALANCES

The Pension Trust Fund, was overdrawn on June 30, 2006, by \$5,864. The Pension Trust Fund is funded on a pay-as-you-go basis through the General Fund. Sufficient transfers were not made in the school year 2005-2006, from the General Fund to cover the Pension Trust Fund's expenditures.

IDEA, part B, SY06-07 was overdrawn on June 30, 2007, by \$39,724. IDEA, part B, SY06-07 was funded through federal grant monies. Monthly anticipated expenditures exceeded the School Corporation's cash request resulting in a negative fund balance.

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)

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
AUDIT RESULTS AND COMMENTS  
(Continued)

CAPITAL ASSET RECORDS

Information presented for audit did not indicate an inventory or record of capital assets is being maintained.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded on the applicable Capital Assets Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (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 SOUTH CENTRAL AREA SPECIAL  
EDUCATION COOPERATIVE, ORANGE COUNTY, INDIANA

Compliance

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

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

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2006 and 2007.

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a

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)

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.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

STATE BOARD OF ACCOUNTS

February 11, 2008

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended June 30, 2006 and 2007

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-06	Total Federal Awards Expended 06-30-07
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Pass-Through Indiana Department of Education				
Special Education Cluster				
Special Education - Grants to States				
P.L. 105-17, Part B	84.027	14205-056-PY02	\$ 516,960	\$ 50,785
Capacity Building		14205-056-DY01	13,192	15,990
Part B		14206-056-PN01	1,529,106	151,054
P.L. 105-17, Part B		14206-056-PY02	-	279,429
Part B		14207-056-PN01	-	1,860,724
Total for program			<u>2,059,258</u>	<u>2,357,982</u>
Special Education - Preschool Grants				
Preschool Transition	84.173	45706-056-PN01	87,227	898
Preschool Transition		45707-056-PN01	-	89,311
Total for program			<u>87,227</u>	<u>90,209</u>
Total for federal grantor agency			<u>2,146,485</u>	<u>2,448,191</u>
Total federal awards expended			<u>\$ 2,146,485</u>	<u>\$ 2,448,191</u>

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

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

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

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

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

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

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

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

Identification of Major Programs:

Name of Federal Program or Cluster

Special Education Cluster

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

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

SOUTH CENTRAL AREA SPECIAL EDUCATION COOPERATIVE  
EXIT CONFERENCE

The contents of this report were discussed on February 11, 2008, with Dr. Alva L. Sibbitt, Jr., President of the School Board; Melissa D. Lancaster, Director; and Ruth D. Gilbert, Treasurer. The officials concurred with our audit findings.