

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

AUDIT REPORT

OF

BLUE RIVER SPECIAL EDUCATION COOPERATIVE

SHELBY COUNTY, INDIANA

July 1, 2007 to June 30, 2009



FILED

03/08/2010

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Tara Goode Phyllis Jean Zerr	04-14-07 to 05-31-08 06-01-08 to 06-30-10
Director	Keith Turner Kathleen M. West	07-01-07 to 12-21-07 12-22-07 to 06-30-10
President of the Board of Managers	Dr. Philip Deardorff Dr. Terry Sargent David Adams	07-01-07 to 06-30-08 07-01-08 to 06-30-09 07-01-09 to 06-30-10



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 BLUE RIVER SPECIAL EDUCATION
COOPERATIVE, SHELBY COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Blue River Special Education Cooperative (School Corporation), as of and for the years ended June 30, 2008 and 2009, 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, 2008 and 2009, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

As more fully described in Note IV-B in Notes to Financial Statements, the Cooperative's Board of Managers approved a motion to dissolve the Cooperative effective June 30, 2010. Normal operations will cease on that day, and those responsibilities will revert to the member school corporations.

In accordance with Government Auditing Standards, we have also issued a report dated February 17, 2010, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial

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

reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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 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, and Schedule of Capital Assets, 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. The Schedule of Capital Assets has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

February 17, 2010



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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 BLUE RIVER SPECIAL EDUCATION
COOPERATIVE, SHELBY COUNTY, INDIANA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Blue River Special Education Cooperative (School Corporation), as of and for the years ended June 30, 2008 and 2009, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated February 17, 2010. 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 2009-1 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, of the significant deficiencies described above, we consider item 2009-1 to be 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 Managers, 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 17, 2010

BLUE RIVER SPECIAL EDUCATION COOPERATIVE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2008

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>	<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
		Charges for Services	Totals
Governmental activities:			
Instruction	\$ 5,527,679	\$ -	\$ (5,527,679)
Support services	1,194,289	90,100	(1,104,189)
Facilities acquisition and construction	<u>52,831</u>	<u>-</u>	<u>(52,831)</u>
Total governmental activities	<u>\$ 6,774,799</u>	<u>\$ 90,100</u>	<u>(6,684,699)</u>
General receipts:			
Other local sources			4,379,256
Grants and contributions not restricted to specific programs			2,088,688
Investment earnings			<u>3,512</u>
Total general receipts			<u>6,471,456</u>
Change in net assets			(213,243)
Net assets - beginning			<u>388,891</u>
Net assets - ending			<u>\$ 175,648</u>
<u>Assets</u>			
Cash and investments			<u>\$ 175,648</u>
<u>Net Assets</u>			
Unrestricted			<u>\$ 175,648</u>

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

BLUE RIVER SPECIAL EDUCATION COOPERATIVE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2009

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>	<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
		Charges for Services	Totals
Governmental activities:			
Instruction	\$ 5,175,672	\$ -	\$ (5,175,672)
Support services	1,359,350	81,700	(1,277,650)
Facilities acquisition and construction	<u>11,445</u>	<u>-</u>	<u>(11,445)</u>
Total governmental activities	<u>\$ 6,546,467</u>	<u>\$ 81,700</u>	<u>(6,464,767)</u>
General receipts:			
Other local sources			4,291,151
Grants and contributions not restricted to specific programs			2,562,616
Investment earnings			<u>260</u>
Total general receipts			<u>6,854,027</u>
Change in net assets			389,260
Net assets - beginning			<u>175,648</u>
Net assets - ending			<u>\$ 564,908</u>
<u>Assets</u>			
Cash and investments			<u>\$ 564,908</u>
<u>Net Assets</u>			
Unrestricted			<u>\$ 564,908</u>

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

BLUE RIVER 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, 2008

	General	P.L. 94-142 (07-08)	P.L. 94-142 (06-07)	Other	Totals
Receipts:					
Local sources	\$ 3,790,250	\$ -	\$ -	\$ 682,618	\$ 4,472,868
State sources	120,136	-	-	242,502	362,638
Federal sources	-	1,480,000	171,050	75,000	1,726,050
	<u>3,910,386</u>	<u>1,480,000</u>	<u>171,050</u>	<u>1,000,120</u>	<u>6,561,556</u>
Total receipts					
Disbursements:					
Current:					
Instruction	3,434,610	1,316,320	-	776,749	5,527,679
Support services	493,997	456,321	-	243,971	1,194,289
Facilities acquisition and construction	52,591	-	-	240	52,831
	<u>3,981,198</u>	<u>1,772,641</u>	<u>-</u>	<u>1,020,960</u>	<u>6,774,799</u>
Total disbursements					
Excess (deficiency) of receipts over disbursements	<u>(70,812)</u>	<u>(292,641)</u>	<u>171,050</u>	<u>(20,840)</u>	<u>(213,243)</u>
Excess (deficiency) of receipts over disbursements	(70,812)	(292,641)	171,050	(20,840)	(213,243)
Cash and investments - beginning	<u>233,795</u>	<u>-</u>	<u>(171,050)</u>	<u>326,146</u>	<u>388,891</u>
Cash and investments - ending	<u>\$ 162,983</u>	<u>\$ (292,641)</u>	<u>\$ -</u>	<u>\$ 305,306</u>	<u>\$ 175,648</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	<u>\$ 162,983</u>	<u>\$ (292,641)</u>	<u>\$ -</u>	<u>\$ 305,306</u>	<u>\$ 175,648</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	<u>\$ 162,983</u>	<u>\$ (292,641)</u>	<u>\$ -</u>	<u>\$ 305,306</u>	<u>\$ 175,648</u>

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

BLUE RIVER 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, 2009

	General	P.L. 94-142 (07-08)	P.L. 94-142 (08-09)	Other	Totals
Receipts:					
Local sources	\$ 3,765,941	\$ -	\$ -	\$ 607,170	\$ 4,373,111
State sources	120,136	-	-	253,297	373,433
Federal sources	-	292,641	1,792,808	103,734	2,189,183
Total receipts	3,886,077	292,641	1,792,808	964,201	6,935,727
Disbursements:					
Current:					
Instruction	3,143,087	-	1,323,488	709,097	5,175,672
Support services	544,681	-	469,320	345,349	1,359,350
Facilities acquisition and construction	10,825	-	-	620	11,445
Total disbursements	3,698,593	-	1,792,808	1,055,066	6,546,467
Excess (deficiency) of receipts over disbursements	187,484	292,641	-	(90,865)	389,260
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	187,484	292,641	-	(90,865)	389,260
Cash and investments - beginning	162,983	(292,641)	-	305,306	175,648
Cash and investments - ending	<u>\$ 350,467</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 214,441</u>	<u>\$ 564,908</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	<u>\$ 350,467</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 214,441</u>	<u>\$ 564,908</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	<u>\$ 350,467</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 214,441</u>	<u>\$ 564,908</u>

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

BLUE RIVER 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 Managers form of government established by an inter-local agreement among five separate school corporations. The purpose of this School Corporation is to provide special education services to their member schools.

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

Primary Government: Blue River 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 Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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, 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 special education P.L. 94-142 fund accounts for financial resources used to provide educational opportunities for children with disabilities. Each grant year is required to be placed in a separate fund.

BLUE RIVER SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Measurement Focus and Basis of Accounting

The government-wide and governmental 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. Capital Assets

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

3. Equity Classification

Government-Wide Statements

Equity is classified as net assets and is defined by 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."

BLUE RIVER SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

Program Receipts

Amounts reported as program receipts include charges to customers or applicants for goods, services, or privileges provided. 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 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 not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected, if any, is reported as transfers in and out.

Government-Wide Financial Statements

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

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

BLUE RIVER SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Disbursements in Excess of Appropriations

For the years ended June 30, 2008 and 2009, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Fund	2007	2008
General	\$ 51,465	\$ -
Transportation	-	15,211
Totals	\$ 51,465	\$ 15,211

These disbursements were funded by available fund balance.

III. Detailed Notes on All Funds

Deposits and Investments

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

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.

BLUE RIVER SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Medical Benefits to Employees, Retirees, and Dependents

During 1997, the School Corporation joined with other governmental entities to form the Central Indiana School Corporation Employees Insurance Trust, a public entity risk pool currently operating as a common risk management and insurance program for six member governmental entities. This risk pool was formed in 1992. The purpose of the risk pool is to provide a medium for the funding and administration of medical benefits to employees, retirees and dependents. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$2,000,000 per insured per lifetime.

B. Dissolution of Cooperative

During 2009, the Cooperative's Board of Managers voted to dissolve the entity, and cease all special education cooperative operations effective June 30, 2010. Member School Corporations affected by the dissolution are: Shelbyville Central Schools, Northwestern Consolidated Schools, Shelby Eastern Schools, Southwestern Schools of Shelby County, and Flat Rock-Haw Creek Schools of Bartholomew County. Any distribution of remaining assets (after payment of all liabilities), and the operation of required special education programs will be the responsibilities of these School Corporations.

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

BLUE RIVER SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

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

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 23,021
Interest on net pension obligation	(1,482)
Adjustment to annual required contribution	1,689
Annual pension cost	23,228
Contributions made	25,842
Decrease in net pension obligation	(2,614)
Net pension obligation, beginning of year	(20,446)
Net pension obligation, end of year	\$ (23,060)

	PERF
Contribution rates:	
School Corporation	8.25%
Plan members	3%
Actuarial valuation date	07-01-08
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	30 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

<u>Actuarial Assumptions</u>	PERF
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%

BLUE RIVER SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-06	\$ 23,736	67%	\$ (21,243)
	06-30-07	22,311	96%	(20,446)
	06-30-08	23,228	111%	(23,060)

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.

BLUE RIVER SPECIAL EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, 2009, 2008, and 2007, were \$207,619, \$226,891, and \$235,228, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

BLUE RIVER 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)
07-01-06	\$ 149,352	\$ 222,788	\$ (73,436)	67%	\$ 273,083	(27%)
07-01-07	207,297	259,760	(52,463)	80%	300,123	(17%)
07-01-08	251,466	296,387	(44,921)	85%	315,905	(14%)

BLUE RIVER 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, 2008

	Transportation Operating	Preschool Special Education	Miller Road School	P.L. 99-457 (07-08)	Totals
Receipts:					
Local sources	\$ 90,100	\$ -	\$ 592,518	\$ -	\$ 682,618
State sources	-	227,341	15,161	-	242,502
Federal sources	-	-	-	75,000	75,000
Total receipts	90,100	227,341	607,679	75,000	1,000,120
Disbursements:					
Current:					
Instruction	44,163	237,387	405,101	90,098	776,749
Support services	65,241	37,976	140,754	-	243,971
Facilities acquisition and construction	-	-	240	-	240
Total disbursements	109,404	275,363	546,095	90,098	1,020,960
Excess (deficiency) of receipts over disbursements	(19,304)	(48,022)	61,584	(15,098)	(20,840)
Cash and investments - beginning	63,992	142,123	120,031	-	326,146
Cash and investments - ending	<u>\$ 44,688</u>	<u>\$ 94,101</u>	<u>\$ 181,615</u>	<u>\$ (15,098)</u>	<u>\$ 305,306</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	<u>\$ 44,688</u>	<u>\$ 94,101</u>	<u>\$ 181,615</u>	<u>\$ (15,098)</u>	<u>\$ 305,306</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	<u>\$ 44,688</u>	<u>\$ 94,101</u>	<u>\$ 181,615</u>	<u>\$ (15,098)</u>	<u>\$ 305,306</u>

BLUE RIVER 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, 2009

	Transportation Operating	Preschool Special Education	Miller Road School	Capital Projects	P.L. 99-457 (07-08)	P.L. 99-457 (08-09)	Totals
Receipts:							
Local sources	\$ 81,700	\$ -	\$ 479,672	\$ 45,798	\$ -	\$ -	\$ 607,170
State sources	-	238,137	15,160	-	-	-	253,297
Federal sources	-	-	-	-	15,098	88,636	103,734
Total receipts	81,700	238,137	494,832	45,798	15,098	88,636	964,201
Disbursements:							
Current:							
Instruction	-	293,701	326,760	-	-	88,636	709,097
Support services	70,555	25,500	229,813	19,481	-	-	345,349
Facilities acquisition and construction	-	-	620	-	-	-	620
Total disbursements	70,555	319,201	557,193	19,481	-	88,636	1,055,066
Excess (deficiency) of receipts over disbursements	11,145	(81,064)	(62,361)	26,317	15,098	-	(90,865)
Cash and investments - beginning	44,688	94,101	181,615	-	(15,098)	-	305,306
Cash and investments - ending	<u>\$ 55,833</u>	<u>\$ 13,037</u>	<u>\$ 119,254</u>	<u>\$ 26,317</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 214,441</u>
<u>Cash and Investment Assets - Ending</u>							
Cash and investments	<u>\$ 55,833</u>	<u>\$ 13,037</u>	<u>\$ 119,254</u>	<u>\$ 26,317</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 214,441</u>
<u>Cash and Investment Fund Balance - Ending</u>							
Unrestricted	<u>\$ 55,833</u>	<u>\$ 13,037</u>	<u>\$ 119,254</u>	<u>\$ 26,317</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 214,441</u>

BLUE RIVER SPECIAL EDUCATION COOPERATIVE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended June 30, 2009

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Buildings	\$ 220,000
Machinery and equipment	<u>262,130</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 482,130</u>

BLUE RIVER SPECIAL EDUCATION COOPERATIVE
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Cooperative related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities were not selected and developed at various levels of the Cooperative to reduce risks to achievement of financial reporting objectives. The Cooperative has not separated incompatible activities related to receipts, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Cooperative's audited financial statements and then determining how those identified risks should be managed. The Cooperative has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Cooperative's Board of Managers to monitor and assess the quality of the Cooperative's system of internal control. The Cooperative's Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Cooperative at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Cooperative has no process to identify or communicate corrective actions to improve controls.

BLUE RIVER SPECIAL EDUCATION COOPERATIVE
 AUDIT RESULTS AND COMMENTS
 (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 objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

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

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Years</u>	<u>Excess Amount Expended</u>
General	2007	\$ 51,465
Transportation	2008	15,211

IC 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE BLUE RIVER SPECIAL EDUCATION
COOPERATIVE, SHELBY COUNTY, INDIANA

Compliance

We have audited the compliance of the Blue River 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, 2008 and 2009. 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, 2008 and 2009.

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

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)

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.

The School Corporation's response to the findings identified in our audit is described in the accompanying 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 Managers, 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 17, 2010

BLUE RIVER SPECIAL EDUCATION COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2008 and 2009

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 06-30-08	Total Federal Awards Expended 06-30-09
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Special Education Cluster				
Special Education - Grants to States	84.027A	14208-005-PN01 14209-005-PN01	\$ 1,772,641 -	\$ - <u>1,792,808</u>
Total for program			<u>1,772,641</u>	<u>1,792,808</u>
Special Education - Preschool Grants	84.173	45708-005-PN01 45709-005-PN01	90,098 -	- <u>88,636</u>
Total for program			<u>90,098</u>	<u>88,636</u>
Total for cluster			<u>1,862,739</u>	<u>1,881,444</u>
Total for federal grantor agency			<u>1,862,739</u>	<u>1,881,444</u>
Total federal awards expended			<u>\$ 1,862,739</u>	<u>\$ 1,881,444</u>

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

BLUE RIVER 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 Blue River 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 Schools shall be conducted biennially. Such audits shall include both years within the biennial period.

BLUE RIVER 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?	yes
Significant deficiencies 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
Significant deficiencies 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

FINDING 2009-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Cooperative related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

BLUE RIVER SPECIAL EDUCATION COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Cooperative to reduce risks to achievement of financial reporting objectives. The Cooperative has not separated incompatible activities related to receipts, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to undetected.
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Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

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

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

BLUE RIVER SPECIAL EDUCATION COOPERATIVE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



February 5, 2010

Finding 2009-1 Segregation of Duties

Contact Person: Phyllis Jean Zerr

Blue River Special Education Cooperative is aware of the risks associated with a limited staff and has determined the benefits of hiring additional staff in order that account functions are performed by different individuals are not sufficient to justify the increase in cost to the taxpayers of hiring additional staff.

The Cooperative has compensating controls including oversight of the Board of Directors provided on a monthly basis through reviewing monthly bank reconciliations and balance reports.

The Treasurer provides each of the five Board of Director members at the monthly board meeting a balance sheet showing the month's beginning balance, the approved budget amount for each fund, the disbursements for each fund and the balance of each fund.

Phyllis Jean Zerr
Treasurer

David Adams
Board President

BLUE RIVER SPECIAL EDUCATION COOPERATIVE
EXIT CONFERENCE

The contents of this report were discussed on February 17, 2010, with Kathleen M. West, Director; and Phyllis Jean Zerr, Treasurer. The officials concurred with our audit findings.