

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

AUDIT REPORT  
OF  
COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
VIGO COUNTY, INDIANA  
July 1, 2004 to June 30, 2006



**FILED**  
01/31/2007



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Joan Brooks	07-01-04 to 06-30-07
Executive Director	Jeffery E. Blake	07-01-04 to 06-30-07
President of the District Board	Daniel Tanoos	07-01-04 to 06-30-07



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE COVERED BRIDGE SPECIAL  
EDUCATION DISTRICT, VIGO COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Covered Bridge Special Education District (District), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District'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 District 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 District as of June 30, 2005 and 2006, 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 December 21, 2006, on our consideration of the District'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 District 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 District 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.

STATE BOARD OF ACCOUNTS

December 21, 2006



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE COVERED BRIDGE SPECIAL  
EDUCATION DISTRICT, VIGO COUNTY, INDIANA

We have audited the financial statements of the Covered Bridge Special Education District (District), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated December 21, 2006. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

STATE BOARD OF ACCOUNTS

December 21, 2006

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	<u>\$ 1,674,791</u>
<u>Net Assets</u>	
Unrestricted	<u>\$ 1,674,791</u>

The accompanying notes are an integral part of the financial statements.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	<u>\$ 2,325,980</u>
<u>Net Assets</u>	
Unrestricted	<u>\$ 2,325,980</u>

The accompanying notes are an integral part of the financial statements.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
STATEMENT OF CASH ACTIVITIES  
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Operating Grants and Contributions	Net Disbursements Total
Governmental activities:			
Instruction	\$ 2,556,846	\$ -	\$ (2,556,846)
Support services	4,297,742	514,648	(3,783,094)
Nonprogrammed charges	86,745	-	(86,745)
Debt service	18,251	-	(18,251)
	<u>\$ 6,959,584</u>	<u>\$ 514,648</u>	<u>(6,444,936)</u>
Total governmental activities			
General receipts:			
Other local sources			449,605
State aid			72,921
Grants and contributions not restricted			4,492,657
Sale of property, adjustments, and refunds			8,350
Investment earnings			9,112
Transfers:			
Intergovernmental			<u>2,022,028</u>
			<u>7,054,673</u>
Total general receipts and transfers			
			609,737
Change in cash and investments			
			1,065,054
Net assets - beginning			
			<u>\$ 1,674,791</u>
Net assets - ending			

The accompanying notes are an integral part of the financial statements.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
STATEMENT OF CASH ACTIVITIES  
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Operating Grants and Contributions	Net Disbursements Total
Governmental activities:			
Instruction	\$ 2,654,045	\$ -	\$ (2,654,045)
Support services	4,717,397	246,282	(4,471,115)
Debt service	18,348	-	(18,348)
Total governmental activities	\$ 7,389,790	\$ 246,282	(7,143,508)
General receipts:			
Other local sources			21,667
State aid			72,921
Grants and contributions not restricted			5,071,191
Sale of property, adjustments, and refunds			6,762
Investment earnings			77,914
Transfers:			
Intergovernmental			2,544,242
Total general receipts and transfers			7,794,697
Change in cash and investments			651,189
Net assets - beginning			1,674,791
Net assets - ending			\$ 2,325,980

The accompanying notes are an integral part of the financial statements.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2005

	General	Preschool Grant	Federal Grant 2004-05	Medicaid Reimbursement	Other	Totals
Receipts:						
Local sources	\$ 30,009	\$ 428,708	\$ -	\$ -	\$ -	\$ 458,717
State sources	83,451	-	-	-	-	83,451
Federal sources	-	-	3,510,215	514,648	971,912	4,996,775
Sale of property, adjustments and refunds	6,082	2,268	-	-	-	8,350
Intergovernmental transfers	<u>1,517,283</u>	<u>504,745</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,022,028</u>
 Total receipts	 <u>1,636,825</u>	 <u>935,721</u>	 <u>3,510,215</u>	 <u>514,648</u>	 <u>971,912</u>	 <u>7,569,321</u>
Disbursements:						
Current:						
Instruction	107,049	535,313	1,546,433	103,957	264,094	2,556,846
Support services	1,396,162	290,937	1,906,227	519	703,897	4,297,742
Nonprogrammed charges	-	-	-	86,745	-	86,745
Debt services	<u>15,680</u>	<u>2,571</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,251</u>
 Total disbursements	 <u>1,518,891</u>	 <u>828,821</u>	 <u>3,452,660</u>	 <u>191,221</u>	 <u>967,991</u>	 <u>6,959,584</u>
Excess of total receipts over total disbursements	117,934	106,900	57,555	323,427	3,921	609,737
Cash and investments - beginning	<u>634,266</u>	<u>31,817</u>	<u>-</u>	<u>238,944</u>	<u>160,027</u>	<u>1,065,054</u>
Cash and investments - ending	<u>\$ 752,200</u>	<u>\$ 138,717</u>	<u>\$ 57,555</u>	<u>\$ 562,371</u>	<u>\$ 163,948</u>	<u>\$ 1,674,791</u>

The accompanying notes are an integral part of the financial statements.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2006

	General	Preschool Grant	Federal Grant 2004-05	Federal Grant 2005-06	Medicaid Reimbursement	Other	Totals
Receipts:							
Local sources	\$ 81,881	\$ 17,700	\$ -	\$ -	\$ -	\$ -	\$ 99,581
State sources	98,571	-	-	-	-	-	98,571
Federal sources	-	-	609,706	3,794,000	246,282	641,835	5,291,823
Sale of property, adjustments and refunds	6,417	151	194	-	-	-	6,762
Intergovernmental transfers	<u>1,692,310</u>	<u>851,932</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,544,242</u>
Total receipts	<u>1,879,179</u>	<u>869,783</u>	<u>609,900</u>	<u>3,794,000</u>	<u>246,282</u>	<u>641,835</u>	<u>8,040,979</u>
Disbursements:							
Current:							
Instruction	49,054	579,635	246,515	1,580,454	40,465	157,922	2,654,045
Support services	1,392,141	319,468	420,166	2,101,621	16,390	467,611	4,717,397
Debt services	<u>11,944</u>	<u>1,543</u>	<u>774</u>	<u>4,087</u>	<u>-</u>	<u>-</u>	<u>18,348</u>
Total disbursements	<u>1,453,139</u>	<u>900,646</u>	<u>667,455</u>	<u>3,686,162</u>	<u>56,855</u>	<u>625,533</u>	<u>7,389,790</u>
Excess (deficiency) of total receipts over (under) total disbursements	426,040	(30,863)	(57,555)	107,838	189,427	16,302	651,189
Cash and investments - beginning	<u>752,200</u>	<u>138,717</u>	<u>57,555</u>	<u>-</u>	<u>562,371</u>	<u>163,948</u>	<u>1,674,791</u>
Cash and investments - ending	<u>\$ 1,178,240</u>	<u>\$ 107,854</u>	<u>\$ -</u>	<u>\$ 107,838</u>	<u>\$ 751,798</u>	<u>\$ 180,250</u>	<u>\$ 2,325,980</u>

The accompanying notes are an integral part of the financial statements.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
For The Year Ended June 30, 2005

	Private-Purpose Trust Funds
Additions:	
Local sources	\$ 1,500
Sale of property, adjustments and refunds	844
Total additions	2,344
Deductions:	
Instruction	2,592
Support services	14,981
Total deductions	17,573
Deficiency of total additions under total deductions	(15,229)
Cash and investments - beginning	19,386
Cash and investments - ending	\$ 4,157

The accompanying notes are an integral part of the financial statements.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
For The Year Ended June 30, 2006

	Private-Purpose Trust Funds
Additions:	
Local sources	\$ 1,500
Sale of property, adjustments and refunds	747
Total additions	2,247
Deductions:	
Instruction	3,560
Deficiency of total additions under total deductions	(1,313)
Cash and investments - beginning	4,157
Cash and investments - ending	\$ 2,844

The accompanying notes are an integral part of the financial statements.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
 STATEMENT OF CASH AND INVESTMENTS  
 FIDUCIARY FUNDS  
 June 30, 2005

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ <u>4,157</u>	\$ <u>46,778</u>
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ <u>4,157</u>	

The accompanying notes are an integral part of the financial statements.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
 STATEMENT OF CASH AND INVESTMENTS  
 FIDUCIARY FUNDS  
 June 30, 2006

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 2,844	\$ 48,855
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 2,844	

The accompanying notes are an integral part of the financial statements.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
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: Covered Bridge Special Education District

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 non-exchange revenues. The School Corporation currently has no business-type activities.

Fund Financial Statements

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

The School Corporation reports the following major governmental funds:

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

The preschool grant fund and the federal grant fund account for federal and state grants received to carry out the objectives of the Individuals with Disabilities Education Act (IDEA).

The medicaid reimbursement fund accounts for funds received in return for eligible services rendered to students.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Additionally, the School Corporation reports the following fund types:

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the intended recipients.

Agency funds account for assets held by the School Corporation as an agent for others and serves as control of accounts for certain cash transactions during the time they are a liability to the School Corporation.

C. Measurement Focus and Basis of Accounting

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

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

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. 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

Teachers

A. Sick Leave

Teachers earn sick leave at the rate of 10 days in the first year of employment and 8 days in each succeeding year. Unused sick leave may be accumulated to a maximum of 180 days. Accumulated sick leave is paid to teachers through cash payments upon retirement.

B. Vacation Leave

Teachers do not earn vacation leave as they are contracted for less than a full year.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Personal Leave

Teachers earn personal leave at the rate of 3 days per year. Unused personal leave may be accumulated to a maximum of 5 days and the rest accumulates as sick days. Unused personal leave may be accumulated as sick leave for the following school year. Accumulated personal leave is paid to teachers through cash payments upon retirement.

Administrators

A. Sick Leave

Administrators earn sick leave at the rate of 12 days per year. Unused sick leave may be accumulated to a maximum of 200 days. Accumulated sick leave is paid to administrators through cash payments upon retirement.

B. Vacation Leave

Administrators on 12 month contracts earn vacation leave at the rate of 20 days per year. Vacation leave may be accumulated to a maximum of 40 days. Accumulated vacation leave is paid to administrators through cash payments upon retirement.

C. Personal Leave

Administrators earn personal leave at the rate of 5 days per year. Unused personal leave may be accumulated as sick leave for the following year. Accumulated personal leave is paid to administrators through cash payments upon retirement up to a maximum of 20 days.

D. Family Sick Days

Administrators receive 5 family sick days per year. Family sick days do not accumulate and are not payable upon termination or resignation.

Administrative Clerical

A. Sick Leave

Administrative clerical employees earn sick leave at the rate of 1 day per month worked during the contract (school) year. Unused sick leave may be accumulated to a maximum of 212 days. Accumulated sick leave is paid to administrative clerical employees through cash payments upon retirement.

B. Vacation Leave

Administrative clerical employees on 12 month contracts earn vacation leave at the rate of 20 days per year. Vacation leave may be accumulated to a maximum of 40 days. Accumulated vacation leave is paid to administrative clerical employees through cash payments upon retirement up to a maximum of 20 days.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Personal Leave

Administrative clerical employees earn personal leave at the rate of 3 days per year. Unused personal days accumulate to a maximum of 5 and the rest accumulates as sick days. Unused personal leave may be accumulated as sick leave for the following school year. Accumulated personal leave is paid to administrative clerical employees through cash payments upon retirement.

D. Family Sick Days

Administrative clerical employees receive 5 family sick days per year. Family sick days do not accumulate and are not payable upon termination or resignation.

2. 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.

3. 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. Receipts and Disbursements

Program Receipts

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

Government-Wide Financial Statements

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

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

II. Stewardship, Compliance and Accountability

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.

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. 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.

III. Detailed Notes on All Funds

Deposits and Investments

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 remaining bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

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.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The risks of 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 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.

B. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation prior to attaining age 65. The School Corporation shall contribute an annual amount of \$2,940, \$1,500, and \$1,500, respectively, to the cost of employee health insurance premiums at the time of retirement until the retired employee reaches the Social Security Normal Retirement Age (S.S.N.R.A.) – not to exceed a maximum of 10 years. Currently, 5 retirees meet these eligibility requirements

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.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 70,591
Interest on net pension obligation	(3,303)
Adjustment to annual required contribution	3,764
Annual pension cost	71,052
Contributions made	72,756
Decrease in net pension obligation	(1,704)
Net pension obligation, beginning of year	(45,560)
Net pension obligation, end of year	\$ (47,264)
Contribution rates:	
School Corporation	7.5%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of Market value

Actuarial Assumptions

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

\*2.75% converted members; 4% nonconverted members

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Three Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06-30-03	\$ 71,748	80%	\$ (23,663)
06-30-04	48,752	145%	(45,560)
06-30-05	71,052	149%	(47,264)

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

Teachers' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Costs

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

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2005 and 2006, were \$153,629 and \$174,401, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
 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)
07-01-03	\$ 552,841	\$ 629,712	\$ (76,871)	88%	\$ 866,241	(9%)
07-01-04	595,021	856,569	(261,548)	69%	987,262	(26%)
07-01-05	652,902	1,045,833	(392,931)	62%	1,148,430	(34%)

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

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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 COVERED BRIDGE SPECIAL  
EDUCATION DISTRICT, VIGO COUNTY, INDIANA

Compliance

We have audited the compliance of the Covered Bridge Special Education District (District) 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, 2005 and 2006. The District'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 District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 District's compliance with those requirements.

In our opinion, the District 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, 2005 and 2006.

Internal Control Over Compliance

The management of the District 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 District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

STATE BOARD OF ACCOUNTS

December 21, 2006

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Special Education Cluster				
Special Education - Grants to States				
	84.027			
		14204-008-PN01	\$ 679,840	\$ 76,006
		14205-008-PN01	3,452,660	1,051,294
		14206-008-PN01	-	3,686,162
		14205-008-PY02	-	262,174
		14203-008-DY08	16,306	-
		14204-008-SN01	11,543	-
		14205-008-SN01	43,114	27,438
		14205-008-DY01	-	31,838
Total for program			<u>4,203,463</u>	<u>5,134,912</u>
Special Education - Preschool Grants				
	84.173			
		45704-008-PN01	49,240	1,279
		45705-008-PN01	184,254	51,965
		45706-008-PN01	-	189,805
Total for program			<u>233,494</u>	<u>243,049</u>
Total federal awards expended			<u>\$ 4,436,957</u>	<u>\$ 5,377,961</u>

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

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Covered Bridge Special Education District (District) 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 Districts shall be conducted biennially. Such audits shall include both years within the biennial period.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

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

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

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

Identification of Major Programs:

CFDA Number	<u>Name of Federal Program or Cluster</u>
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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.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters were reportable.

COVERED BRIDGE SPECIAL EDUCATION DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on December 21, 2006, with Jeffery E. Blake, Executive Director; Joan Brooks, Treasurer; Kathy Walker, Assistant to the Director; and Pam Creager, Deputy Treasurer. Our audit disclosed no material items that warrant comment at this time.