

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

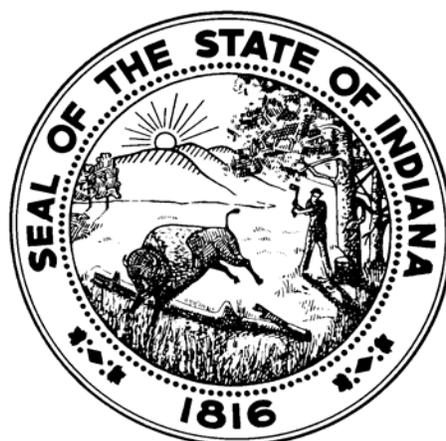
AUDIT REPORT

OF

COVINGTON COMMUNITY SCHOOL CORPORATION

FOUNTAIN COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED

02/28/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Charlotte Starkey Cindy Wallace	07-01-04 to 06-30-05 07-01-05 to 06-30-07
Superintendent of Schools	Nate Evans	07-01-04 to 06-30-07
President of the School Board	Dr. Bradley J. Balch	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 COVINGTON COMMUNITY SCHOOL
CORPORATION, FOUNTAIN COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Covington Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, 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, 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 January 4, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

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

The Schedule of Funding Progress, 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 Schedule of Capital Assets and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

January 4, 2007



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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 COVINGTON COMMUNITY SCHOOL
CORPORATION, FOUNTAIN COUNTY, INDIANA

We have audited the financial statements of the Covington Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 4, 2007. 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 School Corporation'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 School Corporation'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.

We noted other matters involving the internal control over financial reporting that we have discussed with the management of the School Corporation on January 4, 2007. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

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

STATE BOARD OF ACCOUNTS

January 4, 2007

COVINGTON COMMUNITY SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 1,825,278
Restricted assets:	
Cash and investments	<u>70,347</u>
Total assets	<u>\$ 1,895,625</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 70,347
Unrestricted	<u>1,825,278</u>
Total net assets	<u>\$ 1,895,625</u>

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

COVINGTON COMMUNITY SCHOOL CORPORATION
 STATEMENT OF CASH AND INVESTMENTS
 June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 1,375,723
Restricted assets:	
Cash and investments	<u>77,429</u>
Total assets	<u>\$ 1,453,152</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 77,429
Unrestricted	<u>1,375,723</u>
Total net assets	<u>\$ 1,453,152</u>

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

COVINGTON COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 2,952,862	\$ -	\$ 64,885	\$ (2,887,977)
Support services	8,876,044	249,099	182,663	(8,444,282)
Community services	125,600	-	-	(125,600)
Nonprogrammed charges	302,296	-	-	(302,296)
Debt service	361,234	-	-	(361,234)
Total governmental activities	<u>\$ 12,618,036</u>	<u>\$ 249,099</u>	<u>\$ 247,548</u>	<u>(12,121,389)</u>
General receipts:				
Property taxes				2,633,953
Other local sources				582,065
State aid				3,501,352
Grants and contributions not restricted				382,466
Sale of property, adjustments, and refunds				82,880
Investment earnings				66,465
Intergovernmental transfers				<u>220,261</u>
				Total general receipts and intergovernmental transfers <u>7,469,442</u>
				Change in cash and investments (4,651,947)
				Net assets - beginning <u>6,547,572</u>
				Net assets - ending <u><u>\$ 1,895,625</u></u>

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

COVINGTON COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 3,125,405	\$ -	\$ 99,117	\$ (3,026,288)
Support services	5,616,753	249,894	182,086	(5,184,773)
Community services	177,294	-	-	(177,294)
Nonprogrammed charges	311,162	-	-	(311,162)
Debt service	622,949	-	-	(622,949)
Total governmental activities	\$ 9,853,563	\$ 249,894	\$ 281,203	(9,322,466)
General receipts:				
Property taxes				2,760,700
Other local sources				541,244
State aid				3,731,588
Grants and contributions not restricted				376,786
Bonds and loans				1,000,000
Sale of property, adjustments, and refunds				101,055
Investment earnings				48,945
Intergovernmental transfers				319,675
				Total general receipts and intergovernmental transfers
				8,879,993
				Change in cash and investments
				(442,473)
				Net assets - beginning
				1,895,625
				Net assets - ending
				\$ 1,453,152

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

COVINGTON COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Construction Fund	Other	Totals
Receipts:								
Local sources	\$ 1,740,256	\$ 292,749	\$ 388,173	\$ 727,652	\$ 44,667	\$ 44,646	\$ 292,762	\$ 3,530,905
Intermediate sources	122	-	-	-	-	-	554	676
State sources	3,554,355	-	-	-	-	-	65,976	3,620,331
Federal sources	-	-	-	-	-	-	511,036	511,036
Sale of property, adjustments and refunds	53,404	15,840	-	-	-	2,375	11,261	82,880
Intergovernmental transfers	2,050	-	-	-	-	-	218,211	220,261
Total receipts	5,350,187	308,589	388,173	727,652	44,667	47,021	1,099,800	7,966,089
Disbursements:								
Current:								
Instruction	2,445,438	-	-	-	-	-	507,424	2,952,862
Support services	2,835,157	284,570	-	903,571	-	4,359,014	493,732	8,876,044
Community services	123,214	-	-	-	-	-	2,386	125,600
Nonprogrammed charges	271,969	2,543	1,726	6,572	734	-	18,752	302,296
Debt services	-	-	361,234	-	-	-	-	361,234
Total disbursements	5,675,778	287,113	362,960	910,143	734	4,359,014	1,022,294	12,618,036
Excess (deficiency) of total receipts over (under) total disbursements	(325,591)	21,476	25,213	(182,491)	43,933	(4,311,993)	77,506	(4,651,947)
Cash and investments - beginning	646,131	98,202	45,134	295,093	55,078	5,208,295	199,639	6,547,572
Cash and investments - ending	<u>\$ 320,540</u>	<u>\$ 119,678</u>	<u>\$ 70,347</u>	<u>\$ 112,602</u>	<u>\$ 99,011</u>	<u>\$ 896,302</u>	<u>\$ 277,145</u>	<u>\$ 1,895,625</u>

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

COVINGTON COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Construction Fund	Other	Totals
Receipts:								
Local sources	\$ 1,641,608	\$ 297,587	\$ 630,031	\$ 728,615	\$ 1,035	\$ 10,957	\$ 286,411	\$ 3,596,244
Intermediate sources	4,033	-	-	-	-	-	506	4,539
State sources	3,818,849	-	-	-	-	-	70,123	3,888,972
Federal sources	-	-	-	-	-	-	500,605	500,605
Bonds and loans	500,000	-	-	500,000	-	-	-	1,000,000
Sale of property, adjustments and refunds	30,900	9,256	-	-	-	60,199	700	101,055
Intergovernmental transfers	26,862	-	-	-	-	-	292,813	319,675
Total receipts	6,022,252	306,843	630,031	1,228,615	1,035	71,156	1,151,158	9,411,090
Disbursements:								
Current:								
Instruction	2,467,984	-	-	-	-	-	657,421	3,125,405
Support services	2,886,453	346,101	-	799,869	60,633	956,279	567,418	5,616,753
Community services	176,294	-	-	-	-	-	1,000	177,294
Nonprogrammed charges	261,612	-	-	-	-	-	49,550	311,162
Debt services	-	-	622,949	-	-	-	-	622,949
Total disbursements	5,792,343	346,101	622,949	799,869	60,633	956,279	1,275,389	9,853,563
Excess (deficiency) of total receipts over (under) total disbursements	229,909	(39,258)	7,082	428,746	(59,598)	(885,123)	(124,231)	(442,473)
Cash and investments - beginning	320,540	119,678	70,347	112,602	99,011	896,302	277,145	1,895,625
Cash and investments - ending	<u>\$ 550,449</u>	<u>\$ 80,420</u>	<u>\$ 77,429</u>	<u>\$ 541,348</u>	<u>\$ 39,413</u>	<u>\$ 11,179</u>	<u>\$ 152,914</u>	<u>\$ 1,453,152</u>

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

COVINGTON COMMUNITY SCHOOL CORPORATION
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.

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

Joint Venture

The School Corporation is a participant with South Montgomery Community School Corporation, North Montgomery Community School Corporation, Attica Consolidated School Corporation, Metropolitan School District of Warren County, Southeast Fountain School Corporation, and Crawfordsville Community School Corporation in a joint venture to operate through the West Central Educational Cooperative, the Area Vocational Education Program which was created to provide programs and services for vocational education. The Area Vocational Education Program's continued existence depends on continued funding by the School Corporations. Complete financial statements for the Area Vocational Education Program can be obtained from Crawfordsville Community School Corporation, 1000 Fairview Avenue, Crawfordsville, Indiana, 47933.

The School Corporation is a participant with South Montgomery Community School Corporation, North Montgomery Community School Corporation, North Vermillion Community School Corporation, Attica Consolidated School Corporation, Metropolitan School District of Warren County, Southeast Fountain School Corporation, Turkey Run Community School Corporation and Crawfordsville Community School Corporation in a joint venture to operate the West Central Indiana Special Services Cooperative, which was created to provide special education programs and services for moderately mentally handicapped/severely profoundly mentally handicapped children. The West Central Indiana Special Services Cooperative's continued existence depends on continued funding by the School Corporation. Complete financial statements for the West Central Indiana Special Services Cooperative can be obtained from Crawfordsville Community School Corporation, 1000 Fairview Avenue, Crawfordsville, Indiana, 47933.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. However, at this time, the School Corporation has not established any business-type funds.

COVINGTON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

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

The School Corporation reports the following major governmental funds:

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

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

The debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction, and interest on emergency and temporary loans.

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

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

The construction fund accounts for planned construction, repair, and replacement or remodeling of specific projects.

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, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

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

COVINGTON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

D. Assets and Cash and Investment Balances

1. Cash and Investments

The School Corporation does not have any investments.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to December 31 of the year collected.

3. Compensated Absences

a. Sick Leave

School Corporation employees earn sick leave at the rate of 12 days per year. Unused sick leave may be accumulated to a maximum of 100 days for noncertified and 165 days for certified employees. Accumulated sick leave is not paid to noncertified employees, but certified employees may receive cash payments for up to 50 sick days per year for each of the 3 years previous to the year of retirement.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 4 days per year. Unused personal leave each year is added to accumulated sick leave for both certified and noncertified employees.

COVINGTON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

4. 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.

5. Long-Term Debt

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

6. 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, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Cash and Investment and the Statement of Cash Activities, 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.

COVINGTON COMMUNITY SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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

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.

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.

B. Disbursements in Excess of Appropriations

For the year ended December 31, 2005, disbursements exceeded budgeted appropriations in the following fund by the amount below:

Fund	2005
Capital Projects	\$ <u>11,295</u>

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

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

COVINGTON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

funds of the political subdivision. Balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

School Corporation did not have investments or investment activity.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2005 and 2006, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2005</u>	<u>2006</u>
General Fund	Other governmental	\$ 15,236	\$ -
Debt Service	General Fund	100,734	97,358
Debt Service	Other governmental	1,726	-
Capital Project	Other governmental	6,572	-
Transportation Operating	Other governmental	2,543	-
Other governmental	General Fund	2,050	26,862
Other governmental	Other governmental	785	3,904
Totals		<u>\$ 129,646</u>	<u>\$ 128,124</u>

The School Corporation typically uses transfers for cash flow purposes according to various statutes.

IV. Other Information

A. Risk Management

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

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

Medical Benefits to Employees and Dependents (Excluding Postemployment Benefits)

During 1999, the School Corporation joined together with other governmental entities to form the Hoosier Heartland Trust, a public entity risk pool currently operating as a common risk management and insurance program for eight member governmental entities. The purpose of the risk pool is to provide a medium for the funding and administration of medical benefits. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$75,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$75,000 limit.

COVINGTON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Holding Corporation

The School Corporation has entered into a capital lease with Covington Multi-School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the government. Lease payments during the two-year period totaled \$784,000.

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.

COVINGTON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 35,430
Interest on net pension obligation	(7,001)
Adjustment to annual required contribution	7,978
Annual pension cost	36,407
Contributions made	42,524
Decrease in net pension obligation	(6,117)
Net pension obligation, beginning of year	(96,559)
Net pension obligation, end of year	\$ (102,676)
Contribution rates:	
School Corporation	4%
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%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 34,639	183%	\$ (73,278)
	06-30-04	29,570	179%	(96,559)
	06-30-05	36,407	144%	(102,676)

COVINGTON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Teachers' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Costs

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

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$122,436, \$105,017, and \$81,368, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

COVINGTON COMMUNITY SCHOOL CORPORATION
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 961,706	\$ 788,367	\$ 173,339	122%	\$ 885,576	20%
07-01-04	978,718	850,991	127,727	115%	897,768	14%
07-01-05	1,013,046	1,202,255	(189,209)	84%	1,113,568	(17%)

COVINGTON COMMUNITY SCHOOL CORPORATION
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

June 30, 2006

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:	
Land	\$ 56,675
Buildings	19,296,168
Improvements other than buildings	790,884
Machinery and equipment	1,024,399
Construction in progress	<u>6,173,073</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 27,341,199</u>

COVINGTON COMMUNITY SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
High School and Elementary School Building Improvements	\$ 7,626,320	\$ 185,000
Notes and loans payable		
Common School	552,968	67,531
Tax Anticipation Warrants	<u>1,000,000</u>	<u>1,000,000</u>
Total governmental activities long-term debt	<u>\$ 9,179,288</u>	<u>\$ 1,252,531</u>

COVINGTON COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

PUBLIC WORKS PROJECT

The Covington Community School Corporation, during the 2004-2005 school year, contracted with Crain Mechanical for the purchase and installation of a new boiler in the high school. The total amount paid to Crain Mechanical was \$144,975. There was no evidence presented for audit that sealed bids were requested or received.

Indiana Code 36-1-12-4(a) states in part: "This section applies whenever the cost of a public work project will be: (1) at least seventy-five thousand dollars (\$75,000) in: (A) a consolidated city or second class city; or (B) a county containing a consolidated city or second class city; (2) at least fifty thousand dollars (\$50,000) in: (A) a third class city or town with a population of more than five thousand (5,000), or (B) a county containing a third class city or town with a population of more than five thousand (5,000); or (3) at least twenty-five thousand dollars (\$25,000) in a political subdivision or an agency not described in subdivision (1) or (2)."

Indiana Code 36-1-12-4(b) states in part: "The board must comply with the following procedure: (1) The board shall prepare general plans and specifications describing the kind of public work required, but shall avoid specifications which might unduly limit competition. . . . (2) The board shall file the plans and specifications in a place reasonably accessible to the public, which shall be specified in the notice required by subdivision (3). (3) Upon the filing of the plans and specifications, the board shall publish notice in accordance with IC 5-3-1 calling for sealed proposals for the public work needed . . ."

APPROPRIATIONS

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

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
Capital Projects	2005	<u>\$ 11,295</u>

Indiana Code 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 COVINGTON COMMUNITY SCHOOL
CORPORATION, FOUNTAIN COUNTY, INDIANA

Compliance

We have audited the compliance of the Covington Community School Corporation (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, 2005 and 2006. 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; 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, 2005 and 2006.

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 4, 2007

COVINGTON COMMUNITY SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006

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 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553			
		FY 04-05	\$ 28,524	\$ -
		FY 05-06	-	29,119
Total for program			<u>28,524</u>	<u>29,119</u>
National School Lunch Program				
	10.555			
		FY 04-05	106,936	-
		FY 05-06	-	125,219
Total for program			<u>106,936</u>	<u>125,219</u>
Total for cluster			<u>135,460</u>	<u>154,338</u>
Total for federal grantor agency			<u>135,460</u>	<u>154,338</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Crawfordsville Community School Corporation				
Special Education Cluster				
Special Education-Grants to States	84.027			
P.L. 94-142 Handicapped		FY 04-05	126,192	-
P.L. 94-142 Handicapped		FY 05-06	-	266,221
Sliver		SY 04-05	-	2,691
Total for program			<u>126,192</u>	<u>268,912</u>
Special Education - Preschool Grants	84.173			
P.L. 99-457 Preschool Handicapped		FY 04-05	6,945	-
P.L. 99-457 Preschool Handicapped		FY 05-06	-	19,575
Total for program			<u>6,945</u>	<u>19,575</u>
Total for cluster			<u>133,137</u>	<u>288,487</u>
Pass-Through Indiana Department of Education				
Title I Grants to Local Education Agencies	84.010			
		03-04-2440	1,077	-
		04-05-2440	112,089	-
		05-06-2440	10,782	102,004
Total for program			<u>123,948</u>	<u>102,004</u>
Vocational Education - Basic Grants to States	84.048			
		FY 04-05	4,670	-
		FY 05-06	-	4,204
Total for program			<u>4,670</u>	<u>4,204</u>
Safe and Drug Free Schools and Communities - State Grants	84.186			
Title IV-Part A		PN 04-035	2,229	2,968
Education Technology State Grants	84.318			
Title II Part D-P.L. 107-110		FY 04-05	2,869	-
Title II Part D-P.L. 107-110		FY 05-06	-	2,173
Total for program			<u>2,869</u>	<u>2,173</u>
Improving Teacher Quality State Grants	84.367			
Title II Part D- P.L. 107-110		FY 04-05	41,269	-
Title II Part D- P.L. 107-110		FY 05-06	-	12,296
Total for program			<u>41,269</u>	<u>12,296</u>
Total for federal grantor agency			<u>308,122</u>	<u>412,132</u>
Total federal awards expended			<u>\$ 443,582</u>	<u>\$ 566,470</u>

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

COVINGTON COMMUNITY SCHOOL CORPORATION
NOTES 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 Covington Community School Corporation (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

II. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2005 and 2006. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2005	2006
School Breakfast Program	10.553	\$ 2,829	\$ 2,217
National School Lunch Program	10.555	10,584	9,447

COVINGTON COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

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

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

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

Identification of Major Programs:

Name of Federal Program or Cluster

Special Education Cluster
Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

COVINGTON COMMUNITY SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

COVINGTON COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on January 4, 2007, with Cindy Wallace, Treasurer; and Nate Evans, Superintendent of Schools. The officials concurred with our audit findings.