

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, 2006 to June 30, 2008



FILED

06/30/2009

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Cynthia S. Coleman Trudie Dillon	07-01-06 to 02-23-09 02-24-09 to 06-30-09
Superintendent of Schools	Nate Evans Robert Baker (Interim) Roger Coffing (Interim)	07-01-06 to 02-06-09 02-20-09 to 05-11-09 05-12-09 to 06-30-09
President of the School Board	Dr. Bradley Balch Roger Coffing	07-01-06 to 10-15-07 10-16-07 to 06-30-09



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

TO: THE OFFICIALS OF THE 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, 2007 and 2008, 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, 2007 and 2008, 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 May 27, 2009, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Combining Schedules, as listed in the Table of Contents, 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 Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets 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

May 27, 2009



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ROOM E418
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Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF THE COVINGTON COMMUNITY SCHOOL
CORPORATION, FOUNTAIN COUNTY, INDIANA

We have audited the 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, 2007 and 2008, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated May 27, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in items 2008-1, 2008-2, and 2008-3 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of deficiencies described above, we consider items 2008-1 and 2008-3 to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management in a separate letter dated May 27, 2009.

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

This report is intended solely for the information and use of the School Corporation's management, the School Board of Trustees, 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

May 27, 2009

COVINGTON COMMUNITY SCHOOL CORPORATION
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2007

<u>Functions/Programs</u>	Program Receipts			Net (Disbursement) Receipts and Changes in Net Assets
	Disbursements	Charges for Services	Operating Grants and Contributions	Totals
Governmental activities:				
Instruction	\$ 4,588,899	\$ -	\$ 84,495	\$ (4,504,404)
Support services	3,696,086	253,776	170,301	(3,272,009)
Community services	166,652	-	-	(166,652)
Nonprogrammed charges	1,304,500	-	-	(1,304,500)
Debt service	1,649,633	-	-	(1,649,633)
Total governmental	<u>\$ 11,405,770</u>	<u>\$ 253,776</u>	<u>\$ 254,796</u>	<u>(10,897,198)</u>
General receipts:				
Property taxes				2,805,987
Other local sources				970,576
State aid				3,735,015
Bonds and loans				1,871,000
Grants and contributions not restricted to specific programs				415,381
Sale of property, adjustments, and refunds				1,000,550
Investment earnings				69,873
Total general receipts				<u>10,868,382</u>
Change in net assets				<u>(28,816)</u>
Net assets - beginning				<u>1,453,153</u>
Prior period adjustment				<u>159,177</u>
Net assets -Adjusted beginning				<u>1,612,330</u>
Net assets - ending				<u>\$ 1,583,514</u>
<u>Assets</u>				
Cash and investments				\$ 1,233,682
Restricted assets:				
Cash and investments				349,832
Total assets				<u>\$ 1,583,514</u>
<u>Net Assets</u>				
Restricted for:				
Debt service				\$ 349,832
Unrestricted				1,233,682
Total net assets				<u>\$ 1,583,514</u>

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

COVINGTON COMMUNITY SCHOOL CORPORATION
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2008

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Totals</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction	\$ 3,999,119	\$ -	\$ 117,428	\$ (3,881,691)
Support services	4,112,373	261,551	198,398	(3,652,424)
Community services	184,497	-	-	(184,497)
Nonprogrammed charges	257,141	-	-	(257,141)
Debt service	2,290,419	-	-	(2,290,419)
Total governmental	<u>\$ 10,843,549</u>	<u>\$ 261,551</u>	<u>\$ 315,826</u>	<u>(10,266,172)</u>
General receipts:				
Property taxes				1,631,123
Other local sources				885,230
State aid				3,483,587
Bonds and loans				2,394,740
Grants and contributions not restricted to specific programs				454,226
Sale of property, adjustments, and refunds				31,189
Investment earnings				<u>31,973</u>
Total general receipts				<u>8,912,068</u>
Change in net assets				(1,354,104)
Net assets - beginning				<u>1,583,514</u>
Net assets - ending				<u>\$ 229,410</u>
 <u>Assets</u>				
Cash and investments				\$ (73,984)
Restricted assets:				
Cash and investments				<u>303,394</u>
Total assets				<u>\$ 229,410</u>
 <u>Net Assets</u>				
Restricted for:				
Debt service				\$ 303,394
Unrestricted				<u>(73,984)</u>
Total net assets				<u>\$ 229,410</u>

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

COVINGTON COMMUNITY SCHOOL CORPORATION
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007

	General	Transportation Operating	Textbook Rental	Special Needs	Gifted and Talented	Title II Part A 04-05, 06-07
Receipts:						
Local sources	\$ 1,668,438	\$ 316,333	\$ 75,588	\$ -	\$ -	\$ -
Intermediate sources	3,245	-	-	-	-	-
State sources	3,807,976	-	19,242	-	-	-
Federal sources	-	-	-	11,000	-	-
Bonds and loans	1,148,000	110,000	-	-	-	-
Sale of property, adjustments and refunds	1,000,000	-	550	-	-	-
Total receipts	7,627,659	426,333	95,380	11,000	-	-
Disbursements:						
Current:						
Instruction	3,876,638	-	-	4,414	7,088	53,931
Support services	1,606,346	347,516	99,768	-	-	-
Community services	166,652	-	-	-	-	-
Nonprogrammed charges	1,273,337	-	-	-	-	-
Debt services	500,000	-	-	-	-	-
Total disbursements	7,422,973	347,516	99,768	4,414	7,088	53,931
Excess (deficiency) of receipts over disbursements	204,686	78,817	(4,388)	6,586	(7,088)	(53,931)
Other financing sources (uses):						
Transfers in	-	-	7,146	-	-	-
Transfers out	(7,576)	(1,492)	-	-	-	-
Total other financing sources (uses)	(7,576)	(1,492)	7,146	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	197,110	77,325	2,758	6,586	(7,088)	(53,931)
Cash and investments - beginning	550,449	80,421	29,632	13,126	7,088	28,492
Prior period adjustment	-	-	-	-	-	-
Cash and investments - adjusted beginning	550,449	80,421	29,632	13,126	7,088	28,492
Cash and investments - ending	<u>\$ 747,559</u>	<u>\$ 157,746</u>	<u>\$ 32,390</u>	<u>\$ 19,712</u>	<u>\$ -</u>	<u>\$ (25,439)</u>
Cash and Investment Assets - Ending						
Cash and investments	\$ 747,559	\$ 157,746	\$ 32,390	\$ 19,712	\$ -	\$ (25,439)
Restricted assets:						
Cash and investments	-	-	-	-	-	-
Total cash and investment assets - ending	<u>\$ 747,559</u>	<u>\$ 157,746</u>	<u>\$ 32,390</u>	<u>\$ 19,712</u>	<u>\$ -</u>	<u>\$ (25,439)</u>
Cash and Investment Fund Balance - Ending						
Restricted for:						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	747,559	157,746	32,390	19,712	-	(25,439)
Total cash and investment fund balance - ending	<u>\$ 747,559</u>	<u>\$ 157,746</u>	<u>\$ 32,390</u>	<u>\$ 19,712</u>	<u>\$ -</u>	<u>\$ (25,439)</u>

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

COVINGTON COMMUNITY SCHOOL CORPORATION
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007
(Continued)

	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:					
Local sources	\$ 669,448	\$ 759,815	\$ 59,616	\$ 546,696	\$ 4,095,934
Intermediate sources	-	-	-	1,031	4,276
State sources	-	-	-	115,899	3,943,117
Federal sources	-	-	-	451,077	462,077
Bonds and loans	263,000	278,000	72,000	-	1,871,000
Sale of property, adjustments and refunds	-	-	-	-	1,000,550
Total receipts	932,448	1,037,815	131,616	1,114,703	11,376,954
Disbursements:					
Current:					
Instruction	-	-	-	646,828	4,588,899
Support services	-	931,734	47,151	663,571	3,696,086
Community services	-	-	-	-	166,652
Nonprogrammed charges	-	-	-	31,163	1,304,500
Debt services	649,633	500,000	-	-	1,649,633
Total disbursements	649,633	1,431,734	47,151	1,341,562	11,405,770
Excess (deficiency) of receipts over disbursements	282,815	(393,919)	84,465	(226,859)	(28,816)
Other financing sources (uses):					
Transfers in	-	-	-	16,107	23,253
Transfers out	(10,412)	(3,749)	-	(24)	(23,253)
Total other financing sources (uses)	(10,412)	(3,749)	-	16,083	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	272,403	(397,668)	84,465	(210,776)	(28,816)
Cash and investments - beginning	77,429	541,348	39,413	85,755	1,453,153
Prior period adjustment	-	-	-	159,177	159,177
Cash and investments - adjusted beginning	77,429	541,348	39,413	244,932	1,612,330
Cash and investments - ending	<u>\$ 349,832</u>	<u>\$ 143,680</u>	<u>\$ 123,878</u>	<u>\$ 34,156</u>	<u>\$ 1,583,514</u>
Cash and Investment Assets - Ending					
Cash and investments	\$ -	\$ 143,680	\$ 123,878	\$ 34,156	\$ 1,233,682
Restricted assets:					
Cash and investments	349,832	-	-	-	349,832
Total cash and investment assets - ending	<u>\$ 349,832</u>	<u>\$ 143,680</u>	<u>\$ 123,878</u>	<u>\$ 34,156</u>	<u>\$ 1,583,514</u>
Cash and Investment Fund Balance - Ending					
Restricted for:					
Debt service	\$ 349,832	\$ -	\$ -	\$ -	\$ 349,832
Unrestricted	-	143,680	123,878	34,156	1,233,682
Total cash and investment fund balance - ending	<u>\$ 349,832</u>	<u>\$ 143,680</u>	<u>\$ 123,878</u>	<u>\$ 34,156</u>	<u>\$ 1,583,514</u>

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

COVINGTON COMMUNITY SCHOOL CORPORATION
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	General	Transportation Operating	Textbook Rental	Special Needs	Gifted and Talented	Title II Part A 04-05, 06-07
Receipts:						
Local sources	\$ 998,920	\$ 190,661	\$ 74,761	\$ -	\$ -	\$ -
Intermediate sources	3,020	-	-	-	-	-
State sources	3,571,540	-	32,341	-	29,474	-
Federal sources	-	-	-	11,000	-	78,706
Bonds and loans	1,526,740	97,000	-	-	-	-
Sale of property, adjustments and refunds	1,100	11,469	550	-	-	-
Total receipts	6,101,320	299,130	107,652	11,000	29,474	78,706
Disbursements:						
Current:						
Instruction	3,244,720	-	-	-	853	12,338
Support services	1,929,800	428,373	104,134	-	1,105	-
Community services	184,497	-	-	-	-	-
Nonprogrammed charges	240,600	-	-	-	-	-
Debt services	1,148,000	110,000	-	-	-	-
Total disbursements	6,747,617	538,373	104,134	-	1,958	12,338
Excess (deficiency) of receipts over disbursements	(646,297)	(239,243)	3,518	11,000	27,516	66,368
Other financing sources (uses):						
Transfers in	140,000	6,404	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	140,000	6,404	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(506,297)	(232,839)	3,518	11,000	27,516	66,368
Cash and investments - beginning	747,559	157,746	32,390	19,712	-	(25,439)
Cash and investments - ending	\$ 241,262	\$ (75,093)	\$ 35,908	\$ 30,712	\$ 27,516	\$ 40,929
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ 241,262	\$ (75,093)	\$ 35,908	\$ 30,712	\$ 27,516	\$ 40,929
Restricted assets:						
Cash and investments	-	-	-	-	-	-
Total cash and investment assets - ending	\$ 241,262	\$ (75,093)	\$ 35,908	\$ 30,712	\$ 27,516	\$ 40,929
<u>Cash and Investment Fund Balance - Ending</u>						
Restricted for:						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	241,262	(75,093)	35,908	30,712	27,516	40,929
Total cash and investment fund balance - ending	\$ 241,262	\$ (75,093)	\$ 35,908	\$ 30,712	\$ 27,516	\$ 40,929

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

COVINGTON COMMUNITY SCHOOL CORPORATION
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008
(Continued)

	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:					
Local sources	\$ 402,481	\$ 448,097	\$ 74,640	\$ 616,473	\$ 2,806,033
Intermediate sources	-	-	-	825	3,845
State sources	-	-	-	35,417	3,668,772
Federal sources	-	-	-	495,160	584,866
Bonds and loans	415,000	298,000	58,000	-	2,394,740
Sale of property, adjustments and refunds	-	16,320	-	1,750	31,189
Total receipts	817,481	762,417	132,640	1,149,625	9,489,445
Disbursements:					
Current:					
Instruction	-	-	-	741,208	3,999,119
Support services	-	960,906	197,161	490,894	4,112,373
Community services	-	-	-	-	184,497
Nonprogrammed charges	-	-	-	16,541	257,141
Debt services	682,419	278,000	72,000	-	2,290,419
Total disbursements	682,419	1,238,906	269,161	1,248,643	10,843,549
Excess (deficiency) of receipts over disbursements	135,062	(476,489)	(136,521)	(99,018)	(1,354,104)
Other financing sources (uses):					
Transfers in	-	35,000	1,500	-	182,904
Transfers out	(181,500)	-	-	(1,404)	(182,904)
Total other financing sources (uses)	(181,500)	35,000	1,500	(1,404)	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(46,438)	(441,489)	(135,021)	(100,422)	(1,354,104)
Cash and investments - beginning	349,832	143,680	123,878	34,156	1,583,514
Cash and investments - ending	\$ 303,394	\$ (297,809)	\$ (11,143)	\$ (66,266)	\$ 229,410
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ -	\$ (297,809)	\$ (11,143)	\$ (66,266)	\$ (73,984)
Restricted assets:					
Cash and investments	303,394	-	-	-	303,394
Total cash and investment assets - ending	\$ 303,394	\$ (297,809)	\$ (11,143)	\$ (66,266)	\$ 229,410
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
Debt service	\$ 303,394	\$ -	\$ -	\$ -	\$ 303,394
Unrestricted	-	(297,809)	(11,143)	(66,266)	(73,984)
Total cash and investment fund balance - ending	\$ 303,394	\$ (297,809)	\$ (11,143)	\$ (66,266)	\$ 229,410

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

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

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, 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 textbook rental fund accounts for all receipts of fees collected for rent of textbooks and workbooks furnished to students; also, to record all disbursements for purchase of textbooks, for repair of textbooks and for workbooks to be used with rented textbooks furnished to students for a designated fee.

The special needs fund accounts for federal funding to support career and technical education programs at the secondary, post secondary and adult levels.

The gifted and talented fund accounts for the state funding for the development and implementation of local programs and services for high ability students.

The Title II, Part A fund accounts for the federal funding to assist schools in effectively recruiting and retaining highly qualified teachers.

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.

C. Measurement Focus and Basis of Accounting

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

COVINGTON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

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

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. 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. Property taxes for 2007 and 2008 collected by the Warren County Treasurer were not available for distribution to the School Corporation until after December 31 for each year respectively. Property taxes for 2008 collected by the Fountain County Treasurer were not available for distribution to the School Corporation until after December 31, 2008.

3. Capital Assets

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

COVINGTON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Long-Term Debt

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

5. 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 Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.

COVINGTON COMMUNITY SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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 years ended June 30, 2007, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Fund	2007
General	\$ 41,803
Preschool	16,688
Total	\$ 58,491

C. Cash and Investment Balance Deficits

At June 30, 2007 and 2008, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute:

COVINGTON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund	2007	2008
High School MIMH/MOMH/SP 06-07	\$ 15,628	\$ -
High School MIMH/MOMH/SP 07-08	-	24,448
Middle School MIMH/MOMH/SP 06-07	14,831	-
Middle School MIMH/MOMH/SP 07-08	-	21,541
TCAM 06-07	4,845	-
Professional Development Project	680	730
Transportation Operating	-	75,093
Title I 06-07	2,078	-
Crawfordsville Co-Operative 94-142	39,950	35,055
Title II Part A, 04-05, 06-07	25,439	-
Title II Part A, 05-06, 07-08	30,563	65,048
Title II Part D Tech Lit	708	788
Capital Projects	-	297,809
School Bus Replacement	-	11,143
	<u> </u>	<u> </u>
Totals	<u>\$ 134,722</u>	<u>\$ 531,655</u>

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

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

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

2. Investments

As of June 30, 2008, the School Corporation had no investments.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2007 and 2008, were as follows:

COVINGTON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Transfer From	Transfer To	2007	2008
General Fund	Other governmental funds	\$ 7,576	\$ -
Debt Service	Textbook Rental	7,146	-
Debt Service	Other governmental funds	3,266	-
Debt Service	General	-	140,000
Debt Service	Capital Projects	-	35,000
Debt Service	Transportation Operating	-	5,000
Debt Service	Bus Replacement	-	1,500
Transportation Operating	Other governmental funds	1,492	-
Capital Projects	Other governmental funds	3,749	-
Other governmental funds	Transportation Operating	-	1,404
Other governmental funds	Other governmental funds	24	-
		<u>\$ 23,253</u>	<u>\$ 182,904</u>
Totals		<u>\$ 23,253</u>	<u>\$ 182,904</u>

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

C. Restatements and Reclassifications

For the year ended June 30, 2008, certain changes have been made to the financial statements to more appropriately reflect financial activity of the School Corporation. The following schedule presents a summary of restated beginning balances by opinion unit. New Funds represents the inclusion of existing funds which were not presented in the prior report. Prior period adjustments represent checks written from the construction fund in 2004 and 2005 but never sent to the vendor. Subsequently the checks were receipted back to the fund in August 2006.

Opinion Unit	Balance as Reported June 30 2006	Prior Period Adjustments	Balance as Restated July 1, 2006
Governmental activities	\$ 1,453,153	\$ 159,177	\$ 1,612,330
Other aggregate remaining funds	85,755	159,177	244,932

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.

COVINGTON COMMUNITY SCHOOL CORPORATION
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; 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.

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 \$788,000.

C. Subsequent Events

Change of Insurance

Effective January 1, 2009, the School Corporation joined other governmental entities to be in a public entity risk pool currently operating as a common risk management and insurance program for twenty three member governmental entities. The purpose of the risk pool is to provide a medium for the funding and administration of property, casualty, errors and omissions and job related illnesses or injuries to employees. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$5,000,000 per member for their lifetime. The risk pool does not obtain independent coverage for insured events in excess of the \$5,000,000 limit.

Common School Fund Loan

On March 5, 2008, the School Corporation was approved for a common school fund loan for \$1,075,000. This advance is to be repaid over a period not to exceed twenty-five years at the rate of four percent. The first drawdown was in July 2008, and as of May 27, 2009, \$548,103 had been drawn down and expended by the school corporation.

Issuance of General Obligation Bonds for Remodeling

In October 2008, the School Corporation issued \$1,300,000 of general obligation bonds for improvements to the elementary school kitchen, elementary heating and air conditioning system and general parking lot improvements in the school corporation. These bonds are to be repaid starting in 2009 over a ten year period at 2.75% to 3.30% interest.

On October 21, 2008, a contract was signed for kitchen renovation and locker replacement totaling \$1,552,200.

COVINGTON COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Tax Anticipation Warrant Extended

The Tax Anticipation Warrant loan of \$1,435,000 due by December 31, 2008, was not paid, but was extended until June 30, 2009, after paying interest due of \$48,656 in January 2009.

Additional Tax Anticipation Warrant Received

On January 2, 2009, the School Corporation received an additional Tax Anticipation Warrant for \$1,312,000 that is due December 31, 2009.

Personnel Changes

During the audit, on February 6, 2009, the Superintendent abruptly resigned. On February 23, 2009, the Corporation Treasurer was released by the School Board.

D. 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	\$ 88,143
Interest on net pension obligation	(5,381)
Adjustment to annual required contribution	6,132
Annual pension cost	88,894
Contributions made	54,315
Increase (decrease) in net pension obligation	34,579
Net pension obligation, beginning of year	(74,216)
Net pension obligation, end of year	\$ (39,637)

	PERF
Contribution rates:	
School Corporation	5.5%
Plan members	3%
Actuarial valuation date	07-01-07
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	30 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

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

COVINGTON COMMUNITY SCHOOL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-05	\$ 36,407	117%	\$ (102,676)
	06-30-06	74,790	62%	(74,216)
	06-30-07	88,894	61%	(39,637)

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 7.25% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2007, and 2008, were \$122,436, \$130,932, and \$138,449, 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)
07-01-05	\$ 1,013,046	\$ 1,202,255	\$ (189,209)	84%	\$ 1,113,568	(17%)
07-01-06	826,744	1,084,689	(257,945)	76%	1,050,402	(25%)
07-01-07	962,860	1,173,147	(210,287)	82%	1,110,058	(19%)

COVINGTON COMMUNITY SCHOOL CORPORATION
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007

	Preschool	School Lunch	Excess Levy	High School MIMH/MOMH/SP 06-07	Middle School MIMH/MOMH/SP 06-07	MOMH
Receipts:						
Local sources	\$ 5,692	\$ 209,288	\$ -	\$ 117,578	\$ 77,654	\$ 1,645
Intermediate sources	-	-	-	-	-	-
State sources	28,544	5,628	-	-	-	-
Federal sources	506	145,433	-	-	-	-
Total receipts	<u>34,742</u>	<u>360,349</u>	<u>-</u>	<u>117,578</u>	<u>77,654</u>	<u>1,645</u>
Disbursements:						
Current:						
Instruction	22,076	-	-	133,206	92,485	345
Support services	-	392,653	-	-	-	387
Nonprogrammed charges	31,163	-	-	-	-	-
Total disbursements	<u>53,239</u>	<u>392,653</u>	<u>-</u>	<u>133,206</u>	<u>92,485</u>	<u>732</u>
Excess (deficiency) of receipts over disbursements	<u>(18,497)</u>	<u>(32,304)</u>	<u>-</u>	<u>(15,628)</u>	<u>(14,831)</u>	<u>913</u>
Other financing sources (uses):						
Transfers in	-	-	16,107	-	-	-
Transfers out	(24)	-	-	-	-	-
Total other financing sources (uses)	<u>(24)</u>	<u>-</u>	<u>16,107</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(18,521)</u>	<u>(32,304)</u>	<u>16,107</u>	<u>(15,628)</u>	<u>(14,831)</u>	<u>913</u>
Cash and investments - beginning	48,108	104,199	-	-	-	(913)
Prior period adjustment	-	-	-	-	-	-
Cash and investments - adjusted beginning	<u>48,108</u>	<u>104,199</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(913)</u>
Cash and investments - ending	<u>\$ 29,587</u>	<u>\$ 71,895</u>	<u>\$ 16,107</u>	<u>\$ (15,628)</u>	<u>\$ (14,831)</u>	<u>\$ -</u>
Cash and Investment Assets - Ending						
Cash and investments	<u>\$ 29,587</u>	<u>\$ 71,895</u>	<u>\$ 16,107</u>	<u>\$ (15,628)</u>	<u>\$ (14,831)</u>	<u>\$ -</u>
Cash and Investment Fund Balance - Ending						
Unrestricted	<u>\$ 29,587</u>	<u>\$ 71,895</u>	<u>\$ 16,107</u>	<u>\$ (15,628)</u>	<u>\$ (14,831)</u>	<u>\$ -</u>

COVINGTON COMMUNITY SCHOOL CORPORATION
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007
 (Continued)

	Special Ed Co-operative	TCAM 07-08	TCAM 05-06	TCAM 06-07	Educational Plate	Gifted and Talented 06-07
Receipts:						
Local sources	\$ 11,803	\$ -	\$ 13,959	\$ 98,854	\$ -	\$ -
Intermediate sources	-	-	-	-	1,031	-
State sources	-	-	-	-	-	11,834
Federal sources	-	-	-	-	-	-
Total receipts	11,803	-	13,959	98,854	1,031	11,834
Disbursements:						
Current:						
Instruction	-	-	-	81,756	4,500	11,370
Support services	156	-	833	21,943	-	-
Nonprogrammed charges	-	-	-	-	-	-
Total disbursements	156	-	833	103,699	4,500	11,370
Excess (deficiency) of receipts over disbursements	11,647	-	13,126	(4,845)	(3,469)	464
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	11,647	-	13,126	(4,845)	(3,469)	464
Cash and investments - beginning	(11,647)	-	(13,126)	-	4,735	-
Prior period adjustment	-	-	-	-	-	-
Cash and investments - adjusted beginning	(11,647)	-	(13,126)	-	4,735	-
Cash and investments - ending	\$ -	\$ -	\$ -	\$ (4,845)	\$ 1,266	\$ 464
Cash and Investment Assets - Ending						
Cash and investments	\$ -	\$ -	\$ -	\$ (4,845)	\$ 1,266	\$ 464
Cash and Investment Fund Balance - Ending						
Unrestricted	\$ -	\$ -	\$ -	\$ (4,845)	\$ 1,266	\$ 464

COVINGTON COMMUNITY SCHOOL CORPORATION
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007
 (Continued)

	Medicaid Reimbursement	Non English Speaking Program	Technology Foundation Grant	Regional Technology Grant	Professional Development Project
Receipts:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	-	-
State sources	-	-	67,893	2,000	-
Federal sources	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total receipts	-	-	67,893	2,000	-
Disbursements:					
Current:					
Instruction	-	-	-	-	-
Support services	-	-	67,866	860	680
Nonprogrammed charges	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total disbursements	-	-	67,866	860	680
Excess (deficiency) of receipts over disbursements	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	27	1,140	(680)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	27	1,140	(680)
Cash and investments - beginning	245	71	-	-	-
Prior period adjustment	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Cash and investments - adjusted beginning	245	71	-	-	-
Cash and investments - ending	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 245	\$ 71	\$ 27	\$ 1,140	\$ (680)
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 245	\$ 71	\$ 27	\$ 1,140	\$ (680)
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 245	\$ 71	\$ 27	\$ 1,140	\$ (680)

COVINGTON COMMUNITY SCHOOL CORPORATION
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007
 (Continued)

	Title I 06-07	Title V	Sliver Fund	Crawfordsville Co-operative 94-142	Pre-school Handicap PL 99-457	Drug Free Schools
Receipts:						
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	-	-	-
State sources	-	-	-	-	-	-
Federal sources	102,491	1,602	-	193,230	7,815	-
Total receipts	102,491	1,602	-	193,230	7,815	-
Disbursements:						
Current:						
Instruction	104,569	-	-	196,521	-	-
Support services	-	-	-	-	-	1,726
Nonprogrammed charges	-	-	-	-	-	-
Total disbursements	104,569	-	-	196,521	-	1,726
Excess (deficiency) of receipts over disbursements	(2,078)	1,602	-	(3,291)	7,815	(1,726)
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(2,078)	1,602	-	(3,291)	7,815	(1,726)
Cash and investments - beginning	-	-	5,670	(36,659)	-	1,726
Prior period adjustment	-	-	-	-	-	-
Cash and investments - adjusted beginning	-	-	5,670	(36,659)	-	1,726
Cash and investments - ending	<u>\$ (2,078)</u>	<u>\$ 1,602</u>	<u>\$ 5,670</u>	<u>\$ (39,950)</u>	<u>\$ 7,815</u>	<u>\$ -</u>
Cash and Investment Assets - Ending						
Cash and investments	<u>\$ (2,078)</u>	<u>\$ 1,602</u>	<u>\$ 5,670</u>	<u>\$ (39,950)</u>	<u>\$ 7,815</u>	<u>\$ -</u>
Cash and Investment Fund Balance - Ending						
Unrestricted	<u>\$ (2,078)</u>	<u>\$ 1,602</u>	<u>\$ 5,670</u>	<u>\$ (39,950)</u>	<u>\$ 7,815</u>	<u>\$ -</u>

COVINGTON COMMUNITY SCHOOL CORPORATION
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007
 (Continued)

	Medicaid Reimbursement- Federal	Title II Part A 05-06, 07-08	Title II Part D Tech Lit.	Construction	Totals
Receipts:					
Local sources	\$ -	\$ -	\$ -	\$ 10,223	\$ 546,696
Intermediate sources	-	-	-	-	1,031
State sources	-	-	-	-	115,899
Federal sources	-	-	-	-	451,077
Total receipts	-	-	-	10,223	1,114,703
Disbursements:					
Current:					
Instruction	-	-	-	-	646,828
Support services	126	-	245	176,096	663,571
Nonprogrammed charges	-	-	-	-	31,163
Total disbursements	126	-	245	176,096	1,341,562
Excess (deficiency) of receipts over disbursements	(126)	-	(245)	(165,873)	(226,859)
Other financing sources (uses):					
Transfers in	-	-	-	-	16,107
Transfers out	-	-	-	-	(24)
Total other financing sources (uses)	-	-	-	-	16,083
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(126)	-	(245)	(165,873)	(210,776)
Cash and investments - beginning	3,193	(30,563)	(463)	11,179	85,755
Prior period adjustment	-	-	-	159,177	159,177
Cash and investments - adjusted beginning	3,193	(30,563)	(463)	170,356	244,932
Cash and investments - ending	<u>\$ 3,067</u>	<u>\$ (30,563)</u>	<u>\$ (708)</u>	<u>\$ 4,483</u>	<u>\$ 34,156</u>
Cash and Investment Assets - Ending					
Cash and investments	<u>\$ 3,067</u>	<u>\$ (30,563)</u>	<u>\$ (708)</u>	<u>\$ 4,483</u>	<u>\$ 34,156</u>
Cash and Investment Fund Balance - Ending					
Unrestricted	<u>\$ 3,067</u>	<u>\$ (30,563)</u>	<u>\$ (708)</u>	<u>\$ 4,483</u>	<u>\$ 34,156</u>

COVINGTON COMMUNITY SCHOOL CORPORATION
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2008

	Preschool	School Lunch	Excess Levy	High School MIMH/MOMH/SP 06-07	High School MIMH/MOMH/SP 07-08	Middle School MIMH/MOMH/SP 06-07
Receipts:						
Local sources	\$ 18,829	\$ 215,307	\$ -	\$ 18,353	\$ 129,935	\$ 14,831
Intermediate sources	-	-	-	-	-	-
State sources	29,931	5,486	-	-	-	-
Federal sources	-	160,571	-	-	-	-
Sale of property, adjustments and refunds	-	-	-	-	-	-
Total receipts	<u>48,760</u>	<u>381,364</u>	<u>-</u>	<u>18,353</u>	<u>129,935</u>	<u>14,831</u>
Disbursements:						
Current:						
Instruction	45,410	-	-	-	154,383	-
Support services	-	452,404	-	2,725	-	-
Nonprogrammed charges	16,123	-	-	-	-	-
Total disbursements	<u>61,533</u>	<u>452,404</u>	<u>-</u>	<u>2,725</u>	<u>154,383</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(12,773)</u>	<u>(71,040)</u>	<u>-</u>	<u>15,628</u>	<u>(24,448)</u>	<u>14,831</u>
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(12,773)</u>	<u>(71,040)</u>	<u>-</u>	<u>15,628</u>	<u>(24,448)</u>	<u>14,831</u>
Cash and investments - beginning	<u>29,587</u>	<u>71,895</u>	<u>16,107</u>	<u>(15,628)</u>	<u>-</u>	<u>(14,831)</u>
Cash and investments - ending	<u>\$ 16,814</u>	<u>\$ 855</u>	<u>\$ 16,107</u>	<u>\$ -</u>	<u>\$ (24,448)</u>	<u>\$ -</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	<u>\$ 16,814</u>	<u>\$ 855</u>	<u>\$ 16,107</u>	<u>\$ -</u>	<u>\$ (24,448)</u>	<u>\$ -</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	<u>\$ 16,814</u>	<u>\$ 855</u>	<u>\$ 16,107</u>	<u>\$ -</u>	<u>\$ (24,448)</u>	<u>\$ -</u>

COVINGTON COMMUNITY SCHOOL CORPORATION
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2008
 (Continued)

	Middle School MIMH/MOMH/SP 07-08	TCAM 07-08	TCAM 06-07	Educational Plate	Gifted and Talented 06-07	Medicaid Reimbursement
Receipts:						
Local sources	\$ 106,803	\$ 104,377	\$ 6,813	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	825	-	-
State sources	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-
Sale of property, adjustments and refunds	-	1,750	-	-	-	-
Total receipts	106,803	106,127	6,813	825	-	-
Disbursements:						
Current:						
Instruction	128,344	75,353	1,008	-	464	-
Support services	-	21,929	960	1,800	-	-
Nonprogrammed charges	-	-	-	-	-	-
Total disbursements	128,344	97,282	1,968	1,800	464	-
Excess (deficiency) of receipts over disbursements	(21,541)	8,845	4,845	(975)	(464)	-
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(21,541)	8,845	4,845	(975)	(464)	-
Cash and investments - beginning	-	-	(4,845)	1,266	464	245
Cash and investments - ending	\$ (21,541)	\$ 8,845	\$ -	\$ 291	\$ -	\$ 245
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	\$ (21,541)	\$ 8,845	\$ -	\$ 291	\$ -	\$ 245
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	\$ (21,541)	\$ 8,845	\$ -	\$ 291	\$ -	\$ 245

COVINGTON COMMUNITY SCHOOL CORPORATION
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2008
 (Continued)

	Non English Speaking Program	Technology Foundation Grant	Regional Technology Grant	Professional Development Project	Indiana Virtual Academy	Title I 06-07
Receipts:						
Local sources	\$ -	\$ -	\$ -	\$ -	\$ 1,225	\$ -
Intermediate sources	-	-	-	-	-	-
State sources	-	-	-	-	-	-
Federal sources	-	-	-	-	-	9,000
Sale of property, adjustments and refunds	-	-	-	-	-	-
Total receipts	-	-	-	-	1,225	9,000
Disbursements:						
Current:						
Instruction	-	-	-	-	-	6,922
Support services	-	27	901	50	-	-
Nonprogrammed charges	-	-	-	-	418	-
Total disbursements	-	27	901	50	418	6,922
Excess (deficiency) of receipts over disbursements	-	(27)	(901)	(50)	807	2,078
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(27)	(901)	(50)	807	2,078
Cash and investments - beginning	71	27	1,140	(680)	-	(2,078)
Cash and investments - ending	<u>\$ 71</u>	<u>\$ -</u>	<u>\$ 239</u>	<u>\$ (730)</u>	<u>\$ 807</u>	<u>\$ -</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	<u>\$ 71</u>	<u>\$ -</u>	<u>\$ 239</u>	<u>\$ (730)</u>	<u>\$ 807</u>	<u>\$ -</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	<u>\$ 71</u>	<u>\$ -</u>	<u>\$ 239</u>	<u>\$ (730)</u>	<u>\$ 807</u>	<u>\$ -</u>

COVINGTON COMMUNITY SCHOOL CORPORATION
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2008
 (Continued)

	Title I 07-08	Title V	Sliver Fund	Crawfordsville Co-operative 94-142	Pre-school Handicap PL 99-457	Drug Free Schools
Receipts:						
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	-	-	-
State sources	-	-	-	-	-	-
Federal sources	120,954	4,586	-	178,637	7,446	11,370
Sale of property, adjustments and refunds	-	-	-	-	-	-
Total receipts	120,954	4,586	-	178,637	7,446	11,370
Disbursements:						
Current:						
Instruction	118,501	-	-	173,742	-	-
Support services	600	-	-	-	-	4,935
Nonprogrammed charges	-	-	-	-	-	-
Total disbursements	119,101	-	-	173,742	-	4,935
Excess (deficiency) of receipts over disbursements	1,853	4,586	-	4,895	7,446	6,435
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	(1,404)	-	-	-	-	-
Total other financing sources (uses)	(1,404)	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	449	4,586	-	4,895	7,446	6,435
Cash and investments - beginning	-	1,602	5,670	(39,950)	7,815	-
Cash and investments - ending	<u>449</u>	<u>6,188</u>	<u>5,670</u>	<u>(35,055)</u>	<u>15,261</u>	<u>6,435</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	<u>449</u>	<u>6,188</u>	<u>5,670</u>	<u>(35,055)</u>	<u>15,261</u>	<u>6,435</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	<u>449</u>	<u>6,188</u>	<u>5,670</u>	<u>(35,055)</u>	<u>15,261</u>	<u>6,435</u>

COVINGTON COMMUNITY SCHOOL CORPORATION
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2008
 (Continued)

	Medicaid Reimbursement- Federal	Title II Part A 05-06, 07-08	Title II Part D Tech Lit.	Construction	Totals
Receipts:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ 616,473
Intermediate sources	-	-	-	-	825
State sources	-	-	-	-	35,417
Federal sources	-	2,596	-	-	495,160
Sale of property, adjustments and refunds	-	-	-	-	1,750
Total receipts	-	2,596	-	-	1,149,625
Disbursements:					
Current:					
Instruction	-	37,081	-	-	741,208
Support services	-	-	80	4,483	490,894
Nonprogrammed charges	-	-	-	-	16,541
Total disbursements	-	37,081	80	4,483	1,248,643
Excess (deficiency) of receipts over disbursements	-	(34,485)	(80)	(4,483)	(99,018)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	(1,404)
Total other financing sources (uses)	-	-	-	-	(1,404)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(34,485)	(80)	(4,483)	(100,422)
Cash and investments - beginning	3,067	(30,563)	(708)	4,483	34,156
Cash and investments - ending	<u>\$ 3,067</u>	<u>\$ (65,048)</u>	<u>\$ (788)</u>	<u>\$ -</u>	<u>\$ (66,266)</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	<u>\$ 3,067</u>	<u>\$ (65,048)</u>	<u>\$ (788)</u>	<u>\$ -</u>	<u>\$ (66,266)</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	<u>\$ 3,067</u>	<u>\$ (65,048)</u>	<u>\$ (788)</u>	<u>\$ -</u>	<u>\$ (66,266)</u>

COVINGTON COMMUNITY SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended June 30, 2008

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	7,153,562
Machinery and equipment	1,524,877
Construction in progress	<u>64,510</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 28,095,792</u>

COVINGTON COMMUNITY SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2008

The School has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Capital leases:		
High School and Elementary School Building Improvements	\$ 7,251,320	\$ 530,500
School Busses	143,549	42,910
Notes and loans payable		
Common School	417,906	87,037
Tax Anticipation Warrants	<u>2,350,000</u>	<u>2,431,075</u>
Total governmental activities debt	<u>\$ 10,162,775</u>	<u>\$ 3,091,522</u>

COVINGTON COMMUNITY SCHOOL CORPORATION
OTHER REPORT

The audit report presented herein was prepared in addition to the official report prepared for the individual School Corporation office listed below:

Supplemental Report on Superintendent

COVINGTON COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS

LACK OF SEGREGATION OF DUTIES

The School Corporation accounting department did not have adequate segregation of duties. The Treasurer, Cynthia S. Coleman, was responsible for posting of receipts, posting of disbursements, adjusting and correcting entries, all bank reconcilements, accounting for investments, processing of disbursements, year-end closing and fund statement preparation. The Payroll Supervisor, Trudie Dillon, was responsible for the processing of payroll.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

ERRORS ON CLAIMS

The following deficiencies were noted on claims during the audit period:

1. Claim was not prepared for one disbursement.
2. Three claims were not adequately itemized.
3. One invoice or bill was not filed with the governmental entity's fiscal officer.
4. One invoice or bill was not approved by the governing board.
5. Four contract payments were made with no approved contract.
6. One expenditure was not charged to the proper fund.
7. No verification goods were received for one disbursement.
8. Two payments did not agree to the invoice amount.
9. No authority for disbursement was documented for two payments.
10. Two public works projects were not bid and one received 50% down payment.
11. General review indicated some payments were not timely.
12. General review indicated refunds had been received for duplicate payments made by the school.

IC 5-11-10-1.6 states in part:

"(b) As used in this section, "claim" means a bill or an invoice submitted to a governmental entity for goods or services."

COVINGTON COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

"(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

School corporations may not draw a warrant or check for payment of a claim unless; (1) there is a fully itemized invoice or bill for the claim; (2) the invoice or bill is approved by the officer or person receiving the goods and services; (3) the invoice or bill is filed with the fiscal officer; (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and (5) payment of the claim is allowed by the board having jurisdiction over the allowance of the payment of the claim. Accounts payable voucher (Form 523) is to be prepared for all disbursements. (Accounting and Compliance Guidelines Manual for Indiana Public Schools, Chapter 2)

IC 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;
 - (B) a county containing a consolidated city or second class city; or
 - (C) a regional water or sewage district established under IC 13-26; or
- (2) at least fifty thousand dollars (\$50,000) in a political subdivision or an agency not described in subdivision (1)."

IC 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 . . ."

COVINGTON COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

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

PUBLIC WORKS PROJECT

The Covington Community School Corporation, during the audit period, contracted with Sentry Roofing and B. D. Crain Mechanical for roofing and heating and air conditioning work, respectively. The total amount paid to Sentry Roofing for the roof project was \$229,378 and the amount paid to B. D. Crain was \$95,000. There was no evidence presented for audit that sealed bids were requested or received.

A similar audit finding was noted in the prior audit, Report B29602.

IC 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;
 - (B) a county containing a consolidated city or second class city; or
 - (C) a regional water or sewage district established under IC 13-26; or
- (2) at least fifty thousand dollars (\$50,000) in a political subdivision or an agency not described in subdivision (1)."

IC 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 . . ."

ADVANCE PAYMENTS

Dates of transactions indicate that some payments were made to companies or individuals prior to the receipt of goods or services. Sentry Roofing received down payments equal to 50% of the contracted amounts upon signing the contract.

COVINGTON COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CONTRACTS

Records presented for audit indicate payments were made to Crain Mechanical for HVAC work in 2007 and 2008 without a contract.

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

MINUTES OF MEETINGS OF GOVERNING BODY

We determined that the minutes of the School Board of Trustees were recorded and maintained by the Superintendent Nate Evans. We also determined that not all pertinent information was brought to the Board of Trustees attention and that not all actions that should have been documented as part of the public records were included in the minutes such as, the withholding of payments to contractors, awarding of contracts, transferring of funds and the incurring of debt. The School Board of Trustees was also presented financial statements at each meeting that were not reflective of the fund ledger.

All business transacted by the governing body must be recorded in the minutes of the meetings. It is the duty of the secretary of the governing body to keep the minutes and the minutes of each meeting should be approved by the governing body and signed by the members attending. The minutes must be accurate and complete since the governing body speaks from its minutes. Not all documents acted upon, such as bids and contracts, must be copied in the minutes but reference thereto and the action taken thereon should be recorded in the minutes and the documents carefully preserved. Important papers and documents; however, will need to be completely recorded in the minutes, such as proceedings to issue bonds. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

CREDIT CARDS

The Superintendent was using credit cards in some instances to purchase items without an approved credit card policy.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.

COVINGTON COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

INTERNAL CONTROLS

The controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient. Review of financial activities indicated the Superintendent had direct access to all the accounting records including the extra-curricular accounting system utilized for school lunch and textbook rental accounting.

Salaries and other expenditures were often disbursed improperly at the direction of the Superintendent without regard for budget or statute.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9) (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

WITHHOLDING OF PAYMENTS

Covington Community School Corporation had a contractual agreement with S.M.C. Inc. for renovations at the elementary and high school. Checks written to S.M.C. Inc. between December 13, 2004, and November 14, 2005, totaling \$159,176.61 were never sent due to the School Corporation contesting S.M.C.'s compliance with contractual requirements. These checks were posted on August 31, 2006, as a credit to the expenses of the Construction Fund. The result of the withholding of the payments is that cash balances were understated. Crediting the expenses resulted in an understatement of expenses for fiscal year 2006-2007.

COVINGTON COMMUNITY SCHOOL CORPORATION
AUDIT RESULTS AND COMMENTS
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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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, 2007 and 2008. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

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

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2007 and 2008.

Internal Control Over Compliance

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

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

A control deficiency in a School Corporation's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in items 2008-4, 2008-5, and 2008-6 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2008-4 and 2008-6, to be material weaknesses.

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

This report is intended solely for the information and use of the School Corporation's management, the School Board of Trustees, 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

May 27, 2009

COVINGTON COMMUNITY SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2007 and 2008

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 06-30-07	Total Federal Awards Expended 06-30-08
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	FY 06-07 FY 07-08	\$ 28,742 -	\$ - 33,521
Total for program			<u>28,742</u>	<u>33,521</u>
National School Lunch Program	10.555	FY 06-07 FY 07-08	130,454 -	- 140,071
Total for program			<u>130,454</u>	<u>140,071</u>
Total for cluster			<u>159,196</u>	<u>173,592</u>
Total for federal grantor agency			<u>159,196</u>	<u>173,592</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Crawfordsville Community School Corporation				
Special Education Cluster				
Special Education - Grants to States	84.027			
PL 94-142 Handicapped		FY 06-07	193,230	-
PL 94-142 Handicapped		FY 07-08	-	173,742
Total for program			<u>193,230</u>	<u>173,742</u>
Special Education - Preschool Grants	84.173			
PL 99-457 Preschool Handicapped		FY 06-07	506	-
Total for cluster			<u>193,736</u>	<u>173,742</u>
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010	07-2440 08-2440	104,569 -	6,922 119,101
Total for program			<u>104,569</u>	<u>126,023</u>
Career and Technical Education - Basic Grants to States	84.048	FY 04-05 FY 05-06	2,126 2,288	- -
Total for program			<u>4,414</u>	<u>-</u>
Safe and Drug Free Schools and Communities - State Grants	84.186	FY 04-05 FY 05-06 FY 06-07	1,726 - -	- 4,426 509
Total for program			<u>1,726</u>	<u>4,935</u>
Education Technology State Grants	84.318			
Technology Plan Grant Program			-	37,081
Technology Literacy			245	80
Total for program			<u>245</u>	<u>37,161</u>
Improving Teacher Quality State Grant				
Elementary and Secondary Education Act - Title II - Part A	84.367	FY 04-05 FY 06-07 FY 07-08	28,492 25,439 -	- - 12,338
Total for program			<u>53,931</u>	<u>12,338</u>
Total for federal grantor agency			<u>358,621</u>	<u>354,199</u>
Total federal awards expended			<u>\$ 517,817</u>	<u>\$ 527,791</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, 2007 and 2008. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2007	2008
School Breakfast Program	10.553	\$ 2,485	\$ 2,514
National School Lunch Program	10.555	11,278	10,506

COVINGTON COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Result

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	yes

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	yes

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

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

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Child Nutrition Cluster Title I Grants to Local Educational Agencies

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

Auditee qualified as low-risk auditee? yes

Section II – Financial Statement Findings

FINDING 2008-1, LACK OF SEGREGATION OF DUTIES

The School Corporation accounting department did not have adequate segregation of duties. The Treasurer, Cynthia S. Coleman, was responsible for posting of receipts, posting of disbursements, adjusting and correcting entries, all bank reconcilements, accounting for investments, processing of disbursements, year-end closing and fund statement preparation. The Payroll Supervisor, Trudie Dillon, was responsible for the processing of payroll.

A lack of adequate segregation of duties can increase the risk of invalid or fraudulent transactions not being detected. The result is inaccurate records and financial statements that can result in faulty decision making by management.

COVINGTON COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

We recommended that segregation of duties be implemented between the employees available. When functions are not practical or feasible to segregate duties, mitigating controls such as increased monitoring or oversight should be utilized.

FINDING 2008-2, LACK OF DOCUMENTATION

We determined during the course of the audit that there were numerous instances where the documentation provided was inadequate. The following conditions relating to inadequate documentation were noted:

1. Some disbursements were made without adequate documentation such as, no Accounts Payable Voucher School Form No. 523, lack of itemization, and/or no evidence to support the receipt of goods or services.
2. Some minutes were incomplete. There were instances of transfers between funds being made without documented approval by the School Board of Trustees. There was also no evidence of School Board of Trustee approval for some disbursements.
3. There were purchases made using credit cards but there was no documented Credit Card Usage Policy.

The lack of adequate documentation for disbursements could result in the payment of erroneous or fraudulent claims.

Since the governing body speaks from its minutes, incomplete or inaccurate minutes could result in the School Board of Trustees objectives not being executed or being misrepresented.

Lack of adequate policies can result in a failure to safeguard the School Corporation's assets. Credit card purchases can also be used to circumvent the disbursement approval process.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

All business transacted by the governing body must be recorded in the minutes of the meetings. It is the duty of the secretary of the governing board to keep the minutes and the minutes of each meeting should be approved by the governing body and signed by the members attending. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

COVINGTON COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

We recommended that the School Corporation implement internal controls which provide reasonable assurance as to the validity of cash disbursements, completeness and accuracy of board minutes and create policies for the safeguarding of the assets and proper processing of information for effective and efficient operations.

FINDING 2008-3, MANAGEMENT OVERRIDE OF CONTROLS

We determined that Superintendent, Nate Evans, overrode controls in the following ways:

1. He had full access to all accounting software, including the School Corporation accounting system as well as the extra-curricular accounting system, which was utilized for school lunch and textbook rental accounting.
2. He maintained the official record of the School Board of Trustees' minutes.
3. He circumvented the bid process and awarded public works projects to vendors of his choice without documented Board of Trustees' approval.
4. He instructed the Treasurer and Payroll Supervisor to post disbursements based on his direction rather than as budgeted or required by state statute.
5. He instructed the Treasurer to write checks from the Construction Fund and then hold them in the safe for a protracted period of time.
6. He provided the School Board of Trustees with financial statements at each meeting that were not reflective of the fund ledger.

Management override of controls can result in a failure to safeguard the School's cash and other assets, provides for unreliable financial information and records, ineffective and inefficient operations, failure to execute the School Board of Trustees' objectives and possible noncompliance with laws and regulations. The conditions noted above can result in the following:

1. The Superintendent having access to all accounting systems allows for the misappropriation of funds, the posting of erroneous or fraudulent transactions, or other manipulations of the financial data and fund statements.
2. The Superintendent's maintenance of the School Board of Trustees' minutes could result in the misrepresentation of the Board's objectives or intent.
3. The Superintendent's circumvention of the bid process could allow for a project to be awarded to other than the most responsive bidder. The Public Works law is state statute. The result of noncompliance could result in greater costs for the School Corporation.
4. The Superintendent's direction for the posting of disbursements could result in a shifting of expenditures and could misrepresent actual costs. The shifting of expenditures negates the budgeting process and makes future budgeting more difficult.

COVINGTON COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

5. The writing of checks and withholding of payment results in an understatement of cash balances and an overstatement of expenditures in the year written.
6. The providing of financial statement information not reflective of the fund ledger could result in ineffective management and poor decisions by the School Board of Trustees.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9) (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

We recommended that the School Corporation put in place internal controls which would provide reasonable reliability of the financial information and records. This can be accomplished by restricting the Superintendent to view only capabilities in the computer systems, creating procedures for monitoring of the Treasurer by the Superintendent and monitoring of the Superintendent by the Board of Trustees.

We recommended that as provided for by IC 20-26-4-1, that the governing body establish the position of executive secretary to the governing body and determine the duties of the executive secretary, which may include all or part of the duties of the secretary of the Board.

We recommended that all Public Works Law IC 36-1-12 be complied with for all projects. The term "**public work**" means the construction, reconstruction, alteration, or renovation of a public building, airport facility, or other structure that is paid for out of a public fund or out of a special assessment. [IC 36-1-12-2].

We recommend that the Treasurer report directly to the School Board of Trustees, the appointing body.

Section III – Federal Award Findings and Questioned Costs

FINDING 2008-4, LACK OF SEGREGATION OF DUTIES

Federal Agency: U.S. Department of Agriculture and U.S. Department of Education
Federal Program: Child Nutrition Cluster and Title I Grants to Local Educational Agencies
CFDA Number: 10.555 and 84.010
Pass-through Entity: Indiana Department of Education

The School Corporation accounting department did not have adequate segregation of duties. The Treasurer, Cynthia S. Coleman, was responsible for posting of receipts, posting of disbursements, adjusting and correcting entries, all bank reconcilements, accounting for investments, processing of disbursements, year-end closing and fund statement preparation. The Payroll Supervisor, Trudie Dillon, was responsible for the processing of payroll.

A lack of adequate segregation of duties can increase the risk of invalid or fraudulent transactions not being detected. The result is inaccurate records and financial statements, including the schedule of federal financial expenditures, which can result in faulty decision making by management.

COVINGTON COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

EDGAR 80.20(b)(3) states: "*Internal control.* Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes."

We recommended that segregation of duties be implemented between the employees available. When it is not practical or feasible to segregate duties, mitigating controls such as increased monitoring or oversight should be utilized.

FINDING 2008-5. LACK OF DOCUMENTATION

Federal Agency: U.S. Department of Agriculture and U.S. Department of Education
Federal Program: Child Nutrition Cluster and Title I Grants to Local Educational Agencies
CFDA Number: 10.555 and 84.010
Pass-through Entity: Indiana Department of Education

We determined during the course of the audit that there were numerous instances where the documentation provided was inadequate. The following conditions relating to inadequate documentation were noted:

1. Some disbursements were made without adequate documentation such as, no Accounts Payable Voucher School Form No. 523, lack of itemization, and/or no evidence to support the receipt of goods or services.
2. Some minutes were incomplete. There were instances of transfers between funds being made without documented approval by the School Board of Trustees. There was also no evidence of School Board of Trustees' approval for some disbursements.
3. There were purchases made using credit cards but there was no documented Credit Card Usage Policy.

The lack of adequate documentation for disbursements could result in the payment of erroneous or fraudulent claims.

Since the governing body speaks from the minutes, incomplete or inaccurate minutes could result in the School Board of Trustees objectives not being executed or being misrepresented.

Lack of adequate policies can result in a failure to safeguard the School Corporation's assets. Credit card purchases can also be used to circumvent the disbursement approval process.

EDGAR 80.20(b)(6) states: "*Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contact and subgrant award documents, etc."

EDGAR 80.20(b)(3) states: "*Internal control.* Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes."

COVINGTON COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

We recommended that the School Corporation implement internal controls which provide reasonable assurance as to the validity of cash disbursements, including federal expenditures, completeness and accuracy of its board minutes, and create policies for the safeguarding of assets and proper processing of information for effective and efficient operations.

FINDING 2008-6, MANAGEMENT OVERRIDE OF CONTROLS

Federal Agency: U.S. Department of Agriculture and U.S. Department of Education
Federal Program: Child Nutrition Cluster and Title I Grants to Local Educational Agencies
CFDA Number: 10.555 and 84.010
Pass-through Entity: Indiana Department of Education

We determined that Superintendent, Nate Evans, overrode controls in the following ways:

1. He had full access to all accounting software, including the School Corporation accounting system as well as the extra-curricular accounting system, which was utilized for school lunch and textbook rental accounting.
2. He maintained the official record of the School Board of Trustees' minutes.
3. He circumvented the bid process as required by law and awarded public works projects to vendors of his choice without documented Board of Trustees' approval.
4. He instructed the Treasurer and Payroll Supervisor Treasurer to post disbursements based on his direction rather than as budgeted or required by state statute.
5. He instructed the Treasurer to write checks from the Construction Fund and then hold them in the safe for a protracted period of time.
6. He provided the School Board of Trustees with financial statements at each meeting that were not reflective of the fund ledger.

Management override of controls can result in a failure to safeguard the School's cash and other assets, provides for unreliable financial information and records, ineffective and inefficient operations, failure to execute the School Board of Trustees' objectives and possible noncompliance with laws and regulations. The conditions noted above can result in the following:

1. The Superintendent having access to all accounting systems allows for the misappropriation of funds, including federal funds, the posting of erroneous or fraudulent transactions or other manipulations of the financial data and fund statements, including the schedule of federal financial expenditures.
2. The Superintendent's maintenance of the School Board of Trustees' minutes could result in the misrepresentation of the Board's objectives or intent.
3. The Superintendent's circumvention of the bid process could allow for a project to be awarded to other than the most responsive bidder. The Public Works law is state statute. The result of noncompliance could result in greater costs for the School Corporation.

COVINGTON COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

4. The Superintendent's direction for the posting of disbursements could result in a shifting of expenditures and could misrepresent actual costs. The shifting of expenditures negates the budgeting process and makes future budgeting more difficult.
5. The writing of checks and withholding of payment results in an understatement of cash balances and an overstatement of expenditures in the year written.
6. The providing of financial statement information not reflective of the fund ledger could result in ineffective management and poor decisions by the School Board of Trustees.

EDGAR 80.20(b)(3) states: "*Internal control*. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes."

We recommended that the School Corporation put in place internal controls which would provide reasonable reliability of the financial information and records. This can be accomplished by restricting the Superintendent to view only capabilities in the computer systems, creating procedures for monitoring of the Treasurer by the Superintendent and monitoring of the Superintendent by the School Board of Trustees.

We recommended that as provided for by IC 20-26-4-1, that the governing body establish the position of executive secretary to the governing body and determine the duties of the executive secretary, which may include all or part of the duties of the secretary of the board.

We recommended that all Public Works Law IC 36-1-12 be complied with for all projects. The term "**public work**" means the construction, reconstruction, alteration, or renovation of a public building, airport facility, or other structure that is paid for out of a public fund or out of a special assessment. [IC 36-1-12-2].

We recommended that the Treasurer report directly to the School Board of Trustees, the appointing body.

COVINGTON COMMUNITY SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



May 28, 2009

CORRECTIVE ACTION PLAN

Section II – Financial Statement Findings

2008-1, Lack of Segregation of Duties

Section III – Federal Findings

2008-4, Lack of Segregation of Duties

Federal Agency: U.S. Dept of Agriculture and U.S. Dept of Education

Federal Program: Child Nutrition Cluster and Title I Grants to Local Educational Agencies

CFDA Number: 10.555 and 84.010

Pass-through Entity: Indiana Department of Education

Expected Completion Date: December 31, 2009

Auditee Contact Person: Trudie Dillon

Title of Contact Person: Treasurer

Contact Telephone No: (765) 793-4877

The following procedures are either currently in place or shall be initiated with the hiring of a new superintendent:

A. PAYROLL SEGREGATION

1. The Board of School Trustees currently approves all pay rates in advance. The Superintendent and/or Treasurer shall approve payroll distribution of funds before processing.
2. Building Principals and/or Supervisors currently review and sign all time cards and submit to Payroll Supervisor for processing.
3. The Payroll Supervisor currently prepares the payroll from the time cards and/or time sheets presented.
4. The Treasurer shall implement verifying the payroll reports and initial to document verification
5. For each payroll, the Payroll Supervisor currently prepares the payroll claims for employee deductions, for all federal tax payments and state and county tax payments. The Treasurer currently reviews and processes those claims into the Komputrol system.
6. The Payroll Supervisor currently prepares the reports and claims on a quarterly basis and presents to the Treasurer for review and claims processing. The Treasurer shall implement signing those claims.

B. ACCOUNTS PAYABLE SEGREGATION

1. The Payroll Supervisor currently sorts all mail and distributes. In the absence of the Payroll Supervisor, the Treasurer sorts and distributes the mail.
2. The Treasurer currently prepares and processes the accounts payable vouchers for corporation expenditures.
3. The Food Service Director shall submit all Food Service supply bills attached to accounts payable vouchers. The Treasurer shall audit, date and sign those vouchers. The Treasurer shall then process those vouchers and mail payments.
4. The Administrative Assistant shall verify the accounts payable vouchers to the edit report and initial the edit report documenting that verification.
5. The Board of School Trustees is active in the business activities. A copy of the list of vouchers awaiting payment will be included the board members' agenda packet mailed to them or will be on the table for their review before their regular monthly board meeting. The individual Accounts Payable Vouchers will be available for review at the meeting.
6. The Corporation Treasurer shall present the new Superintendent with a copy of the list of vouchers awaiting payment for his review and for his approval. The Treasurer shall request his approval be indicated by his initials and date stamp.

C. BANK RECONCILIATION/STATEMENTS

1. Bank Statements shall be received by a second person in the central office to review for reasonableness. It will be initialed to indicate this review.
2. Both office employees shall share the duty of bank reconciliations (i.e. checking each other's work).
3. Initial preparer shall sign the bank statement when completed and the second person shall initial the statement after their review.

D. PURCHASING AND FUNDS MONITORING

1. Building Principals currently approve and sign all purchase requisitions. Requisitions shall be signed by the Superintendent before submitted to the Corporation Treasurer for Purchase Order processing.
2. Requests for purchases of supplies and/or materials in excess of \$5,000 shall be approved by the Board of School Trustees, prior to purchase.
3. The Board approves all individual transactions and reviews budget to actual expenses.
4. The Superintendent shall serve as the purchasing agent for the school corporation.

Section II Financial Statement Findings

2008-2 Lack of Documentation

Section III Federal Findings

2008-5 Lack of Documentation

Federal Agency: U.S. Dept of Agriculture and U.S. Dept of Education

Federal Program: Child Nutrition Cluster and Title I Grants to Local Educational
Agencies

CFDA Number: 10.555 and 84.010

Pass-through Entity: Indiana Department of Education

Expected Completion Date: December 31, 2009

Auditee Contact Person: Trudie Dillon

Title of Contact Person: Treasurer

Contact Telephone No: (765) 793-4877

A. DISBURSEMENTS

1. Itemization shall be documented on Accounts Payable Voucher School Form No. 523 and supporting documentation shall be attached to the accounts payable voucher.

B. MINUTE BOOK OF THE BOARD OF SCHOOL TRUSTEES

1. Minutes of the Regular and Special Meetings of the Board of School Trustees shall be taken by the Executive Secretary appointed by the board. Executive Secretary to the Board shall be appointed during the public meeting on June 8, 2009.
2. It shall be the duty of the Executive Secretary to keep the minutes. The minutes of each meeting are approved by the governing body and shall be signed by the members attending.
3. All business transacted by the governing body shall be recorded in the minutes of the meetings.
4. Copies of all supporting documentation, such as but not limited to, all Original Budget forms, bids to be awarded, Transfer of Funds Ordinance, Resolutions Passed, Resignations, Recommendations for Employment and other pertinent information shall be placed in the Minute Book with the corresponding minutes.

C. CREDIT CARD USAGE

1. At this time credit card usage has been terminated at Covington Community School Corporation.
2. A charge account is currently in place at Menards in Danville, Illinois for use by the Maintenance Supervisor and the Director of Building and Grounds. Receipts

are currently presented to the Treasurer for supplies and/or materials purchased. Requests for purchases of supplies and/or materials in excess of \$5,000 shall be approved by the Board of School Trustees, prior to purchase.

3. In the event a Corporation credit card is secured, it shall be the responsibility of the governing board to authorize credit card use through a resolution, which shall be approved in the minutes of the Board of School Trustees.

Section II Financial Statement Findings
2008-3 Management Override of Controls

Section III Federal Findings

2008-6 Management Override of Controls

Federal Agency: U.S. Dept of Agriculture and U.S. Dept of Education

Federal Program: Child Nutrition Cluster and Title I Grants to Local Educational Agencies

CFDA Number: 10.55 and 84.010

Pass-through Entity: Indiana Department of Education

Expected Completion Date: December 31, 2009

Auditee Contact Person: Trudie Dillon

Title of Contact Person: Treasurer

Contact Telephone No: (765) 793-4877

A. ACCOUNTING SOFTWARE

1. The Corporation Treasurer and Payroll Supervisor shall have full access to Komputrol, the corporation accounting software system. The Superintendent shall have read-only access to the finance program to be able to see all activity in the accounts. Passwords have already been changed and profiles corrected.
2. The Corporation Network Administrator shall appropriately configure security for Harmony, the buildings' accounting software and student management program.

B. BID PROCESS

1. Covington Community School Corporation shall follow the bid process as stated in the Public Works Law. Bids shall be awarded in public session of the Board of School Trustees. A copy of the winning bid shall be placed in the minute book maintained by the governing body. All bid documentation shall be retained for audit.

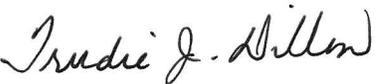
C. FINANCIAL STATEMENT INFORMATION

1. The Board of School Trustees shall be presented accurate financial statements directly from the accounting software system. This process was implemented in March 2009.

D. EXPENDITURES

1. Expenditures shall be expended as stated in the original budget, as authorized by the Board of School Trustees. Adjustments necessary to the original budget appropriations shall be properly implemented and approved, if required, by the governing board. Checks will not be issued and/or held for invalid transactions and disbursements for valid transactions shall be made timely, after approval by the School Board of Trustees.


Roger Coffing
President
Board of School Trustees


Trudie J. Dillon
Corporation Treasurer

COVINGTON COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on May 27, 2009, with Cynthia S. Coleman, former Treasurer; Roger Coffing, President of the School Board and Interim Superintendent of Schools; Trudie Dillon, Treasurer; and Nate Evans, former Superintendent of Schools.