
Covington Exempted Village School District
Miami County, Ohio

Basic Financial Statements

June 30, 2010

(with Independent Auditors' Report)



Dave Yost • Auditor of State

Board of Education
Covington Exempted Village School District
25 N. Grant Street
Covington, Ohio 45318

We have reviewed the *Independent Auditors' Report* of the Covington Exempted Village School District, Miami County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Covington Exempted Village School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 28, 2011

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INDEPENDENT AUDITORS' REPORT

Board of Education
Covington Exempted Village School District
25 N. Grant Street
Covington, Ohio 45318

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Covington Exempted Village School District (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2010, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the District'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 of the District. 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.

A handwritten signature in cursive script that reads "Clark, Schaefer, Hachett & Co." The signature is written in black ink on a light-colored background.

Springfield, Ohio
December 22, 2010

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The management's discussion and analysis of the Covington Exempted Village School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2010 are as follows:

- In total, net assets of governmental activities decreased \$300,953 which represents a 10.40% decrease from 2009.
- General revenues accounted for \$6,662,707 in revenue or 80.15% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,650,536 or 19.85% of total revenues of \$8,313,243.
- The District had \$8,614,196 in expenses related to governmental activities; \$1,650,536 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$6,662,707 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$7,094,645 in revenues and \$7,405,437 in expenditures. During fiscal year 2010, the general funds' fund balance decreased \$310,792 from \$1,773,654 to \$1,462,862.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *statement of net assets* and *statement of activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2010?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 14-15 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate statement of fiduciary net assets on page 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-46 of this report.

The District as a Whole

Recall that the statement of net assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2010 and 2009.

	Net Assets	
	Governmental Activities	Governmental Activities
	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Current and other assets	\$ 4,139,934	\$ 4,649,117
Capital assets, net	<u>1,579,330</u>	<u>1,553,723</u>
Total assets	<u>5,719,264</u>	<u>6,202,840</u>
<u>Liabilities</u>		
Current liabilities	2,369,777	2,565,994
Long-term liabilities	<u>757,091</u>	<u>743,497</u>
Total liabilities	<u>3,126,868</u>	<u>3,309,491</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,471,778	1,407,454
Restricted	230,920	341,827
Unrestricted	<u>889,698</u>	<u>1,144,068</u>
Total net assets	<u>\$ 2,592,396</u>	<u>\$ 2,893,349</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the District's assets exceeded liabilities by 2,592,396. Of this total, \$230,920 is restricted in use.

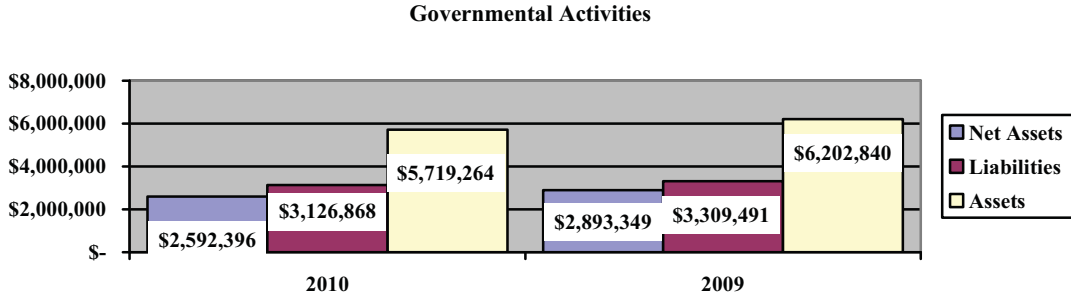
At year-end, capital assets represented 27.61% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2010, were \$1,471,778. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$230,920, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$889,698 may be used to meet the District's ongoing obligations to the students and creditors.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

The graph below illustrates the governmental activities assets, liabilities and net assets at June 30, 2010 and 2009:



The table below shows the change in net assets for fiscal year 2010 and 2009.

Change in Net Assets

	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 775,985	\$ 814,466
Operating grants and contributions	874,551	786,120
Capital grants and contributions	-	4,877
General revenues:		
Property taxes	1,712,679	1,652,045
School district income tax	1,502,914	1,575,289
Grants and entitlements	3,420,275	3,384,682
Investment earnings	6,762	36,318
Other	<u>20,077</u>	<u>33,592</u>
Total revenues	<u>8,313,243</u>	<u>8,287,389</u>

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Change in Net Assets

	<u>Governmental Activities 2010</u>	<u>Governmental Activities 2009</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,819,966	\$ 3,610,853
Special	900,043	685,221
Other	7,026	6,591
Support services:		
Pupil	351,699	318,816
Instructional staff	495,789	360,524
Board of education	10,250	9,675
Administration	776,817	765,592
Fiscal	244,490	247,601
Business	3,379	2,743
Operations and maintenance	580,079	606,933
Pupil transportation	407,289	302,051
Central	101,055	134,240
Operations of non-instructional services		
Other non-instructional services	118,975	123,864
Food service operations	303,443	307,801
Extracurricular activities	483,450	471,054
Interest and fiscal charges	<u>10,446</u>	<u>11,486</u>
Total expenses	<u>8,614,196</u>	<u>7,965,045</u>
Change in net assets	(300,953)	322,344
Net assets at beginning of year	<u>2,893,349</u>	<u>2,571,005</u>
Net assets at end of year	<u>\$ 2,592,396</u>	<u>\$ 2,893,349</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$300,953. Total governmental expenses of \$8,614,196 were offset by program revenues of \$1,650,536 and general revenues of \$6,662,707. Program revenues supported 19.16% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes, and grants and entitlements. These revenue sources represent 79.82% of total governmental revenue.

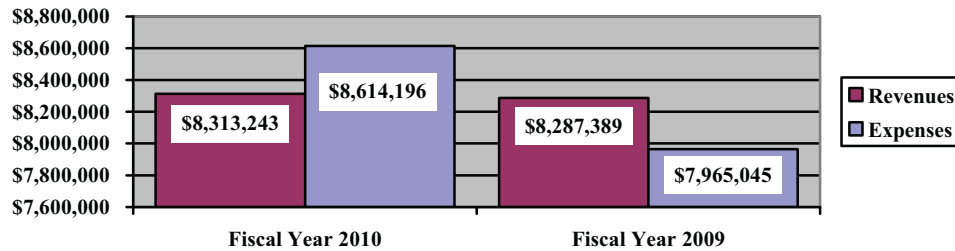
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,727,035 or 54.87% of total governmental expenses for fiscal year 2010.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2010 and 2009.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program expenses				
Instruction:				
Regular	\$ 3,819,966	\$ 3,335,134	\$ 3,610,853	\$ 3,182,201
Special	900,043	724,406	685,221	247,929
Other	7,026	7,026	6,591	6,591
Support services:				
Pupil	351,699	318,348	318,816	285,939
Instructional staff	495,789	317,638	360,524	289,844
Board of education	10,250	10,250	9,675	9,675
Administration	776,817	655,359	765,592	752,218
Fiscal	244,490	244,405	247,601	247,519
Business	3,379	3,379	2,743	2,743
Operations and maintenance	580,079	525,500	606,933	597,638
Pupil transportation	407,289	359,131	302,051	276,669
Central	101,055	89,196	134,240	126,810
Operations of non-instructional services				
Other non-instructional services	118,975	62,173	123,864	64,244
Food service operations	303,443	4,876	307,801	18,345
Extracurricular activities	483,450	296,393	471,054	239,731
Interest and fiscal charges	10,446	10,446	11,486	11,486
Total expenses	<u>\$ 8,614,196</u>	<u>\$ 6,963,660</u>	<u>\$ 7,965,045</u>	<u>\$ 6,359,582</u>

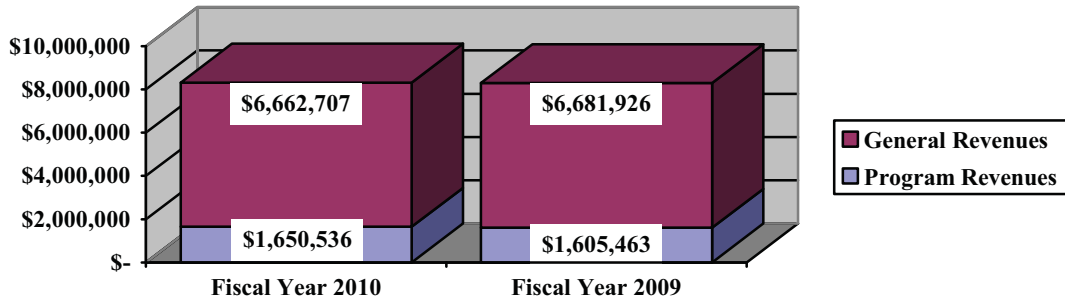
The dependence upon tax and other general revenues for governmental activities is apparent, 86.03% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 80.84%.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

The graph below presents the District's governmental activities revenue for fiscal year 2010 and 2009.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,667,914 which is less than last year's total of \$2,045,066. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	Fund Balance <u>June 30, 2010</u>	Fund Balance <u>June 30, 2009</u>	<u>Decrease</u>	<u>Percentage Change</u>
General	\$ 1,462,862	\$ 1,773,654	\$ (310,792)	(17.52) %
Other Governmental	<u>205,052</u>	<u>271,412</u>	<u>(66,360)</u>	(24.45) %
Total	<u>\$ 1,667,914</u>	<u>\$ 2,045,066</u>	<u>\$ (377,152)</u>	(18.44) %

General Fund

The District's general fund balance decreased \$310,792. The decrease in income tax revenue is attributed to the economic slowdown. Earnings on investments are down due to low interest rates. The slight increase in support services is due to an increase in wages and benefits. The decrease in non-instructional services expenditures is due a decrease in the number of students attending community schools. Facilities acquisition and construction expenditures fluctuate from year to year.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

The table below assists in illustrating the financial activities and fund balance of the general fund.

	<u>2010</u> <u>Amount</u>	<u>2009</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,222,337	\$ 3,275,497	\$ (53,160)	(1.62) %
Tuition	366,814	376,003	(9,189)	(2.44) %
Earnings on investments	6,755	36,168	(29,413)	(81.32) %
Intergovernmental	3,429,679	3,659,230	(229,551)	(6.27) %
Other revenues	<u>69,060</u>	<u>75,741</u>	<u>(6,681)</u>	<u>(8.82) %</u>
Total	<u>\$ 7,094,645</u>	<u>\$ 7,422,639</u>	<u>\$ (327,994)</u>	<u>(4.42) %</u>
<u>Expenditures</u>				
Instruction	\$ 4,380,599	\$ 4,030,631	\$ 349,968	8.68 %
Support services	2,673,070	2,609,107	63,963	2.45 %
Non-instructional services	56,666	72,596	(15,930)	(21.94) %
Extracurricular activities	245,437	229,365	16,072	7.01 %
Capital outlay	-	34,312	(34,312)	100.00 %
Debt service	49,163	55,613	(6,450)	(11.60) %
Facilities acquisition and construction	<u>502</u>	<u>9,340</u>	<u>(8,838)</u>	<u>(94.63) %</u>
Total	<u>\$ 7,405,437</u>	<u>\$ 7,040,964</u>	<u>\$ 364,473</u>	<u>5.18 %</u>

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

For the general fund, final budgeted revenues and other financing sources were \$7,171,434, which was lower than the original budgeted revenues and other financing sources of \$7,246,074. Actual revenues and other financing sources for fiscal year 2010 were \$7,063,582. This represents a \$107,852 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$7,406,237 were increased to \$7,613,549 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2010 totaled \$7,282,458, which was \$331,091 less than the final budget appropriations.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the District had \$1,579,330 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2010 balances compared to 2009:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2010	2009
Land	\$ 352,453	\$ 352,453
Land improvements	286,196	307,779
Building and improvements	524,384	527,117
Furniture and equipment	215,534	308,109
Vehicles	200,763	58,265
Total	\$ 1,579,330	\$ 1,553,723

The overall increase in capital assets of \$25,607 is primarily due to capital outlays of \$223,650 exceeding depreciation expense of \$198,043 for fiscal year 2010.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2010, the District had \$107,552 in capital lease obligations outstanding. Of this total, \$41,972 is due within one year and \$65,580 is due in greater than one year. The following table summarizes the outstanding obligations for fiscal 2010 compared to 2009.

Outstanding Debt, at Year End

	Governmental Activities 2010	Governmental Activities 2009
Capital lease obligations	\$ 107,552	\$ 146,269
Total	\$ 107,552	\$ 146,269

At June 30, 2010, the District's overall legal debt margin was \$8,391,097 with an unvoted debt margin of \$93,234.

See Note 10 to the basic financial statements for detail on the District's debt administration.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Current Financial Related Activities

Operating Revenue

Like most public school districts in Ohio, the Covington Exempted Village School District relies on its property & income taxes and state aide to provide the funds necessary to maintain its educational programs. Currently, the State foundation, state reimbursements and foundation subsidy make up 50% of total General Fund (operating) revenue. Covington's other major sources of General Fund Revenue are local sources - real estate taxes (21%) and income taxes (21%). The balance of our operating revenue comes from tangible personal property tax (on public utilities), open enrollment, student fees, donations, and interest income.

State Revenue

The state foundation for fiscal year 2010 and fiscal year 2011 is based on provisions found in the current biennium budget bill. Significant changes were made to the school funding formula in this bill, called the Evidence Based Model (EBM) approach. The severe economic crisis made it impossible for the state to consider an aggressive phase-in and implementation of the new EBM funding model; therefore, gain caps and funding guarantees were incorporated in the model so the State could operate within its budgetary capacity. As a result, state aid for Covington was decreased by 1% in fiscal year 2010 and by 2% in fiscal year 2011. It is also important to note that a significant portion of the overall dollars (approximately 7.5%) allocated by the state during this biennium are being supplied by one-time Federal Stabilization funds.

School funding beyond fiscal year 2011 will be set as part of the State's biennial budget for fiscal years 2012 and 2013. Due to the economic conditions within the State and the anticipated shortfall in tax revenues in the next budget, the level at which the State will fund schools is uncertain. The new biennial budget that commences effective July 1, 2011 could include significant decreases in state funding.

Local Revenue

The current state of the economy has also had an adverse affect on the District's local revenue sources. Income tax collections generally show some growth, however the slowdown in the economy resulted in a 6% reduction in income tax receipts in fiscal year 2010 and it may be several years before we see much growth. The current income tax includes one-half percent (.50%) which was approved in 1993 for continuous or permanent collection, and an additional five-year 1.25% tax (effective 2006 thru 2010.) A renewal was approved by voters in November 2009, extending the levy for another five year period (2011 thru 2015.)

The nationwide housing crisis and declining property values have resulted in little or no growth in property tax collections as well. The operating levies for the District total 30.4 voted mills, but the assessed millage (i.e. effective rate) is at the 20-mill floor as applied to both real property classifications due to the tax reduction factor.

Operating Expenditures

Approximately 80% of the District's operating expenses are salaries and benefits. The remaining 20 percent of operating costs are supplies & materials, purchased services (which include additional personnel hired through the Miami County Educational Service Center), utilities, repairs & maintenance, and tuition fees (charged for students attending special programs or other schools.) In 2005 when the District was having financial difficulty, cuts were made which have not been restored. The Board continues to control expenditures by monitoring enrollment & staffing requirements; participating in a purchasing council (cooperative) to obtain the best pricing on insurance, office & food service supplies, and the purchase of school buses; negotiating changes in medical insurance plans, including higher co-pays and increased employee contributions; expanding its recycling program to reduce refuse fees; and by exploring energy saving opportunities.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Permanent Improvements

The District faces many challenges as the school buildings age. Major updates are on hold while the District pursues the opportunity to utilize funds from the Ohio Schools Facilities Commission for a new building.

The issue was first taken to the voters in August of 2010 in the form of a combined bond/permanent improvement levy to cover the local share for a new PreK-12 school building. It was defeated, with 36% voting for the levy and 64% against. The Board has just completed a community survey and will be assessing this information before deciding how to proceed with the facilities project.

In the meantime, the capital expenditures, including building upkeep and repairs, are completed as required, to keep the facilities safe for students and staff. Because the District (unlike every other school in Miami County) *does not* have a Permanent Improvement Levy, all improvements and capital projects (including the purchase of school buses) must be budgeted in the General Fund. Two replacement buses were purchased in fiscal year 2010, but the District fleet still consists of five buses purchased in 1996 or earlier. Unfortunately, when the General Fund is strained, capital projects are delayed.

Conclusion

With great uncertainty at the state level, our future educational funding is seriously threatened as indicated in our five-year forecast. The District's expenditures exceeded revenues in fiscal year 2010, with general fund revenue being down by 2% and expenditures up by 7%. Deficit spending is also projected for the current year and beyond. State law requires schools to operate with positive cash balances; therefore, additional revenue and/or expenditure reductions will need to be considered in order to balance the budget. These are challenging times for School Boards and School Administrators; as we look into the future and try to successfully manage the District's budget, we try to do so knowing that some items in a school district's budget are controllable, while others are not.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Carol Forsythe, Treasurer, Covington Exempted Village School District, 25 Grant Street, Covington, Ohio 45318.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,920,997
Receivables:	
Taxes	2,167,560
Accounts.	8,296
Intergovernmental	15,013
Accrued interest	738
Prepayments	5,905
Materials and supplies inventory.	21,425
Capital assets:	
Land	352,453
Depreciable capital assets, net.	1,226,877
Capital assets, net	1,579,330
 Total assets.	 5,719,264
Liabilities:	
Accounts payable.	26,211
Accrued wages and benefits	629,952
Pension obligation payable.	182,367
Intergovernmental payable	25,840
Unearned revenue	1,505,407
Long-term liabilities:	
Due within one year.	121,358
Due in more than one year	635,733
 Total liabilities	 3,126,868
Net Assets:	
Invested in capital assets, net of related debt	1,471,778
Restricted for:	
Capital projects	2,602
Federally funded programs	2,948
Student activities	48,743
Other purposes	176,627
Unrestricted	889,698
 Total net assets	 \$ 2,592,396

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 3,819,966	\$ 385,881	\$ 98,951	\$ (3,335,134)
Special	900,043	30,090	145,547	(724,406)
Other	7,026	-	-	(7,026)
Support services:				
Pupil	351,699	-	33,351	(318,348)
Instructional staff	495,789	-	178,151	(317,638)
Board of education	10,250	-	-	(10,250)
Administration	776,817	8,480	112,978	(655,359)
Fiscal	244,490	63	22	(244,405)
Business	3,379	-	-	(3,379)
Operations and maintenance	580,079	7,467	47,112	(525,500)
Pupil transportation	407,289	6,603	41,555	(359,131)
Central	101,055	-	11,859	(89,196)
Operation of non-instructional services:				
Other non-instructional services	118,975	3,388	53,414	(62,173)
Food service operations	303,443	185,990	112,577	(4,876)
Extracurricular activities	483,450	148,023	39,034	(296,393)
Interest and fiscal charges	10,446	-	-	(10,446)
Total governmental activities	<u>\$ 8,614,196</u>	<u>\$ 775,985</u>	<u>\$ 874,551</u>	<u>\$ (6,963,660)</u>

General revenues:

Property taxes levied for:	
General purposes	1,712,679
School district income tax	1,502,914
Grants and entitlements not restricted	
to specific programs	3,420,275
Investment earnings	6,762
Miscellaneous	20,077
Total general revenues	<u>6,662,707</u>
Change in net assets	(300,953)
Net assets at beginning of year	<u>2,893,349</u>
Net assets at end of year	<u>\$ 2,592,396</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 1,663,949	\$ 257,048	\$ 1,920,997
Receivables:			
Taxes.	2,167,560	-	2,167,560
Accounts.	969	7,327	8,296
Intergovernmental	2,601	12,412	15,013
Accrued interest	738	-	738
Prepayments.	5,905	-	5,905
Materials and supplies inventory.	-	21,425	21,425
Total assets	<u>\$ 3,841,722</u>	<u>\$ 298,212</u>	<u>\$ 4,139,934</u>
Liabilities:			
Accounts payable	\$ 19,049	\$ 7,162	\$ 26,211
Accrued wages and benefits.	579,001	50,951	629,952
Compensated absences payable	71,668	-	71,668
Pension obligation payable	158,108	24,259	182,367
Intergovernmental payable	23,999	1,841	25,840
Deferred revenue	29,034	1,541	30,575
Unearned revenue.	1,498,001	7,406	1,505,407
Total liabilities.	<u>2,378,860</u>	<u>93,160</u>	<u>2,472,020</u>
Fund Balances:			
Reserved for encumbrances	6,140	80,455	86,595
Reserved for materials and supplies inventory	-	21,425	21,425
Reserved for prepayments.	5,905	-	5,905
Reserved for property tax unavailable for appropriation.	154,921	-	154,921
Unreserved, undesignated, reported in:			
General fund.	1,295,896	-	1,295,896
Special revenue funds	-	100,570	100,570
Capital projects funds	-	2,602	2,602
Total fund balances	<u>1,462,862</u>	<u>205,052</u>	<u>1,667,914</u>
Total liabilities and fund balances	<u>\$ 3,841,722</u>	<u>\$ 298,212</u>	<u>\$ 4,139,934</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010

Total governmental fund balances	\$	1,667,914
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,579,330
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes receivable	\$ 29,034	
Intergovernmental receivable	<u>1,541</u>	
Total		30,575
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Capital lease obligation	107,552	
Compensated absences payable	<u>577,871</u>	
Total		<u>(685,423)</u>
Net assets of governmental activities	\$	<u><u>2,592,396</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 3,222,337	\$ -	\$ 3,222,337
Tuition.	366,814	-	366,814
Charges for services	6,603	185,990	192,593
Earnings on investments	6,755	373	7,128
Classroom materials and fees	37,538	-	37,538
Extracurricular.	25	174,198	174,223
Rentals.	4,817	-	4,817
Contributions and donations	9,272	93,651	102,923
Other local revenues	10,805	13,705	24,510
Intergovernmental - State	3,423,449	13,536	3,436,985
Intergovernmental - Federal	6,230	744,627	750,857
Total revenue	<u>7,094,645</u>	<u>1,226,080</u>	<u>8,320,725</u>
Expenditures:			
Current:			
Instruction:			
Regular.	3,613,097	109,678	3,722,775
Special	760,476	150,186	910,662
Other	7,026	-	7,026
Support services:			
Pupil	314,713	35,225	349,938
Instructional staff.	305,789	186,417	492,206
Board of education	10,196	-	10,196
Administration	676,459	124,918	801,377
Fiscal	244,135	82	244,217
Operations and maintenance	538,552	51,570	590,122
Pupil transportation	498,674	36,231	534,905
Central	84,552	14,664	99,216
Operation of non-instructional services:			
Other non-instructional services	56,666	62,309	118,975
Food service operations.	-	305,190	305,190
Extracurricular activities	245,437	191,785	437,222
Facilities acquisition and construction.	502	24,185	24,687
Debt service:			
Principal retirement.	38,717	-	38,717
Interest and fiscal charges	10,446	-	10,446
Total expenditures	<u>7,405,437</u>	<u>1,292,440</u>	<u>8,697,877</u>
Net change in fund balances	(310,792)	(66,360)	(377,152)
Fund balances at beginning of year	<u>1,773,654</u>	<u>271,412</u>	<u>2,045,066</u>
Fund balances at end of year	<u>\$ 1,462,862</u>	<u>\$ 205,052</u>	<u>\$ 1,667,914</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds \$ (377,152)

*Amounts reported for governmental activities in the
statement of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.

Capital asset additions	\$	223,650	
Current year depreciation		<u>(198,043)</u>	
Total			25,607

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Taxes		(4,909)	
Intergovernmental revenue		<u>(2,573)</u>	
Total			(7,482)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

38,717

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

19,357

Change in net assets of governmental activities \$ (300,953)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 3,236,562	\$ 3,237,177	\$ 3,184,678	\$ (52,499)
Tuition.	336,929	382,000	366,814	(15,186)
Charges for services	-	-	6,603	6,603
Earnings on investments	34,998	35,000	8,235	(26,765)
Extracurricular.	-	-	25	25
Classroom materials and fees	37,193	37,200	37,578	378
Rental income	4,499	4,500	5,544	1,044
Contributions and donations	23,998	24,000	8,973	(15,027)
Other local revenues	3,498	3,500	9,831	6,331
Intergovernmental - State	3,556,897	3,436,557	3,423,448	(13,109)
Intergovernmental - Federal	7,999	8,000	7,600	(400)
Total revenue	<u>7,242,574</u>	<u>7,167,934</u>	<u>7,059,329</u>	<u>(108,605)</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,783,285	3,752,252	3,554,513	197,739
Special.	609,838	771,813	740,517	31,296
Other.	7,018	7,018	5,968	1,050
Support services:				
Pupil.	267,719	318,719	314,301	4,418
Instructional staff	292,923	293,699	304,639	(10,940)
Board of education	16,260	13,260	10,203	3,057
Administration.	739,332	726,044	655,807	70,237
Fiscal	258,663	252,663	242,825	9,838
Operations and maintenance.	575,186	553,686	532,438	21,248
Pupil transportation	395,293	465,293	484,812	(19,519)
Central.	140,409	146,791	134,536	12,255
Operation of non-instructional services	70,000	62,000	56,412	5,588
Extracurricular activities.	244,884	244,884	244,985	(101)
Facilities acquisition and construction	5,000	5,000	502	4,498
Total expenditures	<u>7,405,810</u>	<u>7,613,122</u>	<u>7,282,458</u>	<u>330,664</u>
Excess of expenditures over revenues	<u>(163,236)</u>	<u>(445,188)</u>	<u>(223,129)</u>	<u>222,059</u>
Other financing sources (uses):				
Refund of prior year's expenditures	3,500	3,500	3,678	178
Refund of prior year's receipts.	(300)	(300)	-	300
Transfers (out).	(127)	(127)	-	127
Sale of capital assets	-	-	575	575
Total other financing sources (uses)	<u>3,073</u>	<u>3,073</u>	<u>4,253</u>	<u>1,180</u>
Net change in fund balance	(160,163)	(442,115)	(218,876)	223,239
Fund balance at beginning of year	1,784,822	1,784,822	1,784,822	-
Prior year encumbrances appropriated	87,111	87,111	87,111	-
Fund balance at end of year	\$ 1,711,770	\$ 1,429,818	\$ 1,653,057	\$ 223,239

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

		<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$	37,561
Receivables:		
Accounts		<u>420</u>
Total assets.	\$	<u><u>37,981</u></u>
Liabilities:		
Accounts payable.	\$	1,020
Due to students.		<u>36,961</u>
Total liabilities	\$	<u><u>37,981</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Covington Exempted Village School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by State statute and federal guidelines.

The District was established in 1837 through the consolidation of existing land areas and school districts. The District serves an area of approximately 35 square miles. It is located in Miami County and includes all of the village of Covington and Newberry, Newton and Washington Townships. The District is staffed by 32 non-certified employees and 63 certified full-time teaching personnel who provide services to 847 students and other community members. The District currently operates three instructional/support buildings.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental activities provided it does not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Dayton Educational Cooperative Association

The District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The Governing Board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of over 100 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

Southwestern Ohio Instructional Technology Association

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of SOITA is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions.

Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby and Warren. Montgomery, Greene and Butler counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a State or local government, for a public purpose. Payments to SOITA are made from the general fund. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Larry Pogue, who serves as Director, 150 East Sixth Street, Franklin, Ohio 45005.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Upper Valley Joint Vocational School

The Upper Valley Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from each of the seven participating school districts' elected boards, which possesses its' own budgeting and taxing authority. One member is appointed from the following: Bradford Exempted Village School District, Covington Exempted Village School District, and Miami County Educational Service Center. Two members are appointed from the following city and/or county school districts: Piqua, Shelby, Sidney, and Troy. To obtain financial information, write to the Upper Valley Joint Vocational School, Amy Twarek, who serves as Treasurer, 8811 Career Drive, Piqua, Ohio 45356-9254.

The Covington Education Fund

The Covington Education Fund is a component fund of the Troy Foundation. The purpose of the Education Fund is to promote general education enrichment in the community of Covington.

The Covington Education Fund is governed by a Distribution Committee appointed by each of the following: Star Bank of Troy, Covington Village Council, Covington Chamber of Commerce, Covington Board of Education and Newberry Township Trustees. The Distribution Committee possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. All funding is through gifts, donations and grants. Financial information can be obtained from Melissa Kleptz, Executive Director, The Troy Foundation, 216 West Franklin Street, Troy, Ohio 45373.

INSURANCE PURCHASING POOL

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

The District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each year, the participating Educational Service Centers and school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

The Southwestern Ohio Educational Purchasing Council Benefit Plan Trust (Trust) is a public entity shared risk pool consisting of 55 school districts. The Trust is organized as a Voluntary Employee Benefit Association under Section 501 (c)(9) of the Internal Revenue Code and provides medical, dental and vision insurance benefits to the employees of the participants. The Trust is governed by the Southwestern Ohio Educational Purchasing Cooperative and its participating members. Each participant decides which plan offered by the Trust will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Trust and payment of the monthly premiums. Financial information may be obtained from the Southwestern Ohio Educational Purchasing Council, 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Southwestern Ohio Educational Purchasing Council Liability, Fleet & Property Insurance Program

The District participates in the Southwestern Ohio Educational Purchasing Council Insurance Program, a group purchasing pool among members of the Southwestern Ohio Educational Purchasing Council. A seven member committee made up of member schools meet five to six times a year, has governing by-laws and is sanctioned by the Educational Purchasing Council Board and includes 158 school districts with combined student enrollment of 82,274 and combined values of \$2,374,249,823. The program is governed by the Southwestern Ohio Educational Purchasing Council and is a self-insurance package which allows the Council to: retain a portion of the predictable losses; transfer a portion of the catastrophic risk; broaden the district insurance program coverage's; budget for known maximum costs; and insulate the district from future market upheavals. The District paid \$22,316 to the group during fiscal year 2010 for property and casualty insurance. Specialty Claims Services, Inc. is responsible for processing claims. Arthur J. Gallagher & Co. is the sales and marketing representative, which establishes agreements between Southwestern Ohio EPC Insurance Program and member schools.

RELATED ORGANIZATION

The J. R. Clarke Public Library

The J. R. Clarke Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of seven Trustees. Covington Board of Education approves the appointment of trustees to the library Board. Each Trustee is in office for a term of seven years.

The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the J. R. Clarke Public Library, Elaine Christian, who serves as Treasurer, 102 East Spring Street, Covington, Ohio 45318.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's major governmental fund:

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

General fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (b) grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District does not have any trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 5).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, income tax, interest, tuition, grants, student fees and rentals.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period, including delinquent property taxes due at June 30, 2010, are recorded as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities used during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the fiscal year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than the agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Miami County Budget Commission for rate determination.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the fiscal year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the original and final certificate of estimated resources in effect at the time the final appropriation resolution was passed by the Board of Education.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The total of expenditures and encumbrances may not exceed the appropriation totals at any legal level of control.

The Board of Education may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year, several supplemental appropriations were legally enacted.

The budget figures which appear in the statements of budgetary comparisons represent the original and final appropriation amounts adopted during the current fiscal year, including all amendments and modifications. Formal budgetary integration is employed as a management control device by the Board of Education during the fiscal year for all funds, other than the agency fund, consistent with statutory provisions.

Although the legal level of budgetary control was established at the fund level of expenditures, the budgetary statements present comparisons at the fund and function level of expenditures as elected by the District Treasurer.

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2010. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2010.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$6,755, which includes \$699 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	10 - 50 years
Furniture and equipment	5 - 15 years
Vehicles	8 years

I. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2010, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with at least ten years of current service with the District were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2010, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount "that has matured". These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

K. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the District.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the District.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the District.

B. Deficit Fund Balance

Fund balance at June 30, 2010 included the following individual fund deficits:

<u>Nonmajor fund</u>	<u>Deficit</u>
Management information systems	\$ 37
IDEA Part-B	17,068
State fiscal stabilization	8,763

The above funds complied with Ohio law, which does not permit a cash basis deficit at year end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all District deposits was \$1,010,782. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$443,407 of the District's bank balance of \$1,318,216 was exposed to custodial risk as discussed below, while \$874,809 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

B. Investments

As of June 30, 2010, the District had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	\$ 947,776	\$ 947,776

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 947,776	100.00

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,010,782
Investments	<u>947,776</u>
Total	<u>\$ 1,958,558</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 1,920,997
Agency fund	<u>37,561</u>
Total	<u>\$ 1,958,558</u>

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 5 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Miami County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available as an advance at June 30, 2010 was \$154,921 in the general fund. This amount is recorded as revenue. The amount available for advance at June 30, 2009 was \$91,433 in the general fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2010 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been deferred.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 5 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 89,060,590	95.28	\$ 90,099,900	96.47
Public utility personal	3,169,790	3.39	3,134,510	3.36
Tangible personal property	<u>1,242,490</u>	<u>1.33</u>	<u>163,550</u>	<u>0.17</u>
Total	<u>\$ 93,472,870</u>	<u>100.00</u>	<u>\$ 93,397,960</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$35.58		\$35.76	

NOTE 6 - INCOME TAX

The District levies a voted tax of one-half percent for general operations on the income of residents and of estates. The tax was effective on April 1, 1994, and is a continuing tax. The voters approved an additional one and a quarter percent income tax, for five years, effective January 2006. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2010 consisted of income and property taxes, accounts (billings for user charged services, student fees and accrued interest) and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds.

A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Taxes	\$ 2,167,560
Accounts	8,296
Intergovernmental	15,013
Accrued interest	<u>738</u>
Total	<u>\$ 2,191,607</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Balance</u> <u>06/30/09</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/10</u>
Governmental activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 352,453	\$ -	\$ -	\$ 352,453
Total capital assets, not being depreciated	<u>352,453</u>	<u>-</u>	<u>-</u>	<u>352,453</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	843,782	8,425	-	852,207
Buildings and improvements	3,313,900	29,260	-	3,343,160
Furniture and equipment	911,551	12,394	(32,207)	891,738
Vehicles	<u>423,902</u>	<u>173,571</u>	<u>(23,665)</u>	<u>573,808</u>
Total capital assets, being depreciated	<u>5,493,135</u>	<u>223,650</u>	<u>(55,872)</u>	<u>5,660,913</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(536,003)	(30,008)	-	(566,011)
Buildings and improvements	(2,786,783)	(31,993)	-	(2,818,776)
Furniture and equipment	(603,442)	(104,969)	32,207	(676,204)
Vehicles	<u>(365,637)</u>	<u>(31,073)</u>	<u>23,665</u>	<u>(373,045)</u>
Total accumulated depreciation	<u>(4,291,865)</u>	<u>(198,043)</u>	<u>55,872</u>	<u>(4,434,036)</u>
Governmental activities capital assets, net	<u>\$ 1,553,723</u>	<u>\$ 25,607</u>	<u>\$ -</u>	<u>\$ 1,579,330</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 82,177
Special	1,248

Support services:

Pupil	276
Instructional staff	1,042
Board of education	54
Administration	1,541
Fiscal	485
Business	3,379
Operations and maintenance	5,037
Pupil transportation	28,327
Central	2,494
Extracurricular activities	70,564
Food service operations	<u>1,419</u>
Total depreciation expense	<u>\$ 198,043</u>

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During prior fiscal years, the District entered into capitalized leases for copiers. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of furniture and equipment have been capitalized in the amount of \$215,992. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2010 was \$132,789, leaving a current book value of \$83,203. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2010 fiscal year totaled \$38,717 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2010:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 49,163
2012	50,041
2013	10,497
2014	<u>9,850</u>
Total minimum lease payments	119,551
Less: Amount representing interest	<u>(11,999)</u>
Total	<u>\$ 107,552</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2010, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/2010</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Capital lease obligation	\$ 146,269	\$ -	\$ (38,717)	\$ 107,552	\$ 41,972
Compensated absences	<u>597,228</u>	<u>64,554</u>	<u>(12,243)</u>	<u>649,539</u>	<u>79,386</u>
Total long-term obligations, governmental activities	<u>\$ 743,497</u>	<u>\$ 64,554</u>	<u>\$ (50,960)</u>	<u>\$ 757,091</u>	<u>\$ 121,358</u>

Compensated absences: Compensated absences will be paid from the fund from which the employee's salaries are paid, which for the District is primarily the general fund.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2010, are a voted debt margin of \$8,391,097 and an unvoted debt margin of \$93,234.

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2010, the District joined together with other school districts in Ohio to participate in the Southwestern Ohio Educational Purchasing Council Liability, Fleet & Property Insurance Program, a public entity self-insurance purchasing group. The District contracted with Arthur J. Gallagher & Co. for brokerage service. Coverage is provided by Selective Insurance Company of the Southeast, Federal Insurance Co (Chubb), Travelers Indemnity Co., Genesis Insurance Co. and Genesis Indemnity Insurance Co. Insurance coverage provided includes the following:

Building - Replacement Cost	\$19,091,280
Contents (\$1,000 deductible)	3,628,087
Automobile:	
Liability	1,000,000
General Liability	
Per occurrence	1,000,000
Aggregate	3,000,000
Excess Liability Umbrella	5,000,000
Excess Property	350,000,000
Boiler and Machinery	100,000,000
School Board Legal Liability	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 11 - RISK MANAGEMENT - (Continued)

B. Workers' Compensation

For fiscal year 2010, the District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The GRP is split into tiers grouping districts with similar experiences. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the tier. Each participant pays its workers' compensation premium to the State based on the rate for the tier rather than its individual rate. Participation in the GRP is limited to credit rated school districts. The firm of Hunter Consulting Company provides administrative, cost control and actuarial services to the GRP.

C. Medical Benefits

The District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), a self funded benefit plan pool (Note 2.A.). The intent of the MBP is to achieve the benefit of reduced health insurance costs for the District by virtue of its grouping and representation with other participants in the MBP. Premium rates are calculated for each district based on a combination of the district's experience and the MBP experience. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to school districts who are members of the EPC.

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$126,957, \$78,698 and \$78,507, respectively; 47.59 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 12 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$451,624, \$442,288 and \$427,261, respectively; 82.94 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$38,749 made by the District and \$27,678 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$18,214, \$49,032 and \$53,208, respectively; 47.59 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$7,550, \$6,493 and \$5,657, respectively; 47.59 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$34,740, \$34,022 and \$32,866, respectively; 82.94 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenues, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis); and,
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	<u>General fund</u>
Budget basis	\$ (218,876)
Net adjustment for revenue accruals	35,316
Net adjustment for expenditure accruals	(133,871)
Net adjustment for other sources/uses	(4,253)
Adjustment for encumbrances	<u>10,892</u>
GAAP basis	<u>\$ (310,792)</u>

NOTE 15 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

NOTE 16 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2010, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>
Set-aside balance as of June 30, 2009	\$ -	\$ 68,578
Current year set-aside requirement	135,420	135,420
Current year qualifying expenditures	(117,617)	(218,604)
Excess qualified expenditures from prior years	<u>(119,963)</u>	<u>-</u>
Total	<u>\$ (102,160)</u>	<u>\$ (14,606)</u>
Balance carried forward to fiscal year 2011	<u>\$ (102,160)</u>	<u>\$ -</u>

The District had qualifying expenditures during the year that reduced the textbook set-aside below zero; this extra amount is being carried forward to reduce the set-aside requirements of future years.

Covington Exempted Village School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2010

Federal Agency/ Pass Through Agency/ Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. Department of Agriculture:			
<i>Passed through Ohio Department of Education:</i>			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$ 20,914	\$ 20,914
Cash Assistance:			
National School Lunch Program	10.555	<u>87,021</u>	<u>87,021</u>
Total National School Lunch Program		<u>107,935</u>	<u>107,935</u>
Total US Department of Agriculture		<u>107,935</u>	<u>107,935</u>
U.S. Department of Education:			
<i>Passed through Ohio Department of Education:</i>			
Title I, Part A Cluster:			
Title I Grants to Local Education Agencies	84.010	87,326	86,193
ARRA - Title I Grants to Local Education Agencies	84.389	<u>27,798</u>	<u>25,905</u>
Total Title I, Part A Cluster		115,124	112,098
Special Education Cluster:			
Special Education Grants to States	84.027	171,881	173,749
ARRA - Special Education Grants to States	84.391	<u>106,886</u>	<u>103,962</u>
Total Special Education Cluster		278,767	277,711
Safe and Drug Free Schools and Communities	84.186	2,289	2,289
Education Technology State Grants	84.318	866	753
Improving Teacher Quality State Grants	84.367	32,209	32,220
ARRA - State Fiscal Stabilization	84.394	<u>209,411</u>	<u>209,411</u>
Total U.S. Department of Education		<u>638,666</u>	<u>634,482</u>
Total Federal Assistance		<u>\$ 746,601</u>	<u>\$ 742,417</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Covington Exempted Village School District
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

1. Significant Accounting Policies:

The accompanying schedule of expenditures of federal awards is a summary of the federal awards programs of the Covington Exempted Village School District. This schedule has been prepared on the cash basis of accounting.

2. U.S. Department of Agriculture Programs:

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2010 the District had no significant food commodities in inventory.

3. Matching Requirements:

Certain federal programs require the School District to contribute non-federal funds (matching funds) to support federally-funded programs. The District has complied with the matching requirements. The expenditure of non-federal (matching) funds is not included on the Schedule of Expenditures of Federal Awards.

**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**

Board of Education
Covington Exempted Village School District
25 N. Grant Street
Covington, Ohio 45318

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Covington Exempted Village School District (the District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

2525 north limestone street, ste. 103
springfield, oh 45503

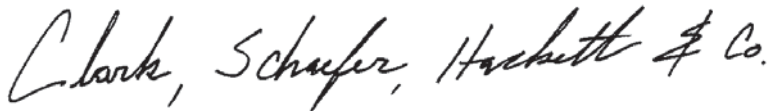
www.cshco.com
p. 937.399.2000
f. 937.399.5433

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 of the District, in a separate letter dated December 22, 2010.

This report is intended solely for the information and use of the Board of Education, the finance committee, and management, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Clark, Schaefer, Hackett & Co." The signature is written in black ink and is positioned above the typed name and date.

Springfield, Ohio
December 22, 2010

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Covington Exempted Village School District
25 N. Grant Street
Covington, Ohio 45318

Compliance

We have audited the compliance of the Covington Exempted Village School District (the District), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

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p. 937.399.2000
f. 937.399.5433

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, the finance committee, others within the entity, Board of Education, 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.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 22, 2010

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None noted
Noncompliance material to financial statements noted?	None noted

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None noted
Type of auditors’ report issued on compliance for major programs:	Unqualified
Any audit findings that are required to be reported in accordance with 510(a) of Circular A-133?	None noted
Identification of major programs:	
<i>Special Education Cluster:</i>	
CFDA 84.027 – Special Education Grants to States	
CFDA 84.391 – ARRA – Special Education Grants to States	
CFDA 84.394 – ARRA – State Fiscal Stabilization	
Dollar threshold to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

None reported

Section III – Federal Awards Findings and Questioned Costs

None reported

Section IV – Summary of Prior Audit Findings and Questioned Costs

None reported



At Clark Schaefer Hackett, we are the sum of our individuals. Each team member's training, experience and drive is well-suited to each client's needs and goals. We are committed to providing insightful and flexible service – from efficient compliance to sophisticated consulting – to help each client prosper today and plan for future success



Dave Yost • Auditor of State

COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT

MIAMI COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 10, 2011**