

VILLAGE OF COVINGTON
DAYTON REGION, MIAMI COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED DECEMBER 31, 2010



Dave Yost • Auditor of State

Village Council
Village of Covington
One South High Street
Covington, Ohio 45318

We have reviewed the *Independent Auditors' Report* of the Village of Covington, Miami County, prepared by Manning & Associates CPAs, LLC, for the audit period January 1, 2010 through December 31, 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditors' Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditors' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 Village of Covington is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

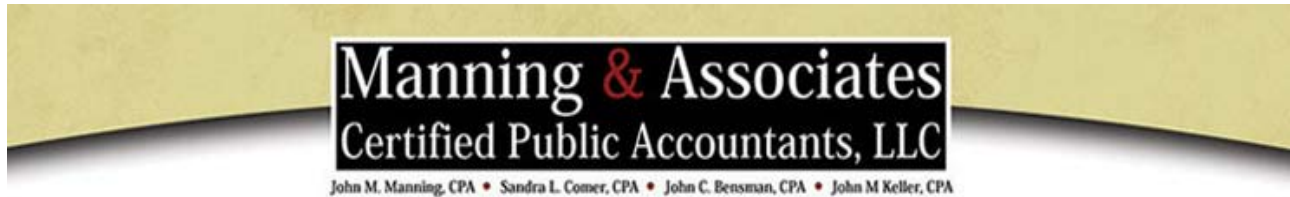
July 15, 2011

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**VILLAGE OF COVINGTON
MIAMI COUNTY**

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INDEPENDENT AUDITORS' REPORT

Mayor and Members of Council
Village of Covington
1 S. High St.
Covington, Ohio 45318

We have audited the accompanying financial statements of the Village of Covington, Miami County, Ohio (the Village), as of and for the year ended December 31, 2010. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on the 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2010 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2010 or its changes in financial position or cash flows, for the year then ended.

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Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Covington, Miami County, Ohio, as of December 31, 2010, and its combined cash receipts and disbursements for the year then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2011, on our consideration of the Village's internal control over financial reporting and 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 internal control over financial report or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should not be read in conjunction with this report in assessing the results of our audit.

Manning & Associates CPAs, LLC
Dayton, Ohio

May 20, 2011

**VILLAGE OF COVINGTON
MIAMI COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010

	GOVERNMENTAL FUND TYPES			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property & Local Taxes	\$ 275,564	\$	\$ 0	\$ 275,564
Municipal Income Taxes	630,698	157,623	0	788,321
Intergovernmental Receipts	122,799	124,514	77,745	325,058
Special Assessments	0	0	0	0
Charges for Services	13,710	105	0	13,815
Fines, Licenses, Permits	23,350	0	0	23,350
Earnings on Investments	65	0	0	65
Miscellaneous	32,609	805	0	33,414
Total Cash Receipts	<u>1,098,795</u>	<u>283,047</u>	<u>77,745</u>	<u>1,459,587</u>
Cash Disbursements:				
Current:				
Security of Persons & Property	639,821	44,146	0	683,967
Leisure Time Activities	14,042	0	0	14,042
Community Environment	0	0	0	0
Transportation	0	190,430	0	190,430
General Government	321,928	0	0	321,928
Capital Outlay	0	0	328,703	328,703
Debt:				
Principal	90,000	0	0	90,000
Interest and Other Fiscal Charges	22,950	0	4,817	27,767
Total Cash Disbursements	<u>1,088,741</u>	<u>234,576</u>	<u>333,520</u>	<u>1,656,837</u>
Total Receipts Over/(Under) Disbursements	<u>10,054</u>	<u>48,471</u>	<u>(255,775)</u>	<u>(197,250)</u>
Other Financing Receipts/(Disbursements):				
Sale of Bonds	0	0	255,000	255,000
Total Other Financing Receipts (Disbursements)	<u>0</u>	<u>0</u>	<u>255,000</u>	<u>255,000</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>10,054</u>	<u>48,471</u>	<u>(775)</u>	<u>57,750</u>
Fund Cash Balances, January 1	<u>276,017</u>	<u>49,944</u>	<u>84,396</u>	<u>410,357</u>
Fund Cash Balances, December 31	<u>\$ 286,071</u>	<u>\$ 98,415</u>	<u>\$ 83,621</u>	<u>\$ 468,107</u>

The Notes to the Financial Statements are an integral part of this statement.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH FUND BALANCES - PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 1,060,568
Miscellaneous	1,671
	1,062,239
Total Operating Cash Receipts	1,062,239
Operating Cash Disbursements:	
Personal Service	389,987
Travel Transportation	12,660
Contractual Services	113,372
Supplies & Materials	172,599
Capital Outlay	123,197
	811,815
Total Operating Cash Disbursements	811,815
Operating Income (Loss)	250,424
Non-Operating Receipts/(Disbursements):	
Debt Service: Redemption of Principal	(157,900)
Interest & Other Fiscal Charges	(84,871)
	(242,771)
Total Non-Operating Receipts/(Disbursements)	(242,771)
Net Income/(Loss)	7,653
Fund Cash Balances, January 1	305,042
Fund Cash Balances, December 31	\$ 312,695

The Notes to the Financial Statements are an integral part of this statement.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Covington, Miami County, and (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly elected six-member Council. The Village provides general governmental services, including water and sewer utilities, refuse services, street maintenance, and police protection.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when a payment is made rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Certificates of deposit are valued at cost.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains and losses at the time of sale are recorded as receipts or disbursements, respectively.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use.

The Village classifies its funds into the following types:

1. General Fund

The General Fund is used to account for all activities of the Village not required to be included in another fund. It is used to account for all financial resources except those required by law or contract to be restricted.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance and Repair Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

3. Capital Project Funds

These funds are used to accumulate resources for the payment of construction, improvements, and purchase of equipment for the Village. The Village had the following significant capital project funds:

Equipment Fund – This fund accumulates resources for the payment of capital equipment.

4. Enterprise Funds

These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Funds:

Water Fund – This fund receives charges for services from residents to cover the cost of providing water services to residents.

Sewer Fund – This fund receives charges for services from residents to cover the cost of providing sewer services to residents.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, or object level of control and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process, (Continued)

Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash balance as of January 1. The County Budget Commission must also approve estimated resources.

Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year-end are cancelled, and reappropriated in the subsequent year.

A summary of 2010 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	<u>2010</u>
Demand Deposits	<u>\$ 780,802</u>
Total Deposits	<u>\$ 780,802</u>

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2010 as follows:

2010 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,091,556	\$ 1,098,795	\$ 7,239
Special Revenue	289,100	283,047	(6,053)
Capital Projects	332,745	332,745	0
Enterprise	1,057,200	1,062,239	5,039
Total	<u>\$ 2,770,601</u>	<u>\$ 2,776,826</u>	<u>\$ 6,225</u>

2010 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 1,102,983	\$ 1,088,741	\$ 14,242
Special Revenue	284,972	234,576	50,396
Capital Projects	335,000	333,520	1,480
Enterprise	1,172,301	1,054,586	117,715
Total	<u>\$ 2,895,256</u>	<u>\$ 2,711,423</u>	<u>\$ 183,833</u>

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

4. PROPERTY TAX

Real property taxes become a lien on January 1 proceeding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. LOCAL INCOME TAX

This locally levied tax of one and one half percent applies to gross salaries, wages and other personal service compensation earned by residents both in and out of the Village and to earnings of nonresidents (except certain transients) earned in the Village. It also applies to the net income of business organizations located within the Village. Tax receipts are credited to the Village and amounted to \$788,321 for 2010.

6. LEASES

The Village leases through TCF Financial a trash truck & totes under a capital lease. The capital lease is \$238,929 payable in annual payments of \$53,844 through May 2015, with a \$1 buyout option. Interest rate is 4.04 percent. Future minimum lease payments are as follows:

Year Ending December 31	Amount
2011	\$ 53,844
2012	53,844
2013	53,844
2014	53,844
2015	53,844
Total minimum lease payments	\$ 269,220
Less amount representing interest	30,291
Present value of minimum lease payments	\$ 238,929

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

7. DEBT

Debt outstanding at December 31, 2010 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$ 2,940,174	2.75%
Village Hall Renovation Bond	450,000	4.25%
Walnut Street Phase 1	<u>255,000</u>	4.00%
Total	<u>\$ 3,645,174</u>	

The Ohio Water Development Authority (OWDA) loan relates to upgrades and improvements to the Village's water treatment plant wells. The Village was approved for \$3,715,577, of which \$3,624,921 has been disbursed. The loan will be repaid in semi-annual installments of \$121,385, over 20 years. Final payment is due January 1, 2026. The loan is collateralized by water and sewer receipts.

The Village issued Village Hall Renovation Bonds, Series 2005, dated July 20, 2005 in the amount of \$900,000. The Series consists of one Bond. Interest is paid semi-annually on June 1 and December 1. The bond will be redeemed in annual installments of \$90,000, with the final payment due on December 1, 2015.

Walnut Street Phase 1 was for upgrades and improvements of Walnut Street. The Village was approved for \$255,000. The interest rate for loan is 4.00%. The final payment is May 1, 2015.

Amortization of the above debt, including interest, is scheduled as follows:

	<u>OWDA Water Authority Loan</u>		<u>Village Renovation Bond</u>		<u>Walnut Street Phase 1</u>	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 80,733	\$ 40,652	\$ 90,000	\$ 19,125	\$ 45,000	\$ 9,300
2012	165,264	77,506	90,000	15,300	50,000	7,400
2013	169,841	72,930	90,000	11,475	50,000	5,400
2014	174,543	68,227	90,000	7,650	55,000	3,300
2015	179,376	63,394	90,000	3,825	55,000	1,100
2016-2020	974,191	239,663	0	0	0	0
2021-2025	1,116,742	97,112	0	0	0	0
2026-2030	<u>79,484</u>	<u>1,093</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	\$ <u>2,940,174</u>	\$ <u>660,577</u>	\$ <u>450,000</u>	\$ <u>57,375</u>	\$ <u>255,000</u>	\$ <u>26,500</u>

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

8. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Fund (OP&F) or the Ohio Public Employees' Retirement System (OPERS). Other full-time employees belong to OPERS. OP&F and OPERS are cost sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contributions rates. For 2010, OP&F participants contributed 10 percent of their wages. For 2010, the Village contributed to OP&F an amount equal to 19.5 percent of full-time police members' wages, respectively. For 2010, OPERS members contributed 10.0 percent of their gross salaries and the Village contributed an amount equal to 17.87 percent of covered payroll for public safety and law enforcement participants and 14.0 percent of covered payroll for all other participants. The Village has paid all contributions required through December 31, 2010.

9. RISK MANAGEMENT

Through December 31, 2010, the Village belongs to the Ohio Plan Risk Management, Inc. (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management programs and other administrative services to Ohio governments (members). The Plan was legally separate from its member governments.

On January 1, 2009 through an internal reorganization, the Plan created three separate non-profit corporations including:

- Ohio Plan Risk Management Inc. (OPRM) – formally known as the Ohio Risk Management Plan
- Ohio Plan Healthcare Consortium Inc. (OPHC) – formally known as the Ohio Healthcare Consortium; and
- Ohio Plan Inc. – mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven members that include appointed and elected officials from member organizations.

Pursuant to Ohio Revised Code Sec. 2744.081, the Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverage's to its members sold through fourteen appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Risk Plan management ("OPRM"), are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retain 17.5% (15% through October 31, 2009) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty.

Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 725 members as of December 31, 2009. The Village participates in this coverage.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

9. RISK MANAGEMENT, (Continued)

The Plan formed the Ohio Plan Healthcare Consortium (OPHC), as authorized by section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political subdivisions and is a self funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member's healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out of pocket maximums. OPHC had 60 members as of December 31, 2009. The Village does not participate in this coverage.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2009 and 2008, the latest information available:

	2009			2008
	<u>OPRM</u>	<u>OPHC</u>	<u>Total</u>	
Assets	\$11,176,186	\$11,176,186	\$11,176,186	\$10,471,114
Liabilities	<u>(4,852,485)</u>	<u>(4,852,485)</u>	<u>(4,852,485)</u>	<u>(5,286,781)</u>
Members Equity	<u>\$6,323,701</u>	<u>\$6,323,701</u>	<u>\$6,323,701</u>	<u>\$ 5,184,333</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Village also provides health insurance and dental to full-time employees through a private carrier.

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Manning & Associates

Certified Public Accountants, LLC

John M. Manning, CPA • Sandra L. Comer, CPA • John C. Bensman, CPA • John M Keller, CPA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Mayor and Members of Council
Village of Covington
1 S. High Street
Covington, Ohio 45318

We have audited the financial statements of the Village of Covington, Miami County, Ohio (the Village), as of and for the year ended December 31, 2010, and have issued our report thereon dated May 20, 2011, wherein we noted the Village followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Government's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village'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, when performing their assigned functions, to prevent, or detect and timely correct misstatements. *A material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and timely corrected.

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 material weaknesses, as defined above.

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Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated May 20, 2011

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management and Village Council. We intend it for no one other than these specified parties.

Manning & Associates CPAs, LLC
Dayton, Ohio

May 20, 2011

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2010-001

Noncompliance

Ohio Rev. Code Section 5705.41 (D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41 (D) (1) and 5705.41 (D) (3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval or expenditures by the Village.

2. **Blanket certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super blanket certificate** – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2010-001, (Continued)

Unless the exception noted above is used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the Village's Fiscal Officer certify that the funds are or will be available prior to the obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

The Village issued purchase orders after the incurrence of an expense. The corresponding purchase orders for these expenses were issued after the incurrence of the expense without being certified as "then and now."

Failure to properly certify the availability of funds can result in Village overspending and negative cash fund balances. Effort should be made by the Village to properly utilize the encumbrance method of accounting by certifying the availability of funds on properly approved purchase orders.

We recommend that the Village obtain a proper and approved purchase order, including amounts, which contain the Fiscal Officer's certification indicated by a signature that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment. We further recommend that the Fiscal Officer issue blanket or super blanket purchase orders for qualifying expenses if the purchase order is to be used for more than one invoice.

Response: The Village has implemented purchasing procedures to strengthen PO compliance.

**VILLAGE OF COVINGTON
MIAMI COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Correction Action Taken; or Finding No Longer Valid; Explain
2009-001	OAC Sec. 117-2- Failure to properly maintain books and records	Partially	Issued as Management Letter Comment
2009-002	Lack of Effective Monitoring/Oversight	Yes	
2009-003	Failure to reconcile monthly bank statements in a timely manner	Yes	
2009-004	ORC Sec. 5705.41(D) - Expenditures were not properly certified	No	Reissued as Finding Number 2010-001
2009-005	ORC Sec. 5705.39 - Appropriations exceeding actual receipts	Yes	
2009-006	ORC 5705.41 (B) - Failure to properly monitor appropriations	Yes	
2009-007	Failure to record on behalf payments made to contractors	Yes	
2009-008	ORC 5135.18 (A) Depository Agreement	Yes	

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Dave Yost • Auditor of State

VILLAGE OF COVINGTON

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
JULY 28, 2011