



**Auditor of State
Betty Montgomery**

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Covington Exempted Village School District
Miami County
25 Grant St.
Covington, Ohio 45318

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Covington Exempted Village School District, Miami County, (the District) as of and for the years ended June 30, 2003 and 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Covington Exempted Village School District, Miami County, as of June 30, 2003 and 2002, and the results of its operations and the cash flows of its proprietary fund type 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 January 27, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

January 27, 2004

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**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2003**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Assets and Other Debits			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$1,639,006	\$188,339	\$143,978
Receivables:			
Property Taxes	2,086,060		
Income Taxes	153,970		
Accounts	752		
Intergovernmental	4,181	46,418	350,000
Accrued Interest	518		
Interfund	6,702		
Prepaid Items	9,945		
Inventory of Supplies and Materials			
Inventory Held for Resale			
Restricted Asset:			
Equity in Pooled Cash and Cash Equivalents	31,366		
Fixed Assets (Net, where applicable, of Accumulated Depreciation)			
Other Debits:			
Amount to be Provided for Retirement of General Long-Term Debt			
Total Assets and Other Debits	<u>3,932,500</u>	<u>234,757</u>	<u>493,978</u>
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts Payable	53,757	18,583	7,380
Accrued Wages and Benefits Payable	455,056	7,235	
Intergovernmental Payable	109,911	23,645	
Interfund Payable		936	5,766
Due to Students			
Deferred Revenue	2,044,902	14,526	250,000
Compensated Absences Payable	2,145		
Total Liabilities	<u>2,665,771</u>	<u>64,925</u>	<u>263,146</u>
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Retained Earnings			
Fund Balance:			
Reserved for Encumbrances	169,842	40,418	447,855
Reserved for Property Taxes	66,945		
Reserved for Budget Stabilization	18,363		
Reserved for School Bus Purchases	13,003		
Unreserved:			
Designated for Textbooks and Instructional Materials	863		
Undesignated (Deficit)	997,713	129,414	(217,023)
Total Fund Equity and Other Credits	<u>1,266,729</u>	<u>169,832</u>	<u>230,832</u>
Total Liabilities, Fund Equity, and Other Credits	<u>\$3,932,500</u>	<u>\$234,757</u>	<u>\$493,978</u>

See Accompanying Notes to the General Purpose Financial Statements.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Debt	
Enterprise	Trust and Agency			
\$43,513	\$55,244			\$2,070,080
				2,086,060
				153,970
	4,744			5,496
12,122				412,721
				518
				6,702
				9,945
5,605				5,605
2,511				2,511
				31,366
28,601		\$5,583,018		5,611,619
			\$503,237	503,237
<u>92,352</u>	<u>59,988</u>	<u>5,583,018</u>	<u>503,237</u>	<u>10,899,830</u>
6,618				86,338
10,917				473,208
16,085			50,645	200,286
				6,702
	36,266			36,266
				2,309,428
3,034			452,592	457,771
<u>36,654</u>	<u>36,266</u>		<u>503,237</u>	<u>3,569,999</u>
		5,583,018		5,583,018
55,698				55,698
				658,115
				66,945
				18,363
				13,003
				863
	23,722			933,826
<u>55,698</u>	<u>23,722</u>	<u>5,583,018</u>		<u>7,329,831</u>
<u>\$92,352</u>	<u>\$59,988</u>	<u>\$5,583,018</u>	<u>\$503,237</u>	<u>\$10,899,830</u>

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Revenues:					
Property Taxes	\$1,775,252				\$1,775,252
Income Taxes	397,984				397,984
Tuition and Fees	331,784				331,784
Interest	36,190	\$929	\$586	\$170	37,875
Intergovernmental	3,059,255	267,807	251,200		3,578,262
Extracurricular Activities		210,282			210,282
Gifts and Donations	732	34,025	2,124	19,219	56,100
Rent	1,535				1,535
Miscellaneous	5,546	2,500			8,046
Total Revenues	<u>5,608,278</u>	<u>515,543</u>	<u>253,910</u>	<u>19,389</u>	<u>6,397,120</u>
Expenditures:					
Current:					
Instruction:					
Regular	2,781,042	59,261	25,785		2,866,088
Special	580,872	121,796			702,668
Support Services:					
Pupils	171,759	55,309			227,068
Instructional Staff	262,397	44,033			306,430
Board of Education	6,383				6,383
Administration	651,209	27,326			678,535
Fiscal	179,167	44			179,211
Operation and Maintenance of Plant	535,460	2,935	4,395		542,790
Pupil Transportation	264,334				264,334
Central	78,414	19,056	1,688		99,158
Operation of Non-Instructional Services	20,572	24,527		11,050	56,149
Extracurricular Activities	160,079	159,915			319,994
Capital Outlay			15,595		15,595
Total Expenditures	<u>5,691,688</u>	<u>514,202</u>	<u>47,463</u>	<u>11,050</u>	<u>6,264,403</u>
Excess of Revenues Over (Under) Expenditures	(83,410)	1,341	206,447	8,339	132,717
Fund Balances at Beginning of Year	1,351,122	168,491	24,385	15,383	1,559,381
Decrease in Reserve for Inventory	(983)				(983)
Fund Balances at End of Year	<u>\$1,266,729</u>	<u>\$169,832</u>	<u>\$230,832</u>	<u>\$23,722</u>	<u>\$1,691,115</u>

See Accompanying Notes to the General Purpose Financial Statements.

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**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>General Fund</u>			<u>Special Revenue Funds</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:						
Property Taxes	\$1,843,901	\$1,843,901				
Income Taxes	413,029	413,029				
Tuition and Fees	336,277	336,277				
Interest	36,574	36,574		\$929	\$929	
Intergovernmental	3,057,270	3,057,270		243,137	243,137	
Extracurricular Activities				210,282	210,282	
Gifts and Donations	732	732		34,025	34,025	
Rent	1,375	1,375				
Miscellaneous	5,546	5,546		2,500	2,500	
Total Revenues	<u>5,694,704</u>	<u>5,694,704</u>		<u>490,873</u>	<u>490,873</u>	
Expenditures:						
Current:						
Instruction:						
Regular	2,780,079	2,780,079		68,983	68,983	
Special	594,345	594,345		119,138	119,138	
Support Services:						
Pupils	158,109	158,109		54,707	54,707	
Instructional Staff	259,793	259,793		43,252	43,252	
Board of Education	6,518	6,518				
Administration	658,709	658,709		27,330	27,330	
Fiscal	184,726	184,726				
Operation and Maintenance of Plant	660,271	660,271		5,440	5,440	
Pupil Transportation	285,422	285,422				
Central	78,310	78,310		19,056	19,056	
Operation of Non-Instructional Services	22,267	22,267		26,282	26,282	
Extracurricular Activities	159,622	159,622		190,086	190,086	
Capital Outlay						
Total Expenditures	<u>5,848,171</u>	<u>5,848,171</u>		<u>554,274</u>	<u>554,274</u>	
Excess of Revenues Over (Under) Expenditures	<u>(153,467)</u>	<u>(153,467)</u>		<u>(63,401)</u>	<u>(63,401)</u>	
Other Financing Sources (Uses):						
Refund of Prior Year Expenditures	4,650	4,650		2	2	
Advances - In	55,000	55,000		55,000	55,000	
Advances - Out	(55,000)	(55,000)		(55,000)	(55,000)	
Total Other Financing Sources (Uses)	<u>4,650</u>	<u>4,650</u>		<u>2</u>	<u>2</u>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(148,817)</u>	<u>(148,817)</u>		<u>(63,399)</u>	<u>(63,399)</u>	
Fund Balances at Beginning of Year	1,381,099	1,381,099		127,400	127,400	
Prior Year Encumbrances Appropriated	213,689	213,689		47,415	47,415	
Fund Balances (Deficit) at End of Year	<u>\$1,445,971</u>	<u>\$1,445,971</u>	<u>\$0</u>	<u>\$111,416</u>	<u>\$111,416</u>	<u>\$0</u>

See Accompanying Notes to the General Purpose Financial Statements.

<u>Capital Projects Funds</u>			<u>Expendable Trust Fund</u>		
<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$586	\$586		\$170	\$170	
150,000	150,000				
2,124	2,124		14,475	14,475	
<u>152,710</u>	<u>152,710</u>		<u>14,645</u>	<u>14,645</u>	
26,986	26,986				
4,395	4,395				
1,688	1,688		11,050	11,050	
<u>462,250</u>	<u>462,250</u>		<u>11,050</u>	<u>11,050</u>	
<u>495,319</u>	<u>495,319</u>				
<u>(342,609)</u>	<u>(342,609)</u>		<u>3,595</u>	<u>3,595</u>	
(342,609)	(342,609)		3,595	3,595	
31,351	31,351		4,333	4,333	
			11,050	11,050	
<u>(\$311,258)</u>	<u>(\$311,258)</u>	<u>\$0</u>	<u>\$18,978</u>	<u>\$18,978</u>	<u>\$0</u>

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
ALL ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Operating Revenues:	
Sales	\$183,847
Tuition	19,224
Total Operating Revenues	<u>203,071</u>
Operating Expenses:	
Salaries and Wages	108,192
Fringe Benefits	48,965
Purchased Services	9,857
Supplies and Materials	7,124
Cost of Sales	116,806
Other	1,204
Depreciation	2,829
Total Operating Expenses	<u>294,977</u>
Operating Loss	<u>(91,906)</u>
Non-Operating Revenues:	
Interest	650
Federal and State Subsidies	52,883
Federal Donated Commodities	5,756
Total Non-Operating Revenues	<u>59,289</u>
Net Loss	(32,617)
Retained Earnings at Beginning of Year	<u>88,315</u>
Retained Earnings at End of Year	<u><u>\$55,698</u></u>

See Accompanying Notes to the General Purpose Financial Statements.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues:			
Sales	\$183,847	\$183,847	
Tuition	18,694	18,694	
Federal and State Subsidies	46,754	46,754	
Interest	650	650	
Refund of Prior Year Expense	93	93	
Total Operating Revenues	<u>250,038</u>	<u>250,038</u>	
Operating Expenses:			
Salaries and Wages	115,903	115,903	
Fringe Benefits	40,985	40,985	
Purchased Services	10,377	10,377	
Supplies and Materials	117,037	117,037	
Other	1,232	1,232	
Capital Outlay	749	749	
Total Operating Expenses	<u>286,283</u>	<u>286,283</u>	
Excess of Revenues Under Expenses	(36,245)	(36,245)	
Fund Equity at Beginning of Year	69,248	69,248	
Prior Year Encumbrances Appropriated	842	842	
Fund Equity at End of Year	<u>\$33,845</u>	<u>\$33,845</u>	<u>\$0</u>

See Accompanying Notes to the General Purpose Financial Statements.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ALL ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Customers	\$202,541
Cash Received from Other Operating Revenues	93
Cash Payments for Employee Services and Benefits	(156,888)
Cash Payments to Suppliers for Goods and Services	(117,774)
Other Operating Expenses	<u>(1,204)</u>
Net Cash Used For Operating Activities	<u>(73,232)</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Subsidies Received	46,754
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Cash Flows from Capital and Related Financing Activities:

Acquisition of Capital Assets	(749)
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Cash Flows from Investing Activities:

Interest	<u>650</u>
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Net Decrease in Cash and Cash Equivalents	(26,577)
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Cash and Cash Equivalents Beginning of Year	<u>70,090</u>
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Cash and Cash Equivalents End of Year	<u><u>\$43,513</u></u>
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Reconciliation of Operating Loss to Net

Cash Used For Operating Activities:

Operating Loss	(\$91,906)
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Adjustments to Reconcile Operating Loss to

Net Cash Used For Operating Activities:

Depreciation	2,829
Donated Commodities Used	11,897
Changes in Assets and Liabilities:	
Increase in Inventory of Supplies and Materials	(212)
Increase in Inventory Held for Resale	(2,198)
Increase in Accounts Payable	6,618
Decrease in Accrued Wages and Benefits Payable	(1,450)
Increase in Intergovernmental Payable	6,763
Decrease in Deferred Revenue	(530)
Increase in Compensated Absences Payable	<u>(5,043)</u>
Net Cash Used For Operating Activities	<u><u>(\$73,232)</u></u>

Non-Cash Transactions:

During fiscal year 2003, the Food Service Enterprise Fund received \$5,756 in donated commodities.

See Accompanying Notes to the General Purpose Financial Statements.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1837 through the consolidation of existing land areas and school districts. The School 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 School District is staffed by 36 non-certificated employees, 58 certificated full-time teaching personnel and 4 administrative employees who provide services to 892 students and other community members. The School District currently operates three instructional/support buildings.

A. Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Covington Exempted Village School District, this includes general operations, food service, latchkey and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District participates in five jointly governed organizations, three insurance purchasing pools, and one related organization. These organizations are discussed in Note 17 to the general purpose financial statements. These organizations are:

Jointly Governed Organizations:

- Metropolitan Dayton Educational Cooperative Association
- Southwestern Ohio Educational Purchasing Council
- Southwestern Ohio Instructional Technology Association
- Upper Valley Joint Vocational School
- The Covington Education Fund

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY (Continued)

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Workers' Compensation
Group Rating Plan
Southwestern Ohio Educational Purchasing Council Medical Benefits Plan
Ohio School Plan

Related Organization:

The J. R. Clarke Public Library

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Covington Exempted Village School District have been prepared in conformity with generally accepted accounting principles (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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

1. Governmental Fund Types:

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds.

The following are the School District's governmental fund types:

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or the trust fund).

2. Proprietary Fund Type:

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's proprietary fund type:

Enterprise Funds - Enterprise funds are used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include expendable trust and agency funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

4. Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary or trust funds.

General Long-Term Debt Account Group - This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary or trust funds.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The School District has no contributed capital. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. The accrual basis of accounting is followed for the proprietary funds.

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 School District, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the exchange on which the tax is imposed takes place and revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6.) 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange 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 taxes, interest, grants, and student fees.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred revenue arises 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, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred 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.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

C. Budgetary Process

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 appropriation resolution are subject to amendment throughout the fiscal year with the legal restriction that appropriations, by fund, cannot exceed estimated resources, as certified.

All funds, other than the agency fund, are required to be budgeted and appropriated. The Preschool Grant special revenue fund's grant activity that is administered by the fiscal agent is not budgeted by the School District. The legal level of budgetary control is at the function level within the General Fund, and at the fund level for all other funds. Any budgetary modifications at the legal levels of control may only be made by resolution of the Board of Education. The Treasurer has been given the authority to further allocate the Board's appropriations to the function and/or object levels within all funds.

1. 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 express 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**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School 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 the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding fiscal year. The certificate may be further amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriation resolution was passed by the Board of Education. At fiscal year-end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year.

3. 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 School 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 total supplemental appropriations were significant to the original appropriations. The following table gives a breakdown of appropriations by fund type:

Fund Type	Final Appropriations	Original Appropriations	Difference
General	\$5,903,171	\$7,200,097	(\$1,296,926)
Special Revenue	609,274	713,334	(104,060)
Capital Projects	495,319	31,350	463,969
Expendable Trust	11,050	32,883	(21,833)
Enterprise	286,283	362,091	(75,808)
Total	\$7,305,097	\$8,339,755	(\$1,034,658)

The budget figures which appear in the statements of budgetary comparisons represent the 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 portions of the Title III and Preschool Grant special revenue funds, and the agency fund, consistent with statutory provisions. Prior to fiscal year-end, the School District approved amended appropriations which matched appropriations to expenditures plus encumbrances at fiscal year-end.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

5. 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.

D. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

During fiscal year 2003, the School District invested in a repurchase agreement, which is reported at cost, and STAR Ohio. 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 share price which is the price the investment could be sold for on June 30, 2003.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2003 amounted to \$36,190 which includes \$15,188 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

E. Interfund Assets/Liabilities

Short term interfund loans are classified as "interfund receivables" and "interfund payables".

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the fiscal year in which services are consumed.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of purchased food and non-food supplies and are expensed when used.

H. Restricted Assets

Restricted assets represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets in the General Fund represent monies required by State statute to be set aside for the creation of a reserve for budget stabilization and for the acquisition and construction of capital improvements, and unexpended grants restricted for school bus purchases. See Note 19 for additional information regarding set-asides.

I. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of two hundred fifty dollars. The School District does not have any infrastructure.

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 capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of five to twenty years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after ten years of current service with the School District.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the funds from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term debt account group. In the enterprise funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term debt account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after fiscal year-end are considered not to have used current available financial resources.

Long-term obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

L. Fund Balance Reserves and Designation

The School 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. Fund balance designations may be established to indicate tentative planned expenditures of financial resources. The designation reflects the School District's intentions and is subject to change. 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, property taxes, budget stabilization, capital improvements, and school bus purchases. A fund designation has been established for textbooks and instructional materials for amounts set aside that exceed the statutory required amount.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization is money set-aside as required by State statute to protect against cyclical changes in revenues and expenditures.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. Estimates

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

O. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. COMPLIANCE AND ACCOUNTABILITY

A. Compliance

The following special revenue funds and capital projects fund had appropriations in excess of estimated revenues and available balances for the fiscal year ended June 30, 2003:

	<u>Deficit</u>
Special Revenue Fund:	
Title VI-B	\$7,362
Title I	5,662
Title VI	3,996
Miscellaneous Federal Grant	1,084
Capital Projects Fund:	
Asbestos Abatement	\$311,683

B. Accountability

The High School Stadium Capital Projects Fund had a deficit fund balance of \$5,464 at June 30, 2003. The fund deficit will be eliminated when the advance - in, shown as an interfund payable, is paid off. The advance was made to cover expected cash flow problems. Future gifts and donations will be used to pay the advance.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings 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, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and Expendable Trust Fund and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - All Enterprise Funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the enterprise fund (GAAP basis).
4. For the enterprise funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Project</u>	<u>Expendable Trust</u>
GAAP Basis	(\$83,410)	\$1,341	\$206,447	\$8,339
Adjustments:				
Revenue Accruals	91,076	(22,721)	(101,200)	(4,744)
Expenditure Accruals	64,195	33,968	7,380	0
Prepaid Items	4,659	0	0	0
Encumbrances	(225,337)	(75,987)	(455,236)	0
Budget Basis	<u>(\$148,817)</u>	<u>(\$63,399)</u>	<u>(\$342,609)</u>	<u>\$3,595</u>

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

**Net Loss/Excess of Revenues
Under Expenses
All Enterprise Funds**

GAAP Basis	(\$32,617)
Adjustments:	
Revenue Accruals	(6,566)
Expense Accruals	14,259
Capital Outlay	(749)
Inventory of Supplies and Materials	212
Inventory Held for Resale	(3,945)
Outstanding Encumbrances	(9,668)
Depreciation Expense	<u>2,829</u>
Budget Basis	<u><u>(\$36,245)</u></u>

5. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School 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 School 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 accounts, including passbook accounts.

Protection of the School 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.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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 security 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 division (1) or (2) 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 bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase 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, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 School 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand: At fiscal year-end, the School District had \$3,025 in undeposited cash on hand which is included on the balance sheet of the School District as part of "equity in pooled cash and cash equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was \$1,230,474 and the bank balance was \$1,348,712. Of the bank balance, \$142,208 was covered by federal depository insurance and \$1,206,504 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The fair value of the investment at STAR Ohio at fiscal year-end was \$452,174.

	Category 3	Fair Value
Repurchase Agreement	\$415,773	\$415,773
STAR Ohio	0	452,174
Total	\$415,773	\$867,947

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits		Investments
GASB Statement No. 9	\$2,101,446		\$0
Cash on Hand	(3,025)		0
Investments of the Cash Management Pool:			
Repurchase Agreement	(415,773)		415,773
STAR Ohio	(452,174)		452,174
GASB Statement No. 3	\$1,230,474		\$867,947

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

6. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School 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, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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 revenue received in calendar year 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002, and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2001. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, 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 School District prior to June 30.

The School District receives property taxes from Miami County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced 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 became measurable as of June 30, 2003, 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 deferred revenue.

The amount available as an advance at June 30, 2003, was \$66,945 in the General Fund. The amount available as of June 30, 2002, was \$135,594 in the General Fund.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

6. PROPERTY TAXES (Continued)

The assessed values upon which fiscal year 2003 taxes were collected are:

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$70,102,160	86.96%	\$71,317,920	87.97%
Tangible Personal Property	10,515,610	13.04%	9,749,300	12.03%
Total Assessed Value	<u>\$80,617,770</u>	<u>100.00%</u>	<u>\$81,067,220</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$40.16		\$40.14	

The decrease in the tax rate was for a 0.02 mill emergency levy. The County Auditor recorded increased property values for collection year 2003 compared to collection year 2002, therefore, the County Auditor adjusted the millage.

7. INCOME TAX

The School 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. 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 School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

8. RECEIVABLES

Receivables at June 30, 2003, consisted of both property and income taxes, accounts (student fees and rent), accrued interest, interfund, and intergovernmental grants. All receivables are considered collectible in full.

A summary of intergovernmental receivables follows:

	Amounts
General Fund:	
Snow Removal Grant	\$300
SF-3 Adjustment FY03	3,881
Total General Fund	<u>4,181</u>
Special Revenue Funds:	
Drug Free Grant	3,010
Title VI-B	11,354
Title I	15,458
Title VI-R	11,013
Title II-D	1,587
Title VI	3,996
Total Special Revenue Funds	<u>46,418</u>
Capital Projects Fund:	
Asbestos Abatement	<u>350,000</u>
Enterprise Fund:	
National School Lunch Program	12,122
Total Intergovernmental Receivables	<u><u>\$412,721</u></u>

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

9. FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 2003, follows:

Furniture and Equipment	\$86,730
Less Accumulated Depreciation	<u>(58,129)</u>
Net Fixed Assets	<u><u>\$28,601</u></u>

A summary of the changes in general fixed assets during fiscal year 2003 follows:

Asset Category	Balance at 6/30/02	Additions	Deletions	Balance at 6/30/03
Land and Improvements	\$647,011	\$0	\$0	\$647,011
Buildings and Improvements	3,402,629	6,864	0	3,409,493
Furniture, Fixtures and Equipment	1,073,864	74,732	17,185	1,131,411
Vehicles	395,103	0	0	395,103
Totals	<u>\$5,518,607</u>	<u>\$81,596</u>	<u>\$17,185</u>	<u>\$5,583,018</u>

There was no significant construction in progress at June 30, 2003.

10. RISK MANAGEMENT

A. Property and Liability

The School 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 2003, the School District contracted with Utica National Insurance Group for property insurance. During fiscal year 2003, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (See Note 17).

Insurance coverage provided includes the following:

Building and Contents-replacement cost (\$5,000 deductible)	\$14,757,727
Electronic Data Coverage (\$500 deductible)	500,000
Musical Instruments (\$250 deductible)	211,000
Automobile:	
Comprehensive (\$250 deductible)	1,000,000
Collision (\$500 deductible)	1,000,000
Liability (no deductible)	1,000,000
General Liability	
Per occurrence	1,000,000
Total per year	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from last fiscal year.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

10. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2003, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. 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 GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control, and actuarial services to the GRP.

C. Medical Benefits

For fiscal year 2003, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 17). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability 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 or by calling (614) 222-5853.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 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, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$75,957, \$50,125, and \$21,341, respectively; 51 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System of Ohio

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. 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 43215-3371 or by calling (614) 227-4090.

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 member contributions and earned interest matched by STRS Ohio funds times 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 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance. The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 9% respectively. The contribution requirements of plan members and the District are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2003, 13% was allocated to fund pension benefit and 1% to fund health care.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$378,516, \$264,187, and \$263,809, respectively; 84 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$159 made by the School District and \$371 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2003, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid. The remaining two Board members contribute to the School Employees Retirement System.

12. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2002, the STRS Ohio Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$29,117, for fiscal year 2003.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the fiscal year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000 and STRS Ohio had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

12. POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$70,299.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

13. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements, board policy, and State laws. Eligible classified employees and administrators earn five to twenty days of vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for classified personnel. For certified employees, sick leave may be accumulated up to a maximum of 225 days. Upon retirement with 5 to 19 years of service with the School District, classified employees receive payment for one-fourth of accrued, but unused sick leave credit to a maximum of 56 days. The maximum for certified employees with 5 to 19 years of service with the School District is 53 days. For classified employees with 20 or more years of service with the School District, the maximum payment for sick leave is 60 days. For certified employees with 20 or more years of service with the School District, the maximum payment for sick leave is 57 days.

B. Insurance Benefits

The School District provides life and accidental death and dismemberment insurance through CoreSource to most employees. Medical/surgical benefits are provided by Anthem PPO through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP) (Note 17). Dental coverage is supplied through CoreSource. Vision insurance is provided to certified employees and administrators through VSP Insurance.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

14. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Amount Outstanding 6/30/02	Additions	Deductions	Amount Outstanding 6/30/03
Intergovernmental Payable	\$82,840	\$50,645	\$82,840	\$50,645
Compensated Absences Payable	412,768	39,824	0	452,592
Total General Long-Term Obligations	<u>\$495,608</u>	<u>\$90,469</u>	<u>\$82,840</u>	<u>\$503,237</u>

The intergovernmental payable represents contractually required pension contributions paid outside the available period. Intergovernmental payable and compensated absences will be paid from the funds from which the employees' salaries are paid.

The School District's overall legal debt margin was \$7,296,050 with an unvoted debt margin of \$81,067 at June 30, 2003.

15. INTERFUND ACTIVITY

As of June 30, 2003, receivables and payables that resulted from various interfund transactions were as follows:

Fund Type/Fund	Interfund Receivable	Interfund Payable
General Fund	\$6,702	\$0
Special Revenue Fund:		
Title I	0	936
Capital Projects Fund:		
High School Stadium	0	5,766
Total All Funds	<u>\$6,702</u>	<u>\$6,702</u>

16. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains three enterprise funds to account for the operations of food service, uniform school supplies and latchkey programs. The table below reflects the more significant financial data relating to the enterprise funds of the Covington Exempted Village School District as of and for the fiscal year ended June 30, 2003.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

16. SEGMENT INFORMATION FOR ENTERPRISE FUNDS (Continued)

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Latchkey</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$183,345	\$502	\$19,224	\$203,071
Depreciation Expense	2,756	0	73	2,829
Operating Income (Loss)	(89,236)	502	(3,172)	(91,906)
Interest	650	0	0	650
Federal and State Subsidies	52,883	0	0	52,883
Federal Donated Commodities	5,756	0	0	5,756
Net Income (Loss)	(29,947)	502	(3,172)	(32,617)
Fixed Asset Additions	749	0	0	749
Fixed Asset Deletions	1,381	0	0	1,381
Net Working Capital	16,420	1,288	12,423	30,131
Total Assets	76,278	1,288	14,786	92,352
Long-Term Compensated Absences Payable	2,358	0	676	3,034
Total Equity	42,067	1,288	12,343	55,698
Encumbrances at June 30, 2003	\$9,668	\$0	\$0	\$9,668

17. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS, AND RELATED ORGANIZATION

A. Jointly Governed Organizations

Metropolitan Dayton Educational Cooperative Association - The School 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. The School District paid MDECA \$26,565 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as Director, 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 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.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

17. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS, AND RELATED ORGANIZATION (Continued)

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. During fiscal year 2003, the School District paid \$5,222 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

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 the corporation 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. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, 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. During fiscal year 2003, the School District paid \$7,088 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, 150 East Sixth Street, Franklin, Ohio 45005.

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. During fiscal year 2003, the School District paid \$1,553 to the Upper Valley Joint Vocational School for services provided. To obtain financial information, write to the Upper Valley Joint Vocational School, William Stump, who serves as Treasurer, 8811 Career Drive, Piqua, Ohio 45356-9254.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

17. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS, AND RELATED ORGANIZATION (Continued)

The Covington Education Fund - The Covington Education Fund is organized as a non-profit unincorporated association under the laws of the State of Ohio. 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 School District for operational subsidies. All funding is through gifts, donations and grants. Financial information can be obtained from the Covington Education Fund, Larry Huffman, who serves as Treasurer, at 101 North High Street, Covington, Ohio 45318.

B. Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The School 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 fiscal year, the participating 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 School District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various MBP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

Ohio School Plan - The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

17. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS, AND RELATED ORGANIZATION (Continued)

C. 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 appointed by the Covington Exempted Village School District Board of Education. 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 School District for operational subsidies. Although the School 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.

18. CONTINGENCIES

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

19. SET-ASIDE CALCULATIONS

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years. The amount reserved for budget stabilization represents refunds received from the Bureau of Workers' Compensation. Based on legislative changes, this is the only money still required to be set-aside for this purpose.

The following cash basis information describes the change in the fiscal year-end set-aside amounts for budget stabilization, capital improvements, and textbooks/instructional materials. Disclosure of this information is required by State statute.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

19. SET-ASIDE CALCULATIONS (Continued)

	<u>Budget Stabilization Reserve</u>	<u>Capital Improvements Reserve</u>	<u>Textbooks and Instructional Materials Reserve</u>
Set-aside Reserve Balance as of June 30, 2002	\$18,363	(\$125,340)	(\$77,860)
Current Fiscal Year Set-aside Requirement	0	117,691	117,691
Qualifying Disbursements	0	(57,458)	(104,934)
Total	<u>\$18,363</u>	<u>(\$65,107)</u>	<u>(\$65,103)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$18,363</u>	<u>(\$65,107)</u>	<u>(\$65,103)</u>
Set-aside Reserve Balance as of June 30, 2003	<u>\$18,363</u>	<u>\$0</u>	<u>\$0</u>

The capital improvements and textbooks and instructional materials set-aside balances can be used to reduce the set-asides requirement in future fiscal years.

20. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

21. SIGNIFICANT CONTRACTUAL COMMITMENTS

As of June 30, 2003, the School District had contractual purchase commitments as follows:

<u>Company</u>	<u>Project</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance at 6/30/03</u>
Sightlines, Inc.	Football Bleachers Renovation	\$23,243	\$0	\$23,243
Rieck Mechanical, Inc.	Asbestos Abatement	47,269	0	47,269
LEPI Enterprises, Inc.	Band Room Asbestos Removal	24,545	0	24,545
Tackett Environmental Services, Inc.	Asbestos Consultant	53,522	0	53,522
Rieck Mechanical, Inc.	Band Room Asbestos Removal	5,500	0	5,500
LEPI Enterprises, Inc.	Asbestos Abatement	328,882	0	328,882
Kirk Elder and Associates	Asbestos Architect Services	6,042	0	6,042
Mobile Mini, Inc.	Asbestos Mobile Units	8,777	7,757	1,020
Intron Laboratories	Asbestos Air Monitoring	16,000	6,700	9,300
Totals		<u>\$513,780</u>	<u>\$14,457</u>	<u>\$499,323</u>

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

22. SUBSEQUENT EVENT

The School District contracted with the Southwestern Ohio Educational Purchasing Council for property, fleet, and liability insurance on July 1, 2003. This is a significant increase in insurance coverage from fiscal year-end. For umbrella liability insurance, coverage is now \$5,000,000. For property insurance, coverage increased to \$50,000,000.

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**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNTS GROUPS
JUNE 30, 2002**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Assets and Other Debits			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$1,576,432	\$174,811	\$31,351
Receivables:			
Property Taxes	2,062,075		
Income Taxes	160,420		
Accounts	1,539		
Intergovernmental	6,689	9,579	
Accrued Interest	902		
Interfund	5,766		
Prepaid Items	5,286		
Inventory of Supplies and Materials	983		
Inventory Held for Resale			
Restricted Asset:			
Equity in Pooled Cash and Cash Equivalents	18,363		
Fixed Assets (Net, where applicable, of Accumulated Depreciation)			
Other Debits:			
Amount to be Provided for Retirement of General Long-Term Debt			
	<u>3,838,455</u>	<u>184,390</u>	<u>31,351</u>
Total Assets and Other Debits	3,838,455	184,390	31,351
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts Payable	12,603	8,152	
Contracts Payable	24,397		
Accrued Wages and Benefits Payable	396,417	6,149	
Intergovernmental Payable	106,931	1,188	
Interfund Payable			5,766
Due to Students			
Deferred Revenue	1,944,621	410	1,200
Compensated Absences Payable	2,364		
Total Liabilities	<u>2,487,333</u>	<u>15,899</u>	<u>6,966</u>
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Retained Earnings			
Fund Balance:			
Reserved for Encumbrances	170,430	18,763	
Reserved for Inventory of Supplies and Materials	983		
Reserved for Property Taxes	135,594		
Reserved for Budget Stabilization	18,363		
Unreserved:			
Designated for Textbooks and Instructional Materials	863		
Undesignated (Deficit)	1,024,889	149,728	24,385
Total Fund Equity and Other Credits	<u>1,351,122</u>	<u>168,491</u>	<u>24,385</u>
Total Liabilities, Fund Equity, and Other Credits	\$3,838,455	\$184,390	\$31,351

See Accompanying Notes to the General Purpose Financial Statements.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Debt	
Enterprise	Trust and Agency			
\$70,090	\$56,423			\$1,909,107
				2,062,075
				160,420
				1,539
5,993				22,261
				902
				5,766
				5,286
2,299				3,282
9,549				9,549
				18,363
30,681		\$5,518,607		5,549,288
			\$495,608	495,608
<u>118,612</u>	<u>56,423</u>	<u>5,518,607</u>	<u>495,608</u>	<u>10,243,446</u>
				20,755
				24,397
12,367				414,933
9,322			82,840	200,281
				5,766
	41,040			41,040
530				1,946,761
8,078			412,768	423,210
<u>30,297</u>	<u>41,040</u>		<u>495,608</u>	<u>3,077,143</u>
		5,518,607		5,518,607
88,315				88,315
	31,550			220,743
				983
				135,594
				18,363
				863
	(16,167)			1,182,835
<u>88,315</u>	<u>15,383</u>	<u>5,518,607</u>		<u>7,166,303</u>
<u>\$118,612</u>	<u>\$56,423</u>	<u>\$5,518,607</u>	<u>\$495,608</u>	<u>\$10,243,446</u>

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Revenues:					
Property Taxes	\$1,892,057				\$1,892,057
Income Taxes	415,598				415,598
Tuition and Fees	31,366				31,366
Interest	58,669	\$1,568	\$45	\$342	60,624
Intergovernmental	3,145,945	228,213	14,581		3,388,739
Extracurricular Activities		209,847			209,847
Gifts and Donations		58,418	9,008	15,083	82,509
Rent	1,950				1,950
Miscellaneous	7,995				7,995
Total Revenues	5,553,580	498,046	23,634	15,425	6,090,685
Expenditures:					
Current:					
Instruction:					
Regular	2,703,553	67,004	9,158		2,779,715
Special	569,095	74,905			644,000
Support Services:					
Pupils	190,895	71,903			262,798
Instructional Staff	306,680	22,273			328,953
Board of Education	4,645				4,645
Administration	596,301	26,050	176		622,527
Fiscal	209,678	147			209,825
Operation and Maintenance of Plant	558,532	1,001	348		559,881
Pupil Transportation	362,533				362,533
Central	107,942	9,349	25,590		142,881
Operation of Non-Instructional Services	6,727	12,391		23,250	42,368
Extracurricular Activities	158,933	197,674			356,607
Capital Outlay	14,769				14,769
Total Expenditures	5,790,283	482,697	35,272	23,250	6,331,502
Excess of Revenues Over (Under) Expenditures	(236,703)	15,349	(11,638)	(7,825)	(240,817)
Other Financing Sources (Uses):					
Proceeds from Sale of Fixed Assets	10,485				10,485
Operating Transfers - In		167			167
Operating Transfers - Out	(167)				(167)
Total Other Financing Sources (Uses)	10,318	167			10,485
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(226,385)	15,516	(11,638)	(7,825)	(230,332)
Fund Balances at Beginning of Year	1,579,706	152,975	36,023	23,208	1,791,912
Decrease in Reserve for Inventory	(2,199)				(2,199)
Fund Balances at End of Year	\$1,351,122	\$168,491	\$24,385	\$15,383	\$1,559,381

See Accompanying Notes to the General Purpose Financial Statements.

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**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property Taxes	\$1,811,538	\$1,811,538				
Income Taxes	412,849	412,849				
Tuition and Fees	26,873	26,873				
Interest	59,210	59,210		\$1,568	\$1,568	
Intergovernmental	3,143,749	3,143,749		281,104	281,104	
Extracurricular Activities				209,847	209,847	
Gifts and Donations				58,418	58,418	
Rent	1,950	1,950				
Miscellaneous	8,121	8,121				
Total Revenues	5,464,290	5,464,290		550,937	550,937	
Expenditures:						
Current:						
Instruction:						
Regular	2,838,756	2,748,101	90,655	97,838	74,083	23,755
Special	630,110	576,887	53,223	93,131	80,280	12,851
Vocational	24		24			
Support Services:						
Pupils	228,991	199,514	29,477	97,114	71,908	25,206
Instructional Staff	339,118	308,079	31,039	13,146	20,535	(7,389)
Board of Education	5,730	4,726	1,004			
Administration	737,696	603,353	134,343	62,576	29,003	33,573
Fiscal	271,865	271,430	435			
Business	994		994			
Operation and Maintenance of Plant	1,417,652	662,622	755,030	3,377	1,001	2,376
Pupil Transportation	459,277	404,394	54,883			
Central	168,736	107,607	61,129	19,557	9,399	10,158
Operation of Non-Instructional Services	9,465	5,033	4,432	62,991	32,891	30,100
Extracurricular Activities	279,997	159,215	120,782	219,355	222,585	(3,230)
Capital Outlay	23,019	14,769	8,250			
Total Expenditures	7,411,430	6,065,730	1,345,700	669,085	541,685	127,400
Excess of Revenues Over (Under) Expenditures	(1,947,140)	(601,440)	1,345,700	(118,148)	9,252	127,400
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	10,485	10,485				
Refund of Prior Year Expenditures	4,905	4,905		708	708	
Advances - In	120,966	120,966		37,732	37,732	
Advances - Out	(37,732)	(37,732)		(113,732)	(113,732)	
Operating Transfers - In				167	167	
Operating Transfers - Out	(167)	(167)				
Total Other Financing Sources (Uses)	98,457	98,457		(75,125)	(75,125)	
Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses	(1,848,683)	(502,983)	1,345,700	(193,273)	(65,873)	127,400
Fund Balances at Beginning of Year	1,507,914	1,507,914		153,170	153,170	
Prior Year Encumbrances Appropriated	376,168	376,168		40,103	40,103	
Fund Balances at End of Year	\$35,399	\$1,381,099	\$1,345,700	\$0	\$127,400	\$127,400

See Accompanying Notes to the General Purpose Financial Statements.

Capital Projects Funds			Expendable Trust Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$45	\$45		\$342	\$342	
32,265	32,265				
9,008	9,008		15,083	15,083	
<u>41,318</u>	<u>41,318</u>		<u>15,425</u>	<u>15,425</u>	
24,240	9,158	15,082			
176	176				
2,991	348	2,643			
39,183	25,590	13,593	38,633	34,300	4,333
<u>66,590</u>	<u>35,272</u>	<u>31,318</u>	<u>38,633</u>	<u>34,300</u>	<u>4,333</u>
(25,272)	6,046	31,318	(23,208)	(18,875)	4,333
(7,234)	(7,234)				
<u>(7,234)</u>	<u>(7,234)</u>				
(32,506)	(1,188)	31,318	(23,208)	(18,875)	4,333
8,705	8,705		1,958	1,958	
23,834	23,834		21,250	21,250	
<u>\$33</u>	<u>\$31,351</u>	<u>\$31,318</u>	<u>\$0</u>	<u>\$4,333</u>	<u>\$4,333</u>

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
ALL ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Operating Revenues:	
Sales	\$190,107
Tuition	31,694
Total Operating Revenues	<u>221,801</u>
Operating Expenses:	
Salaries and Wages	124,398
Fringe Benefits	40,168
Purchased Services	12,827
Supplies and Materials	2,388
Cost of Sales	126,219
Other	1,134
Depreciation	2,756
Total Operating Expenses	<u>309,890</u>
Operating Loss	<u>(88,089)</u>
Non-Operating Revenues (Expenses):	
Interest	1,317
Federal and State Subsidies	56,746
Federal Donated Commodities	23,822
Loss on Disposal of Fixed Assets	(148)
Total Non-Operating Revenues (Expenses)	<u>81,737</u>
Net Loss	(6,352)
Retained Earnings at Beginning of Year	<u>94,667</u>
Retained Earnings at End of Year	<u><u>\$88,315</u></u>

See Accompanying Notes to the General Purpose Financial Statements

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues:			
Sales	\$190,107	\$190,107	
Tuition	32,968	32,968	
Federal and State Subsidies	56,195	56,195	
Interest	1,317	1,317	
Refund of Prior Year Expense	750	750	
Total Operating Revenues	<u>281,337</u>	<u>281,337</u>	
Operating Expenses:			
Salaries and Wages	120,282	118,697	\$1,585
Fringe Benefits	54,233	49,407	4,826
Purchased Services	50,635	13,662	36,973
Supplies and Materials	136,573	111,939	24,634
Other	4,004	1,134	2,870
Capital Outlay	1,000	2,640	(1,640)
Total Operating Expenses	<u>366,727</u>	<u>297,479</u>	<u>69,248</u>
Excess of Revenues Under Expenses	(85,390)	(16,142)	69,248
Fund Equity at Beginning of Year	80,890	80,890	
Prior Year Encumbrances Appropriated	4,500	4,500	
Fund Equity at End of Year	<u>\$0</u>	<u>\$69,248</u>	<u>\$69,248</u>

See Accompanying Notes to the General Purpose Financial Statements.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ALL ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:	
Cash Received from Customers	\$223,075
Cash Received from Other Operating Revenues	750
Cash Payments for Employee Services and Benefits	(168,104)
Cash Payments to Suppliers for Goods and Services	(124,759)
Other Operating Expenses	<u>(1,134)</u>
Net Cash Used For Operating Activities	(70,172)
Cash Flows from Noncapital Financing Activities:	
Federal and State Subsidies Received	56,195
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(2,640)
Cash Flows from Investing Activities:	
Interest	<u>1,317</u>
Net Decrease in Cash and Cash Equivalents	(15,300)
Cash and Cash Equivalents Beginning of Year	<u>85,390</u>
Cash and Cash Equivalents End of Year	<u><u>\$70,090</u></u>

**Reconciliation of Operating Loss to Net
Cash Used For Operating Activities:**

Operating Loss	(\$88,089)
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**Adjustments to Reconcile Operating Loss to
Net Cash Used For Operating Activities:**

Depreciation	2,756
Donated Commodities Used	29,963
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	1,071
Increase in Inventory of Supplies and Materials	(205)
Increase in Inventory Held for Resale	(12,105)
Decrease in Accounts Payable	(277)
Increase in Accrued Wages and Benefits Payable	2,442
Decrease in Intergovernmental Payable	(7,861)
Increase in Deferred Revenue	203
Increase in Compensated Absences Payable	1,930
Net Cash Used For Operating Activities	<u><u>(\$70,172)</u></u>

Non-Cash Transactions:

During fiscal year 2002, the Food Service Enterprise Fund received \$23,822 in donated commodities.

See Accompanying Notes to the General Purpose Financial Statements.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1837 through the consolidation of existing land areas and school districts. The School 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 School District is staffed by 37 non-certificated employees, 59 certificated full-time teaching personnel and 4 administrative employees who provide services to 912 students and other community members. The School District currently operates three instructional/support buildings.

A. Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Covington Exempted Village School District, this includes general operations, food service, latchkey and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The following entities which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District.

Village of Covington - The village government of Covington is a separate body politic and corporate. A mayor and council are elected independent of any School District relationships and administer the provision of traditional village services. Council acts as the taxing and budgeting authority for these village services.

Parent Teacher Association - The School District is not involved in the budgeting or management, and is not responsible for any debt and has no influence over the organization.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY_(Continued)

The School District participates in five jointly governed organizations, two insurance purchasing pools, and one related organization. These organizations are discussed in Note 16 to the general purpose financial statements. These organizations are:

Jointly Governed Organizations:

Metropolitan Dayton Educational Cooperative Association
Southwestern Ohio Educational Purchasing Council
Southwestern Ohio Instructional Technology Association
Upper Valley Joint Vocational School
The Covington Education Fund

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Workers' Compensation
Group Rating Plan
Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

Related Organization:

The J. R. Clarke Public Library

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Covington Exempted Village School District have been prepared in conformity with generally accepted accounting principles (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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Governmental Fund Types:

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

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

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or the trust fund).

2. Proprietary Fund Type:

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's proprietary fund type:

Enterprise Funds - Enterprise funds are used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include expendable trust and agency funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

4. Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary or trust funds.

General Long-Term Debt Account Group - This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary or trust funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The School District has no contributed capital. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

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 School District, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the exchange on which the tax is imposed takes place and 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 taxes, interest, grants, and student fees.

Deferred revenue arises 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, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred 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.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

C. Budgetary Process

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 appropriation resolution are subject to amendment throughout the fiscal year with the legal restriction that appropriations, by fund, cannot exceed estimated resources, as certified.

All funds, other than the agency fund, are required to be budgeted and appropriated. A portion of the Title III and Preschool Grant special revenue funds' grant activity that is administered by the fiscal agent is not budgeted by the School District. The legal level of budgetary control is at the function level within the General Fund, and at the fund level for all other funds. Any budgetary modifications at the legal levels of control may only be made by resolution of the Board of Education. The Treasurer has been given the authority to further allocate the Board's appropriations to the function and/or object levels within all funds.

1. 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 express 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**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School 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 the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding fiscal year. The certificate may be further amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriation resolution was passed by the Board of Education. At fiscal year-end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year.

3. 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 School District. The total of expenditures and encumbrances may not exceed the appropriation totals at any legal level of control.

The Board 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; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the 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 portions of the Title III and Preschool Grant special revenue funds, and the agency fund, consistent with statutory provisions.

4. Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. 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.

D. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

During fiscal year 2002, the School District invested in a repurchase agreement, which is reported at cost, and STAR Ohio. 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 share price which is the price the investment could be sold for on June 30, 2002.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2002 amounted to \$58,669 which includes \$24,587 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

E. Interfund Assets/Liabilities

Short term interfund loans are classified as "interfund receivables" and "interfund payables".

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the fiscal year in which services are consumed.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food, purchased food, and non-food supplies and are expensed when used.

H. Restricted Assets

Restricted assets represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets in the General Fund represent monies required by State statute to be set-aside for the creation of a reserve for budget stabilization. See Note 18 for additional information regarding set-asides.

I. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of two hundred and fifty dollars. The School District does not have any infrastructure.

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 capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of five to twenty years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after ten years of current service with the School District.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the funds from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term debt account group. In the enterprise funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term debt account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after fiscal year-end are considered not to have used current available financial resources.

Long-term obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

L. Fund Balance Reserves and Designation

The School 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. The School District also designates a portion of fund balance to indicate tentative plans for future financial resource uses that reflect managerial plans or intent. 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, inventory of supplies and materials, property taxes, and budget stabilization. A fund designation has been established for textbooks and instructional materials for amounts set aside that exceed the statutory required amount.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization is money set-aside as required by State statute to protect against cyclical changes in revenues and expenditures.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. Estimates

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

O. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings 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, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and Expendable Trust Fund and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - All Enterprise Funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the enterprise fund (GAAP basis).

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

3. BUDGETARY BASIS OF ACCOUNTING (Continued)

4. The School District does not budget for the activities of various grants administered by the fiscal agent who collects and holds the assets (budget basis). However, the activities of the fiscal agent are included for GAAP reporting purposes (GAAP basis).
5. Advances – In and Advances – Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
6. For the enterprise funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

**Excess of Revenues and Other Financing Sources
Under Expenditures and Other Financing Uses
All Governmental Fund Types and Expendable Trust Fund**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP Basis	(\$226,385)	\$15,516	(\$11,638)	(\$7,825)
Revenue Accruals	(84,385)	55,517	17,684	0
Expenditure Accruals	(62,629)	(14,035)	0	0
Prepaid Items	878	0	0	0
Advances	83,234	(76,000)	(7,234)	0
Non-budgeted Activity	0	540	0	0
Outstanding Encumbrances	(213,696)	(47,411)	0	(11,050)
Budget Basis	<u>(\$502,983)</u>	<u>(\$65,873)</u>	<u>(\$1,188)</u>	<u>(\$18,875)</u>

**Net Loss/Excess of Revenues Under Expenses
All Enterprise Funds**

GAAP Basis	(\$6,352)
Revenue Accruals	(4,668)
Expense Accruals	(22,995)
Capital Outlay	(2,640)
Inventory of Supplies and Materials	205
Federal Donated Commodities	6,141
Inventory Held for Resale	12,105
Outstanding Encumbrances	(842)
Loss on Disposal of Fixed Assets	148
Depreciation Expense	2,756
Budget Basis	<u>(\$16,142)</u>

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

4. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School 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 School 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 accounts, including passbook accounts.

Protection of the School 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.

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 security 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 division (1) or (2) 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);

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase 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, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 School 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand: At fiscal year-end, the School District had \$3,000 in undeposited cash on hand which is included on the balance sheet of the School District as part of "equity in pooled cash and cash equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was \$1,698,023 and the bank balance was \$1,904,784. Of the bank balance, \$162,013 was covered by federal depository insurance and \$1,742,771 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The fair value of the investment at STAR Ohio at fiscal year-end was \$71,010.

	Category 3	Carrying/Fair Value
Repurchase Agreement	\$155,437	\$155,437
STAR Ohio	0	71,010
Total	\$155,437	\$226,447

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$1,927,470	\$0
Cash on Hand	(3,000)	
Investments of the Cash Management Pool:		
Repurchase Agreement	(155,437)	155,437
STAR Ohio	(71,010)	71,010
GASB Statement No. 3	\$1,698,023	\$226,447

5. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School 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, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) are for calendar 2002 taxes.

2002 real property taxes are levied after April 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2002 real property taxes are collected in and intended to finance fiscal year 2003.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2002, and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after April 1, 2001, on the value as of December 31, 2000. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true 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.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

5. PROPERTY TAXES (Continued)

Tangible personal property taxes 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.

The assessed values upon which fiscal year 2002 taxes were collected are:

	2001 Second- Half Collections		2002 First- Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$66,776,660	85.41%	\$70,102,160	86.96%
Tangible Personal Property	11,408,130	14.59%	10,515,610	13.04%
Total Assessed Value	<u>\$78,184,790</u>	<u>100.00%</u>	<u>\$80,617,770</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$35.30		\$40.16	

The decrease in the tax rate of 0.14 mills in the General Fund was due to the passage of an emergency levy. This is the third emergency levy that has been passed, each for five years. For this particular levy, collection began in the last half of fiscal year 2002, with collection ending in the last half of fiscal year 2007. The previous levy was for 5.00 mills, while the new levy is for only 4.86 mills.

The School District receives property taxes from Miami County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2002, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 was levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current fiscal year operations. The amount available as an advance is recognized as revenue. The amount available as an advance at June 30, 2002, was \$135,594 in the General Fund

6. INCOME TAX

The School 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. 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 School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

7. RECEIVABLES

Receivables at June 30, 2002, consisted of both property and income taxes, accounts (student fees), accrued interest, interfund, and intergovernmental grants. All receivables are considered collectible in full.

A summary of intergovernmental receivables follows:

	Amounts
General Fund:	
SF-3 Adjustment FY02	\$1,023
JV50 SB 14 Tuition SF-14	4,493
JV41 FY01 ECOT Audit Settlement	1,173
Total General Fund	6,689
Special Revenue Funds:	
Title III	410
Title VI-B	1,440
Title I	782
Title VI-R	3,670
Title VI	3,277
Total Special Revenue Funds	9,579
Enterprise Fund:	
National School Lunch Program	5,993
Total Intergovernmental Receivables	\$22,261

8. FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 2002, follows:

Furniture and Equipment	\$87,362
Less Accumulated Depreciation	(56,681)
Net Fixed Assets	\$30,681

A summary of the changes in general fixed assets during fiscal year 2002 follows:

Asset Category	Balance at 6/30/01	Additions	Deletions	Balance at 6/30/02
Land and Improvements	\$647,011	\$0	\$0	\$647,011
Buildings and Improvements	3,362,080	40,549	0	3,402,629
Furniture, Fixtures and Equipment	1,085,393	153,804	165,333	1,073,864
Vehicles	343,647	109,832	58,376	395,103
Totals	\$5,438,131	\$304,185	\$223,709	\$5,518,607

There was no significant construction in progress at June 30, 2002.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

9. RISK MANAGEMENT

A. Property and Liability

The School 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 2002, the School District contracted with Great American Alliance Insurance Company for general liability, Nationwide Insurance Company for fleet insurance, and Utica National Insurance Group for property insurance.

Insurance coverage provided includes the following:

Building and Contents-replacement cost (\$500 deductible)	\$14,757,727
Inland Marine/Electronic Data Coverage	500,000
Automobile:	
Comprehensive (\$50 deductible)	2,000,000
Collision (\$500 deductible)	
Liability (no deductible)	
General Liability	
Per occurrence	1,000,000
Total per year	5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from last fiscal year.

B. Workers' Compensation

For fiscal year 2002, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. 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 GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control, and actuarial services to the GRP.

C. Medical Benefits

For fiscal year 2002, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 16). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the MBP. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per 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, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$50,125, \$21,341, and \$32,339, respectively; 52 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$24,060 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term debt account group.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by State statute per Chapter 3307 of the Ohio Revised Code. STRS 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 State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$264,187, \$263,809, and \$149,175, respectively; 83 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$44,639 represents the unpaid contribution for fiscal year 2002 and is recorded as a liability within the respective funds.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2002, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid. The remaining two Board members contribute to the State Employees Retirement System.

11. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$125,141 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$92,307.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements, board policy, and State laws. Eligible classified employees and administrators earn five to twenty days of vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 225 days for certified personnel and up to a maximum of 210 days for classified personnel. Upon retirement with at least five years of service with the School District, classified employees receive payment for one-fourth of accrued, but unused sick leave credit to a maximum of 53 days. The maximum for certified employees with 5 to 19 years of service with the School District is also 53 days. For certified employees with 20 or more years of service with the School District, the maximum payment for sick leave is 57 days.

B. Insurance Benefits

The School District provides life and accidental death and dismemberment insurance through CoreSource to most employees. Medical/surgical benefits are provided by Anthem PPO through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP) (Note 16). Dental coverage is supplied through CoreSource. Vision insurance is provided to certified employees and administrators through VSP Insurance.

13. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2002 were as follows:

	Amount Outstanding 6/30/01	Additions	Deductions	Amount Outstanding 6/30/02
Intergovernmental Payable	\$51,381	\$82,840	\$51,381	\$82,840
Compensated Absences Payable	342,925	69,843	0	412,768
Total General Long-Term Obligations	\$394,306	\$152,683	\$51,381	\$495,608

The intergovernmental payable represents contractually required pension contributions paid outside the available period. Intergovernmental payable and compensated absences will be paid from the funds from which the employees' salaries are paid.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

13. LONG-TERM OBLIGATIONS (Continued)

The School District's overall legal debt margin was \$7,255,599 with an unvoted debt margin of \$80,618 at June 30, 2002.

14. INTERFUND ACTIVITY

At June 30, 2002, the General Fund had interfund receivables of \$5,766. The High School Stadium Capital Projects Fund had interfund payables of \$5,766.

15. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains three enterprise funds to account for the operations of food service, uniform school supplies and latchkey programs. The table below reflects the more significant financial data relating to the enterprise funds of the Covington Exempted Village School District as of and for the fiscal year ended June 30, 2002.

	Food Service	Uniform School Supplies	Latchkey	Total Enterprise Funds
Operating Revenues	\$190,059	\$48	\$31,694	\$221,801
Depreciation Expense	2,683	0	73	2,756
Operating Loss	(74,542)	(934)	(12,613)	(88,089)
Interest	1,317	0	0	1,317
Federal and State Subsidies	56,746	0	0	56,746
	23,822		0	23,822
Federal Donated Commodities		0		
	(148)		0	(148)
Loss on Disposal of Fixed Assets		0		
Net Income (Loss)	7,195	(934)	(12,613)	(6,352)
Fixed Asset Additions	2,640	0	0	2,640
Fixed Asset Deletions	1,718	0	0	1,718
Net Working Capital	49,531	786	15,395	65,712
Total Assets	100,636	786	17,190	118,612
Long-Term Compensated Absences Payable	7,530	0	548	8,078
Total Equity	72,014	786	15,515	88,315
Encumbrances Outstanding at June 30, 2002	842	0	0	842

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS, AND RELATED ORGANIZATION

A. Jointly Governed Organizations

Metropolitan Dayton Educational Cooperative Association - The School 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. The School District paid MDECA \$20,247 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as Director, 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 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. During fiscal year 2002, the School District paid \$4,797 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

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 the corporation 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. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, 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.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS, AND RELATED ORGANIZATION (Continued)

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. During fiscal year 2002, the School District paid \$5,536 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, 150 East Sixth Street, Franklin, Ohio 45005.

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. During fiscal year 2002, the School District contributed \$1,104 to the Upper Valley Joint Vocational School for services provided. To obtain financial information, write to the Upper

Valley Joint Vocational School, William Stump, who serves as Treasurer, 8811 Career Drive, Piqua, Ohio 45356-9254.

The Covington Education Fund - The Covington Education Fund is organized as a non-profit unincorporated association under the laws of the State of Ohio. 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 School District for operational subsidies. All funding is through gifts, donations and grants. Financial information can be obtained from the Covington Education Fund, Larry Huffman, who serves as Treasurer, at 101 North High Street, Covington, Ohio 45318.

B. Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The School 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 fiscal year, the participating 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 School District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various MBP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS, AND RELATED ORGANIZATION (Continued)

C. 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 appointed by the Covington Exempted Village School District Board of Education. 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 School District for operational subsidies. Although the School 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.

17. CONTINGENCIES

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

18. SET-ASIDE CALCULATIONS

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years. The amount reserved for budget stabilization represents refunds received from the Bureau of Workers' Compensation. Based on legislative changes, this is the only money still required to be set-aside for this purpose.

The following cash basis information describes the change in the fiscal year-end set-aside amounts for budget stabilization, capital improvements, and textbooks/instructional materials. Disclosure of this information is required by State statute.

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

18. SET-ASIDE CALCULATIONS (Continued)

	<u>Budget Stabilization Reserve</u>	<u>Capital Improvements Reserve</u>	<u>Textbooks/ Instructional Materials Reserve</u>
Set-aside Reserve Balance as of June 30, 2001	\$18,363	(\$38,329)	(\$5,869)
Current Fiscal Year Set-aside Requirement	0	105,379	105,379
Qualifying Disbursements	0	(192,390)	(177,370)
Total	<u>\$18,363</u>	<u>(\$125,340)</u>	<u>(\$77,860)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$18,363</u>	<u>(\$125,340)</u>	<u>(\$77,860)</u>
Set-aside Reserve Balance as of June 30, 2002	<u>\$18,363</u>	<u>\$0</u>	<u>\$0</u>

The capital improvements and textbooks/instructional materials set-aside balances can be used to reduce the set-asides requirement in future fiscal years.

19. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

20. SUBSEQUENT EVENT

The School District received approval for a \$500,000 grant for asbestos removal at the elementary school. The grant is through the Ohio School Facilities Commission. The grant will be approved by the Board of Education in November 2002, while the initial 30% allocation should be received in December 2002. During fiscal year 2003, no construction work is expected to be started until June 2003, except for architect/engineering fees.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Covington Exempted Village School District
Miami County
25 Grant St.
Covington, Ohio 45318

To the Board of Education:

We have audited the financial statements of the Covington Exempted Village School District, Miami County, (the "District"), as of and for the years ended June 30, 2003 and 2002, and have issued our report thereon dated January 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated January 27, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 27, 2004.

Covington Exempted Village School District
Miami County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 27, 2004



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

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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
MARCH 4, 2004**