
Covington Exempted Village School District
Miami County, Ohio

Basic Financial Statements

June 30, 2011

with Independent Auditors' Report



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Covington Exempted Village School District, Miami County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

January 17, 2012

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Covington Exempted Village School District (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2011, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2011, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

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The management's discussion and analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Springfield, Ohio
December 21, 2011

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED

The management's discussion and analysis of the Covington Exempted Village School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- In total, net assets of governmental activities increased \$15,046 which represents a 0.58% increase from 2010.
- General revenues accounted for \$6,538,987 in revenue or 73.90% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,308,925 or 26.10% of total revenues of \$8,847,912.
- The District had \$8,832,866 in expenses related to governmental activities; \$2,308,925 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$6,538,987 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$7,363,591 in revenues and other financing sources and \$7,496,223 in expenditures. During fiscal year 2011, the general fund's fund balance decreased \$132,632 from a restated fund balance of \$1,488,928 to \$1,356,296.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net assets and statement of activities can be found on pages 15-16 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate statement of fiduciary net assets on page 22. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-50 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2011 and 2010.

	Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
<u>Assets</u>		
Current and other assets	\$ 4,194,420	\$ 4,139,934
Capital assets, net	<u>1,534,430</u>	<u>1,579,330</u>
Total assets	<u>5,728,850</u>	<u>5,719,264</u>
<u>Liabilities</u>		
Current liabilities	2,296,961	2,369,777
Long-term liabilities	<u>824,447</u>	<u>757,091</u>
Total liabilities	<u>3,121,408</u>	<u>3,126,868</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,423,040	1,471,778
Restricted	468,557	230,920
Unrestricted	<u>715,845</u>	<u>889,698</u>
Total net assets	<u>\$ 2,607,442</u>	<u>\$ 2,592,396</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the District's assets exceeded liabilities by \$2,607,442. Of this total, \$468,557 is restricted in use.

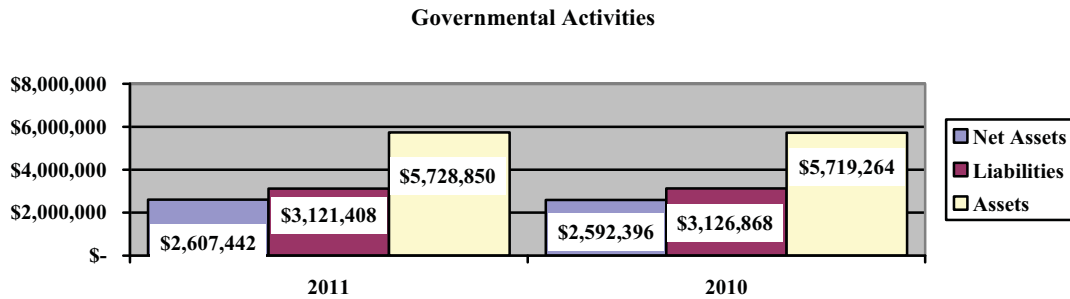
At year-end, capital assets represented 26.78% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2011, were \$1,423,040. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$468,557, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$715,845 may be used to meet the District's ongoing obligations to the students and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED

The graph below illustrates the governmental activities assets, liabilities and net assets at June 30, 2011 and 2010:



The table below shows the change in net assets for fiscal year 2011 and 2010. The 2010 balance of operating grants and contributions and general revenues – grants and entitlements have been restated to conform to 2011 presentation of PATHway to Student Success (PASS) funding from the State of Ohio which is reported as an operating grant and contribution rather than as general revenue.

Change in Net Assets

	Governmental Activities 2011	Restated Governmental Activities 2010
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 898,694	\$ 775,985
Operating grants and contributions	1,410,231	1,104,324
General revenues:		
Property taxes	1,819,016	1,712,679
School district income tax	1,607,107	1,502,914
Grants and entitlements	3,097,082	3,190,502
Investment earnings	3,958	6,762
Other	11,824	20,077
Total revenues	<u>8,847,912</u>	<u>8,313,243</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
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Change in Net Assets

	<u>Governmental Activities 2011</u>	<u>Governmental Activities 2010</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,917,130	\$ 3,819,966
Special	919,975	900,043
Other	7,712	7,026
Support services:		
Pupil	386,194	351,699
Instructional staff	496,309	495,789
Board of education	12,234	10,250
Administration	793,640	776,817
Fiscal	259,610	244,490
Business	4,012	3,379
Operations and maintenance	617,152	580,079
Pupil transportation	400,750	407,289
Central	90,573	101,055
Operations of non-instructional services		
Other non-instructional services	99,175	118,975
Food service operations	314,770	303,443
Extracurricular activities	506,249	483,450
Interest and fiscal charges	<u>7,381</u>	<u>10,446</u>
Total expenses	<u>8,832,866</u>	<u>8,614,196</u>
Change in net assets	15,046	(300,953)
Net assets at beginning of year	<u>2,592,396</u>	<u>2,893,349</u>
Net assets at end of year	<u>\$ 2,607,442</u>	<u>\$ 2,592,396</u>

Governmental Activities

Net assets of the District's governmental activities increased \$15,046. Total governmental expenses of \$8,832,866 were offset by program revenues of \$2,308,925 and general revenues of \$6,538,987. Program revenues supported 26.14% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes, and grants and entitlements. These revenue sources represent 73.73% of total governmental revenue. The only significant increase in revenues was in operating grants and contributions, which increased 27.7%, primarily due to \$185,215 in Education Jobs grant funding during fiscal year 2011.

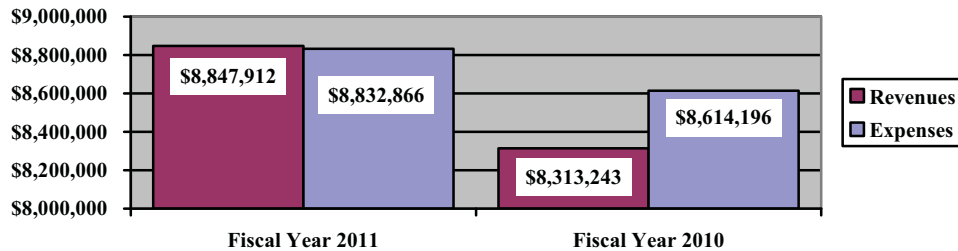
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,844,817 or 54.85% of total governmental expenses for fiscal year 2011.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2011 and 2010.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2011 compared to 2010. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. The 2010 net cost of services for special instruction has been restated to conform to 2011 presentation of PASS funding from the State of Ohio which is reported as an operating grant and contribution offsetting special instruction.

Governmental Activities

	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Restated Net Cost of Services 2010
Program expenses				
Instruction:				
Regular	\$ 3,917,130	\$ 3,192,784	\$ 3,819,966	\$ 3,335,134
Special	919,975	414,145	900,043	494,633
Other	7,712	7,712	7,026	7,026
Support services:				
Pupil	386,194	351,832	351,699	318,348
Instructional staff	496,309	294,856	495,789	317,638
Board of education	12,234	12,234	10,250	10,250
Administration	793,640	673,049	776,817	655,359
Fiscal	259,610	259,577	244,490	244,405
Business	4,012	4,012	3,379	3,379
Operations and maintenance	617,152	521,693	580,079	525,500
Pupil transportation	400,750	366,468	407,289	359,131
Central	90,573	78,748	101,055	89,196
Operations of non-instructional services				
Other non-instructional services	99,175	36,713	118,975	62,173
Food service operations	314,770	3,398	303,443	4,876
Extracurricular activities	506,249	299,339	483,450	296,393
Interest and fiscal charges	7,381	7,381	10,446	10,446
Total expenses	<u>\$ 8,832,866</u>	<u>\$ 6,523,941</u>	<u>\$ 8,614,196</u>	<u>\$ 6,733,887</u>

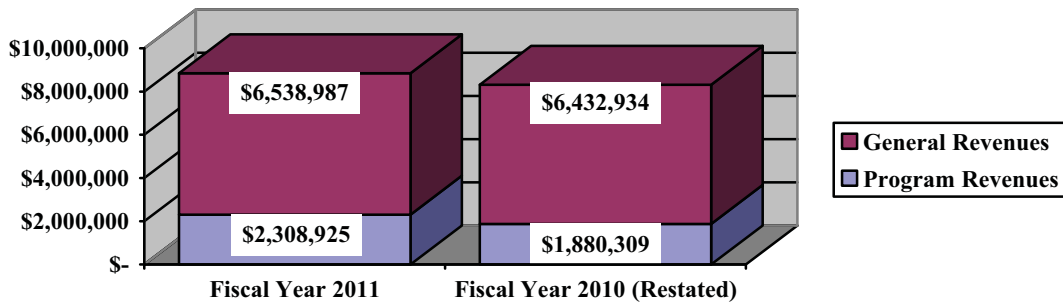
**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED

The dependence upon tax and other general revenues for governmental activities is apparent, 74.61% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 73.86%.

The graph below presents the District's governmental activities revenue for fiscal year 2011 and 2010. The 2010 program revenues and general revenues have been restated to conform to 2011 presentation of PASS funding from the State of Ohio which is reported as program revenue rather than as general revenue.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,632,016 which is less than last year's total restated balance of \$1,667,914. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010. Fund balance at June 30, 2010 has been restated as described in Note 3 to the basic financial statements.

	Fund Balance June 30, 2011	Restated Fund Balance June 30, 2010	Increase Decrease	Percentage Change
General	\$ 1,356,296	\$ 1,488,928	\$ (132,632)	(8.91) %
Other Governmental	275,720	178,986	96,734	54.05 %
Total	<u>\$ 1,632,016</u>	<u>\$ 1,667,914</u>	<u>\$ (35,898)</u>	(2.15) %

General Fund

The District's general fund balance decreased \$132,632. The increase in tax revenue is primarily due to an increase in income tax revenue of \$102,358. Tax revenue fluctuations are caused by the receivable at each June 30th. Earnings on investments are down due to low interest rates. The slight decrease in support services is due to a decrease in personnel costs.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED

The table below assists in illustrating the financial activities and fund balance of the general fund. Certain 2010 amounts have been restated to reflect the fund reclassifications as described in Note 3 to the basic financial statements.

	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 3,425,115	\$ 3,222,337	\$ 202,778	6.29 %
Tuition	462,025	366,814	95,211	25.96 %
Earnings on investments	3,954	6,755	(2,801)	(41.47) %
Intergovernmental	3,379,297	3,429,679	(50,382)	(1.47) %
Other revenues	<u>93,192</u>	<u>104,481</u>	<u>(11,289)</u>	<u>(10.80) %</u>
Total	<u>\$ 7,363,583</u>	<u>\$ 7,130,066</u>	<u>\$ 233,517</u>	<u>3.28 %</u>
<u>Expenditures</u>				
Instruction	\$ 4,527,433	\$ 4,400,415	\$ 127,018	2.89 %
Support services	2,608,204	2,687,533	(79,329)	(2.95) %
Non-instructional services	41,711	56,666	(14,955)	(26.39) %
Extracurricular activities	268,712	245,437	23,275	9.48 %
Debt service	49,163	49,163	-	- %
Facilities acquisition and construction	<u>1,000</u>	<u>502</u>	<u>498</u>	<u>99.20 %</u>
Total	<u>\$ 7,496,223</u>	<u>\$ 7,439,716</u>	<u>\$ 56,507</u>	<u>0.76 %</u>

General Fund Budgeting Highlights

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

For the general fund, final budgeted revenues and other financing sources were \$6,979,461, which was higher than the original budgeted revenues and other financing sources of \$6,979,011. Actual revenues and other financing sources for fiscal year 2011 were \$7,096,563. This represents a \$117,102 increase from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$7,668,474 were decreased to \$7,655,687 in the final appropriations. The actual budget basis expenditures for fiscal year 2011 totaled \$7,497,758, which was \$157,929 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
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Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the District had \$1,534,430 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal year 2011 balances compared to 2010:

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

	Governmental Activities	
	2011	2010
Land	\$ 352,453	\$ 352,453
Land improvements	255,977	286,196
Building and improvements	544,499	524,384
Furniture and equipment	202,594	215,534
Vehicles	178,907	200,763
Total	\$ 1,534,430	\$ 1,579,330

The overall decrease in capital assets of \$44,900 is primarily due to depreciation expense of \$151,203 and disposals (net of accumulated depreciation) of \$794 exceeding capital outlays of \$107,097 for fiscal year 2011.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2011, the District had \$65,580 in capital lease obligations and \$118,100 in energy conservation notes outstanding. Of this total, \$65,127 is due within one year and \$118,553 is due in greater than one year. The following table summarizes the outstanding obligations for fiscal 2011 compared to 2010.

Outstanding Debt, at Year End

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
	Capital lease obligations	\$ 65,580
Energy conservation notes	118,100	-
Total	\$ 183,680	\$ 107,552

At June 30, 2011, the District's overall legal debt margin was \$8,653,865 with an unvoted debt margin of \$96,154.

See Note 11 to the basic financial statements for detail on the District's debt administration.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED

Current Financial Related Activities

Operating Revenue

The funding of K-12 public schools in Ohio is a joint effort between the state and local school districts. Like most districts in Ohio, the Covington Exempted Village School District relies on its property & income taxes and state aide to provide the funds necessary to maintain its educational programs. Currently, the State foundation, state reimbursements and foundation subsidy make up 49% of total General Fund (operating) revenue. The District's other major sources of General Fund Revenue are local sources - real estate taxes (21%) and income taxes (21%). The balance of our operating revenue comes from tangible personal property tax (on public utilities), open enrollment, student fees, donations, and interest income.

State Revenue

State foundation funding distributions to school districts are determined by the biennial budget bill. The state budget is adopted in odd numbered years and implemented beginning in even numbered years. Since the 1970's through fiscal year 2009, Ohio's funding formula was foundation based in which a per pupil amount determined by the General Assembly as the resource for provision of a basic adequate education was multiplied by the number of pupils to determine the base funding of the school district. From this product, the local share of the basic adequate amount or the charge off was subtracted to arrive at the state share of the base cost. Additional funding was also provided for services targeted to categories of pupils such as handicapped, vocational, gifted, and economically disadvantaged as well as some adjustments and funding guarantees.

In the 2010-11 biennial budget, Governor Ted Strickland proposed a shift to a new funding formula called the Evidence-Based Model (EBM) to establish the adequate funding amount that also included changes to the calculation of the local share or charge off. Under the EBM the charge off calculation was designed to eliminate increases in the charge off attributed to increases in property values that are not accompanied by increases in local tax revenue (a phenomenon is known as charge off "phantom revenue".) The severe economic crisis made it impossible for the state to consider an aggressive phase-in and implementation of the new EBM funding model; therefore, gain caps and funding guarantees were incorporated in the model so the State could operate within its budgetary capacity. As a result, state aid for Covington was decreased by 1% in fiscal year 2010 and by another 1% in fiscal year 2011. It is also important to note that a significant portion of the overall dollars (approximately 7.5%) allocated by the state during this biennium were supplied by one-time Federal Stabilization funds.

The administration of Governor John Kasich has proposed a move away from the EBM to a new formula for fund distribution to school districts. However, since a new funding mechanism is not formulated as of yet, the administration has decided to fund school district in fiscal year 2012 based on a transitional approach until a new formula is devised. This transitional approach is referred to as the "Bridge" formula which the administration hopes to replace with a permanent formula by fiscal year 2013 or fiscal year 2014. The Bridge model funds schools based upon the amount per pupil received in fiscal year 2011 (less \$159 per pupil.) For the District, that translates into a per-pupil amount of \$3,740 for fiscal year 2012. In addition, a subsidy payment of \$17 per pupil is included for high performing districts who are rated Excellent or Excellent with Distinction in the prior academic year. The District's student count will drive the total amount funding it receives. However, a school district's total fiscal year 2012 funding is guaranteed not to drop below fiscal year 2011 levels after Federal Stabilization is removed from the equation (fiscal year 2011 Stabilization funding for the District equaled \$257,356.)

The Federal Government has dedicated another \$361 million to Ohio schools to prevent education job losses in fiscal year 2012 (the Districts' share equals \$185,000.) While this is welcome news, it only represents about half of the total stabilization dollars the federal government supplied over the past biennial. Once these Federal dollars are spent, no additional support is expected.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED

Local Revenue

The current state of the economy has also had an adverse affect on the District's local revenue sources. Income tax collections generally show some growth, however the slowdown in the economy resulted in a 6% reduction in income tax receipts in fiscal year 2010 and collections remained flat in FY11. It may be several years before we see much growth. The current income tax includes one-half percent (.50%) which was approved in 1993 for continuous or permanent collection, and an additional five-year 1.25% tax (effective 2006 thru 2010.) A renewal was approved by voters in November 2009, extending the levy for another five year period (2011 thru 2015.)

The Miami County Auditor conducted a triennial update in 2010. While residential values declined (a common occurrence across the nation); conversely, agricultural values increased (reflecting Current Agricultural Use Values), resulting in a slight gain of 3% in total Real Property Values. Based on the updated tax value changes, voted tax rates adjusted proportionately to produce the same amount of revenue as originally approved by the voters (but will not be lower than 20 mills.) The net effect of the updated values is a slight increase in estimated property tax receipts of \$50,000 for the district. Eighty-five percent of the district's property tax valuation is residential or agricultural.

The operating levies for the District total 30.4 voted mills, but the assessed millage (i.e. effective rate) is at the 20-mill floor as applied to both real property classifications due to the tax reduction factor.

In 2004, legislation (HB66) was approved to phase out the tax on tangible personal property on general business, telephone and telecommunication companies and railroads. Revenue from the state's new Commercial Activity Tax (CAT) was supposed to provide the state a dedicated revenue stream to continue tangible replacement payments through 2017. However, the state's current budget immediately eliminated this reimbursement for the District which totaled approximately \$111,000 for fiscal year 2012.

Operating Expenditures

Approximately 80% of the District's operating expenses are salaries and benefits. The remaining 20 percent of operating costs are supplies & materials, purchased services (which include additional personnel hired through the Miami County Educational Service Center), utilities, repairs & maintenance, and tuition fees (charged for students attending special programs or other schools.) In 2005 when the District was having financial difficulty, cuts were made which have not been restored. Additional reductions in fiscal year 2012 include 1.5 FTE's in teaching staff and one aide. Negotiations for fiscal year 2012 and fiscal year 2013 resulted in a base wage freeze, as well as a step freezes for the 2 year contract. In addition, changes were made to Healthcare benefits, including increased co-pays and deductibles, and the option of a HSA was added, to try and control medical insurance costs.

The Board also implemented a HB264 Energy Conservation Project, with projected annual savings of \$28,000 in utility, operating & maintenance costs. The project was funded with a loan, with principal & interest to be paid with the savings, resulting in a 3.72 year payback period.

Permanent Improvements

The District faces many challenges as the school buildings age. Major updates are on hold while the District pursues the opportunity to utilize funds from the Ohio Schools Facilities Commission for a new building. The issue was first taken to the voters in August of 2010 in the form of a combined bond/permanent improvement levy to cover the local share for a new PreK-12 school building. It was defeated, with 36% voting for the levy and 64% against. The Board continues to evaluate current facilities for safety and functionality, while exploring opportunities for improved learning environments for our students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED

In the meantime, the capital expenditures, including building upkeep and repairs, are completed as required, to keep the facilities safe for students and staff. Because the District (unlike every other school in Miami County) does not have a Permanent Improvement Levy, all improvements and capital projects (including the purchase of school buses) must be budgeted in the general fund. Two replacement buses were purchased in fiscal year 2010, but future bus purchases have not been budgeted due to funding constraints.

Conclusion

With great uncertainty at the state level, our future educational funding is seriously threatened as indicated in our five-year forecast. The District's expenditures exceeded revenues in fiscal year 2011, for the second year in a row. This trend is anticipated to continue into the future. State law requires schools to operate with positive cash balances; therefore, additional revenue and/or expenditure reductions will need to be considered in order to balance the budget. In addition to salary freezes, reductions in force, changes in health insurance & delaying the purchase of replacement buses, the Board has also delayed implementation of all day Kindergarten and the building project.

These are challenging economic times for School Boards and School Administrators. The Board will pursue its goal of continuing to be good stewards of public money, by reducing spending and increasing efficiency, wherever possible. They will continue to seek opportunities to reduce spending without affecting instructional programming and academic opportunities.

Contacting the District's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 1,592,979
Receivables:	
Property taxes	1,744,159
Income taxes.	561,768
Accounts.	10,304
Intergovernmental	257,212
Accrued interest	367
Prepayments	6,076
Materials and supplies inventory.	21,555
Capital assets:	
Land.	352,453
Depreciable capital assets, net.	1,181,977
Capital assets, net	1,534,430
 Total assets.	 5,728,850
 Liabilities:	
Accounts payable.	26,248
Accrued wages and benefits	646,779
Pension obligation payable.	177,251
Intergovernmental payable	30,829
Unearned revenue	1,415,664
Accrued interest payable	190
Long-term liabilities:	
Due within one year.	105,333
Due in more than one year.	719,114
 Total liabilities	 3,121,408
 Net Assets:	
Invested in capital assets, net of related debt.	1,423,040
Restricted for:	
Capital projects	74,896
Federally funded programs	202,942
Student activities	47,932
Other purposes	142,787
Unrestricted.	715,845
 Total net assets	 \$ 2,607,442

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 3,917,130	\$ 436,483	\$ 287,863	\$ (3,192,784)
Special	919,975	81,172	424,658	(414,145)
Other	7,712	-	-	(7,712)
Support services:				
Pupil	386,194	-	34,362	(351,832)
Instructional staff	496,309	-	201,453	(294,856)
Board of education	12,234	-	-	(12,234)
Administration	793,640	8,988	111,603	(673,049)
Fiscal	259,610	27	6	(259,577)
Business	4,012	-	-	(4,012)
Operations and maintenance	617,152	9,350	86,109	(521,693)
Pupil transportation	400,750	-	34,282	(366,468)
Central	90,573	-	11,825	(78,748)
Operation of non-instructional services:				
Other non-instructional services	99,175	1,284	61,178	(36,713)
Food service operations	314,770	193,813	117,559	(3,398)
Extracurricular activities	506,249	167,577	39,333	(299,339)
Interest and fiscal charges	7,381	-	-	(7,381)
Totals	\$ 8,832,866	\$ 898,694	\$ 1,410,231	(6,523,941)

General Revenues:

Property taxes levied for:	
General purposes	1,819,016
School district income tax	1,607,107
Grants and entitlements not restricted to specific programs	3,097,082
Investment earnings	3,958
Miscellaneous	11,824
Total general revenues	6,538,987
Change in net assets	15,046
Net assets at beginning of year	2,592,396
Net assets at end of year	\$ 2,607,442

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 1,304,609	\$ 288,370	\$ 1,592,979
Receivables:			
Property taxes.	1,744,159	-	1,744,159
Income taxes	561,768	-	561,768
Accounts	2,044	8,260	10,304
Intergovernmental.	11,518	245,694	257,212
Accrued interest.	367	-	367
Prepayments.	6,076	-	6,076
Materials and supplies inventory	-	21,555	21,555
Total assets	<u>\$ 3,630,541</u>	<u>\$ 563,879</u>	<u>\$ 4,194,420</u>
Liabilities:			
Accounts payable	\$ 15,888	\$ 10,360	\$ 26,248
Accrued wages and benefits.	595,545	51,234	646,779
Compensated absences payable	29,307	-	29,307
Pension obligation payable	158,599	18,652	177,251
Intergovernmental payable	29,200	1,629	30,829
Unearned revenue.	1,415,664	-	1,415,664
Deferred revenue	30,042	206,284	236,326
Total liabilities.	<u>2,274,245</u>	<u>288,159</u>	<u>2,562,404</u>
Fund Balances:			
Nonspendable:			
Materials and supplies inventory	-	21,555	21,555
Prepays	6,076	-	6,076
Restricted:			
Capital improvements	-	74,896	74,896
Food service operations	-	32,700	32,700
Targeted academic assistance	-	4,290	4,290
Other purposes.	-	100,186	100,186
Extracurricular.	-	47,932	47,932
Assigned:			
Student instruction.	2,252	-	2,252
Student and staff support.	38,046	-	38,046
Unassigned (deficit).	1,309,922	(5,839)	1,304,083
Total fund balances	<u>1,356,296</u>	<u>275,720</u>	<u>1,632,016</u>
Total liabilities and fund balances	<u>\$ 3,630,541</u>	<u>\$ 563,879</u>	<u>\$ 4,194,420</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

Total governmental fund balances		\$	1,632,016
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			1,534,430
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Property taxes receivable	\$	30,042	
Intergovernmental receivable		206,284	
Total		236,326	236,326
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(190)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Capital lease obligations		(65,580)	
Notes payable		(118,100)	
Compensated absences		(611,460)	
Total		(795,140)	(795,140)
Net assets of governmental activities		\$	2,607,442

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Property taxes	\$ 1,818,008	\$ -	\$ 1,818,008
Income taxes	1,607,107	-	1,607,107
Tuition	462,025	-	462,025
Charges for services	-	193,813	193,813
Earnings on investments	3,954	270	4,224
Classroom materials and fees	38,128	-	38,128
Extracurricular	16,453	172,709	189,162
Rental income	5,529	-	5,529
Contributions and donations	15,823	95,292	111,115
Other local revenues	17,259	2,620	19,879
Intergovernmental - State	3,376,155	13,961	3,390,116
Intergovernmental - Federal	3,142	799,913	803,055
Total revenues	<u>7,363,583</u>	<u>1,278,578</u>	<u>8,642,161</u>
Expenditures:			
Current:			
Instruction:			
Regular	3,755,351	91,219	3,846,570
Special	764,370	150,312	914,682
Other	7,712	-	7,712
Support services:			
Pupil	351,481	32,991	384,472
Instructional staff	305,812	188,584	494,396
Board of education	12,180	-	12,180
Administration	693,328	104,126	797,454
Fiscal	257,740	33	257,773
Operations and maintenance	537,417	87,047	624,464
Pupil transportation	368,178	10,532	378,710
Central	82,068	11,788	93,856
Operation of non-instructional services:			
Other non-instructional services	41,711	57,464	99,175
Food service operations	-	312,335	312,335
Extracurricular activities	268,712	207,695	476,407
Facilities acquisition and construction	1,000	45,810	46,810
Debt service:			
Principal retirement	41,972	-	41,972
Interest and fiscal charges	7,191	-	7,191
Total expenditures	<u>7,496,223</u>	<u>1,299,936</u>	<u>8,796,159</u>
Excess of expenditures over revenues	<u>(132,640)</u>	<u>(21,358)</u>	<u>(153,998)</u>
Other financing sources (uses):			
Issuance of long-term notes	-	118,100	118,100
Transfers in	8	-	8
Transfers (out)	-	(8)	(8)
Total other financing sources (uses)	<u>8</u>	<u>118,092</u>	<u>118,100</u>
Net change in fund balances	(132,632)	96,734	(35,898)
Fund balances at beginning of year (restated).	<u>1,488,928</u>	<u>178,986</u>	<u>1,667,914</u>
Fund balances at end of year	<u>\$ 1,356,296</u>	<u>\$ 275,720</u>	<u>\$ 1,632,016</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds \$ (35,898)

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

Governmental funds report capital outlays as expenditures.

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

Capital asset additions	\$	107,097	
Current year depreciation		(151,203)	
Total			(44,106)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.

(794)

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

Property taxes		1,008	
Intergovernmental		204,743	
Total			205,751

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

41,972

Issuances of notes are recorded as other financing source in the funds; however, in the statement of activities, they are not reported as revenue as they increase liabilities on the statement of net assets.

(118,100)

In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due.

(190)

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

(33,589)

Change in net assets of governmental activities \$ 15,046

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Property taxes	\$ 1,652,922	\$ 1,652,922	\$ 1,674,476	\$ 21,554
Income taxes	1,538,231	1,538,231	1,530,943	(7,288)
Tuition	366,700	366,700	450,507	83,807
Earnings on investments	7,000	7,000	4,325	(2,675)
Classroom materials and fees	36,800	37,250	38,108	858
Rental income	5,000	5,000	4,681	(319)
Contributions and donations	6,000	6,000	4,395	(1,605)
Other local revenues	4,000	4,000	6,525	2,525
Intergovernmental - State	3,361,358	3,361,358	3,376,155	14,797
Intergovernmental - Federal	-	-	5,743	5,743
Total revenues	<u>6,978,011</u>	<u>6,978,461</u>	<u>7,095,858</u>	<u>117,397</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,389,334	3,781,397	3,735,232	46,165
Special	626,300	790,052	781,093	8,959
Other	6,500	7,293	8,017	(724)
Support services:				
Pupil	309,100	335,027	349,816	(14,789)
Instructional staff	380,250	334,057	308,158	25,899
Board of education	15,800	16,685	12,080	4,605
Administration	506,865	708,293	688,994	19,299
Fiscal	209,250	261,036	253,626	7,410
Operations and maintenance	521,400	574,306	557,917	16,389
Pupil transportation	287,200	371,073	367,527	3,546
Central	122,670	144,999	131,127	13,872
Operation of non-instructional services:				
Other non-instructional services	70,000	70,000	41,965	28,035
Extracurricular activities	221,005	258,169	261,206	(3,037)
Facilities acquisition and construction	2,500	3,000	1,000	2,000
Total expenditures	<u>7,668,174</u>	<u>7,655,387</u>	<u>7,497,758</u>	<u>157,629</u>
Excess expenditures over revenues	<u>(690,163)</u>	<u>(676,926)</u>	<u>(401,900)</u>	<u>275,026</u>
Other financing sources (uses):				
Refund of prior year's expenditures	1,000	1,000	622	(378)
Refund of prior year's receipts	(300)	(300)	-	300
Transfers in	-	-	83	83
Total other financing sources (uses)	<u>700</u>	<u>700</u>	<u>705</u>	<u>5</u>
Net change in fund balance	(689,463)	(676,226)	(401,195)	275,031
Fund balance at beginning of year	1,653,057	1,653,057	1,653,057	-
Prior year encumbrances appropriated	10,892	10,892	10,892	-
Fund balance at end of year	<u>\$ 974,486</u>	<u>\$ 987,723</u>	<u>\$ 1,262,754</u>	<u>\$ 275,031</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2011

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 31,536
Total assets.	<u>\$ 31,536</u>
Liabilities:	
Due to students.	\$ 31,536
Total liabilities	<u>\$ 31,536</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in 1837 through the consolidation of existing land areas and school districts. The District serves an area of approximately 35 square miles. It is located in Miami County and includes all of the village of Covington and Newberry, Newton and Washington Townships. The District is staffed by 32 non-certified employees and 65 certified full-time teaching personnel who provide services to 885 students and other community members. The District currently operates three instructional/support buildings.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Dayton Educational Cooperative Association

The District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of K-12 schools in Darke, Miami and Montgomery Counties, plus Fairborn City Schools (in Greene County). The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The Governing Board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council

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

Southwestern Ohio Instructional Technology Association

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of SOITA is to serve the regional instructional technology needs of the SOITA member schools by facilitating the use of high quality instructional technology to improve both teaching and learning. The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Upper Valley Career Center

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

The Covington Education Fund

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

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

INSURANCE PURCHASING POOL

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

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

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

The District participates in the Southwestern Ohio Educational Purchasing Council Insurance Program, a group purchasing pool among members of the Southwestern Ohio Educational Purchasing Council. A seven member committee made up of member schools meet five to six times a year, has governing by-laws and is sanctioned by the Educational Purchasing Council Board and includes 46 school districts with combined student enrollment of 87,379 and combined values of \$2,542,611,718. The program is governed by the Southwestern Ohio Educational Purchasing Council and is a self-insurance package which allows the Council to: retain a portion of the predictable losses; transfer a portion of the catastrophic risk; broaden the district insurance program coverage; budget for known maximum costs; and insulate the district from future market upheavals. The District paid \$23,097 to the group during fiscal year 2011 for property and casualty insurance. Specialty Claims Services, Inc. is responsible for processing claims. Arthur J. Gallagher & Co. is the sales and marketing representative, which establishes agreements between Southwestern Ohio EPC Insurance Program and member schools.

RELATED ORGANIZATION

The J. R. Clarke Public Library

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

General fund -The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

PROPRIETARY FUND

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

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

D. Basis of Accounting

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2011, are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

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

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

E. Budgets

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

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

Tax Budget:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Estimated Resources:

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

Appropriations:

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

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

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

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

Lapsing of Appropriations:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

F. Cash and Investments

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

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2011. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2011.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$3,954, which includes \$424 assigned from other funds.

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

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

G. Inventory

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

On the fund financial statements, reported material and supplies inventory is equally offset by nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

H. Capital Assets

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

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

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

I. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2011, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with at least ten years of current service with the District were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2011, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

L. Net Assets

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

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

M. Estimates

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

On the fund financial statements, reported prepayments are equally offset by nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of fund balance.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

B. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	General	Nonmajor Governmental	Total Governmental
Fund balance as previously reported	\$ 1,462,862	\$ 205,052	\$ 1,667,914
Fund reclassifications:			
Public school support fund	26,066	(26,066)	-
Total fund reclassifications	26,066	(26,066)	-
Restated fund balance at July 1, 2010	\$ 1,488,928	\$ 178,986	\$ 1,667,914

The fund reclassifications did not have an effect on net assets as previously reported.

C. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
IDEA Part-B	\$ 5,839

The general fund is liable for any deficits in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all District deposits was \$1,029,887. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$369,668 of the District's bank balance of \$1,183,204 was exposed to custodial risk as discussed below, while \$813,536 was covered by the FDIC.

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

B. Investments

As of June 30, 2011, the District had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	\$ 594,628	\$ 594,628

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 594,628	100.00

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,029,887
Investments	<u>594,628</u>
Total	<u>\$ 1,624,515</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 1,592,979
Agency fund	<u>31,536</u>
Total	<u>\$ 1,624,515</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2011, consisted of the following, as reported on the fund financial statements:

<u>Transfers to general fund from:</u>	
Nonmajor governmental fund	\$ 8

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The \$8 transfer from the District managed student activity fund (a nonmajor governmental fund) to the general fund was a residual equity transfer for a specific student activity that ended in fiscal year 2011.

All transfers made in fiscal year 2011 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in the District's fiscal year ended June 30, 2011 (other than public utility property) generally represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009 on the value as of December 31, 2009. Amounts paid by multi-county taxpayers were due September 20, 2010. Single county taxpayers could pay annually or semiannually. If paid semiannually, the first payment was due April 30, 2010, with the remainder payable by September 20, 2010.

The District receives property taxes from Miami County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$291,749 in the general fund. This amount is recorded as revenue. The amount available for advance at June 30, 2010 was \$154,921 in the general fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 90,099,900	96.47	\$ 92,900,230	96.54
Public utility personal	3,134,510	3.36	3,253,830	3.38
Tangible personal property	<u>163,550</u>	<u>0.17</u>	<u>80,240</u>	<u>0.08</u>
Total	<u>\$ 93,397,960</u>	<u>100.00</u>	<u>\$ 96,234,300</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$35.76		\$35.72	

NOTE 7 - INCOME TAX

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

NOTE 8 - RECEIVABLES

Receivables at June 30, 2011 consisted of income and property taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds.

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

Governmental activities:	
Property taxes	\$ 1,744,159
Income Taxes	561,768
Accounts	10,304
Intergovernmental	257,212
Accrued interest	<u>367</u>
Total	<u>\$ 2,573,810</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Balance</u> <u>06/30/10</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/11</u>
Governmental activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 352,453	\$ -	\$ -	\$ 352,453
Total capital assets, not being depreciated	<u>352,453</u>	<u>-</u>	<u>-</u>	<u>352,453</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	852,207	-	-	852,207
Buildings and improvements	3,343,160	54,170	-	3,397,330
Furniture and equipment	891,738	38,582	(25,525)	904,795
Vehicles	<u>573,808</u>	<u>14,345</u>	<u>-</u>	<u>588,153</u>
Total capital assets, being depreciated	<u>5,660,913</u>	<u>107,097</u>	<u>(25,525)</u>	<u>5,742,485</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(566,011)	(30,219)	-	(596,230)
Buildings and improvements	(2,818,776)	(34,055)	-	(2,852,831)
Furniture and equipment	(676,204)	(50,728)	24,731	(702,201)
Vehicles	<u>(373,045)</u>	<u>(36,201)</u>	<u>-</u>	<u>(409,246)</u>
Total accumulated depreciation	<u>(4,434,036)</u>	<u>(151,203)</u>	<u>24,731</u>	<u>(4,560,508)</u>
Governmental activities capital assets, net	<u>\$ 1,579,330</u>	<u>\$ (44,106)</u>	<u>\$ (794)</u>	<u>\$ 1,534,430</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 56,962
Special	865

Support services:

Pupil	138
Instructional staff	629
Board of education	54
Administration	1,357
Fiscal	370
Business	4,012
Operations and maintenance	6,456
Pupil transportation	32,190
Central	2,641
Extracurricular activities	44,356
Food service operations	<u>1,173</u>
Total depreciation expense	<u>\$ 151,203</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Capital assets consisting of furniture and equipment have been capitalized in the amount of \$215,992. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2011 was \$175,987, leaving a current book value of \$40,005. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2011 fiscal year totaled \$41,972 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2011:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 50,041
2013	10,497
2014	<u>9,850</u>
Total minimum lease payments	70,388
Less: Amount representing interest	<u>(4,808)</u>
Total	<u>\$ 65,580</u>

NOTE 11 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2011, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/2010</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/2011</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Capital lease obligation	\$ 107,552	\$ -	\$ (41,972)	\$ 65,580	\$ 46,739
Energy conservation notes	-	118,100	-	118,100	18,388
Compensated absences	<u>649,539</u>	<u>70,614</u>	<u>(79,386)</u>	<u>640,767</u>	<u>40,206</u>
Total long-term obligations, governmental activities	<u>\$ 757,091</u>	<u>\$ 188,714</u>	<u>\$ (121,358)</u>	<u>\$ 824,447</u>	<u>\$ 105,333</u>

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

Capital lease obligation: See Note 10 for detail on the District's capital lease obligation.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

- B.** On June 3, 2011, the District issued energy conservation notes to provide for energy improvements to various District buildings. The notes bear an interest rate of 3% and will mature during fiscal year 2016. The primary source of repayment of these notes is through energy savings as a result of the improvements.

Payments of principal and interest relating to the energy conservation notes are recorded as expenditures in the general fund. The unmatured obligations at year end are accounted for in the statement of net assets. The District has capitalized \$45,810 in buildings and improvements spent from the note proceeds; the remaining proceeds were unspent at fiscal year end.

The following is a summary of the District's future annual debt service requirements to maturity for the energy conservation notes:

Fiscal Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 18,388	\$ 3,027	\$ 21,415
2013	20,696	2,765	23,461
2014	23,294	2,115	25,409
2015	26,216	1,383	27,599
2016	<u>29,506</u>	<u>561</u>	<u>30,067</u>
Total	<u>\$ 118,100</u>	<u>\$ 9,851</u>	<u>\$ 127,951</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2011, are a voted debt margin of \$8,653,865 and an unvoted debt margin of \$96,154.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 12 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. For fiscal year 2011, the District joined together with other school districts in Ohio to participate in the Southwestern Ohio Educational Purchasing Council Liability, Fleet & Property Insurance Program, a public entity self-insurance purchasing group (see Note 2.A). The District contracted with Arthur J. Gallagher & Co. for brokerage service. Coverage is provided by Selective Insurance Company of the Southeast, Federal Insurance Co (Chubb), Travelers Indemnity Co., Genesis Insurance Co., Genesis Indemnity Insurance Co. and Illinois National Insurance Company (Chartis) Insurance coverage provided includes the following:

Building - Replacement Cost	\$20,644,241
Contents (\$1,000 deductible)	2,967,218
Automobile:	
Liability	1,000,000
General Liability	
Per occurrence	1,000,000
Aggregate	3,000,000
Excess Liability Umbrella	5,000,000
Excess Property	350,000,000
Boiler and Machinery	100,000,000
School Board Legal Liability	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There was no significant reduction in coverage from the prior year.

B. Workers' Compensation

For fiscal year 2011, the District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The GRP is split into tiers grouping districts with similar experiences. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the tier. Each participant pays its workers' compensation premium to the State based on the rate for the tier rather than its individual rate. Participation in the GRP is limited to credit rated school districts. The firm of Hunter Consulting Company provides administrative, cost control and actuarial services to the GRP.

C. Medical Benefits

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$122,190, \$126,957 and \$78,698, respectively; 54.97 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 13 - PENSION PLANS - (Continued)

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

Funding Policy - For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$475,291, \$451,624 and \$442,288, respectively; 83.40 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$38,420 made by the District and \$27,443 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

**COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010 and 2009 were \$29,875, \$18,214 and \$49,032, respectively; 54.97 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$7,863, \$7,550 and \$6,493, respectively; 54.97 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$36,561, \$34,740 and \$34,022, respectively; 83.40 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (401,195)
Net adjustment for revenue accruals	230,014
Net adjustment for expenditure accruals	23,457
Net adjustment for other sources/uses	(697)
Funds budgeted elsewhere	(224)
Adjustment for encumbrances	16,013
GAAP basis	\$ (132,632)

The public school support fund is a legally budgeted separate special revenue fund that is considered part of the general fund on a GAAP basis.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 17 - SET-ASIDES

The 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 the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. These amounts must be carried forward to be used for the same purposes in future years.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance June 30, 2010	\$ -	\$ -
Current year set-aside requirement	131,231	131,231
Contributions in excess of the current fiscal year set-aside requirement	-	-
Current year qualifying expenditures	(127,097)	(78,021)
Excess qualified expenditures from prior years	(102,160)	
Current year offsets	-	-
Waiver granted by ODE	-	-
Current year offset from note proceeds	-	(53,210)
Total	<u>\$ (98,026)</u>	<u>\$ -</u>
Balance carried forward to fiscal year 2012	<u>\$ -</u>	<u>\$ -</u>
Set-aside balance June 30, 2011	<u>\$ -</u>	<u>\$ -</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 17 - SET-ASIDES - (Continued)

The District had current year qualifying disbursements and excess qualified expenditures from prior years that reduced the textbook set-aside amount to below zero. Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This negative balance is therefore not being presented as being carried forward to the future fiscal year.

The District had qualifying disbursements and offsets from note proceeds that reduced the set-aside amount to zero for the capital improvements set-aside. At June 30, 2011, the District has \$64,890 remaining in note proceeds that will be available in future years as a capital improvements offset.

NOTE 18 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 14,517
Other governmental	<u>142,704</u>
Total	<u>\$ 157,221</u>

Covington Exempted Village School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2011

Federal Agency/ Pass Through Agency/ Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. Department of Agriculture:			
<i>Passed through Ohio Department of Education:</i>			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$ 16,005	\$ 16,005
Cash Assistance:			
National School Breakfast Program	10.553	1,857	1,857
National School Lunch Program	10.555	82,901	82,901
Total National School Lunch Program		<u>100,763</u>	<u>100,763</u>
Total US Department of Agriculture		<u>100,763</u>	<u>100,763</u>
U.S. Department of Education:			
<i>Passed through Ohio Department of Education:</i>			
Title I, Part A Cluster:			
Title I Grants to Local Education Agencies	84.010	83,236	88,891
ARRA - Title I Grants to Local Education Agencies	84.389	24,651	26,393
Total Title I, Part A Cluster		<u>107,887</u>	<u>115,284</u>
Special Education Cluster:			
Special Education Grants to States	84.027	171,458	168,965
ARRA - Special Education Grants to States	84.391	89,260	89,480
Total Special Education Cluster		<u>260,718</u>	<u>258,445</u>
Education Technology State Grants	84.318	314	314
Improving Teacher Quality State Grants	84.367	32,051	32,236
ARRA - State Fiscal Stabilization	84.394	257,356	257,356
Total U.S. Department of Education		<u>658,326</u>	<u>663,635</u>
Total Federal Assistance		<u>\$ 759,089</u>	<u>\$ 764,398</u>

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

1. Significant Accounting Policies:

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

2. U.S. Department of Agriculture Programs:

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2011 the District had no significant food commodities in inventory.

3. Matching Requirements:

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Covington Exempted Village School District (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 21, 2011, wherein we noted the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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Compliance and Other Matters

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

We noted certain matters that we reported to management of the District, in a separate letter dated December 21, 2011.

This report is intended solely for the information and use of management, the Board of Education, the finance committee, the Auditor of State of Ohio, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in cursive script: Clark, Schufer, Hackett & Co.

Springfield, Ohio
December 21, 2011

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

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

Compliance

We have audited the compliance of the Covington Exempted Village School District (the District), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompany schedule of findings and questioned costs as item 2011-001.

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Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2011-001. A significant deficiency in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report is intended solely for the information and use of management, the finance committee, the Board of Education, the Auditor of State of Ohio, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Springfield, Ohio
December 21, 2011

Section I – Summary of Auditors’ Results

Financial Statements

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

Federal Awards

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

Section II – Financial Statement Findings

None reported

Section III – Federal Awards Findings and Questioned Costs

2011-001: Noncompliance – State Fiscal Stabilization – ARRA – CFDA No. 84.394

Condition: During the fiscal year, the District did not report all full time equivalencies (FTE) on the 1512 ARRA Subrecipient FTE report as required by Ohio Department of Education (ODE) reporting requirements.

Criteria: American Recovery and Reinvestment Act of 2009 (ARRA), section 1512 (b) & (c) requires any entity that receives certain Recovery funds directly from the Federal Government to submit to the Federal Agency no later than 10 days after the end of each calendar quarter in which the Federal Recovery funds were received. The ODE's American Recovery and Reinvestment Act Reporting Guidance states that ODE, as a prime recipient of ARRA funding, is required to report quarterly to the federal government data on ARRA programs. The District did not receive direct ARRA funding. However, the ODE's reporting guidance indicates that ODE distributes ARRA funds to local education agencies (LEAs) as subrecipients and must collect quarterly data from LEAs to meet the 1512 reporting requirements associated with ARRA funding. Thus, the 1512 reporting requirements filter down to the District and the District is required to report certain information to ODE. Among the items to be reported, the FTE positions saved or created from ARRA grant funding during each quarter.

Effect: Failure to properly report in accordance with program requirements could result in loss of funding or other actions by the funder.

Cause: A discrepancy was noted for one quarter in the number of FTEs reported to ODE and the number of employees per the District records for the State Fiscal Stabilization grant. The District did not implement procedures to ensure that all FTEs were reported on the ODE 1512 ARRA Subrecipient FTE report on a quarterly basis.

Recommendation: We recommend the District implement procedures to ensure that all FTEs are reported on the ODE 1512 ARRA Subrecipient FTE report to comply with federal regulations.

Management Response: The District is aware of the noncompliance as it was an oversight where an FTE should have been reported in the last quarter's 1512 ARRA Subrecipient FTE report. The District will double check the grant activity for accuracy before submitting the quarterly reports.

Section IV – Summary of Prior Audit Findings and Questioned Costs

None reported

Independent Accountants' Report on Applying Agreed-Upon Procedure

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

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Covington Exempted Village School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on December 8, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying and which is supplemented by the District's Administrative Guidelines Section 5517.01.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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



Springfield, Ohio
December 21, 2011

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Dave Yost • Auditor of State

COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT

MIAMI COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 31, 2012**