

**COVINGTON EXEMPTED VILLAGE
SCHOOL DISTRICT**

Basic Financial Statements

June 30, 2006 and 2005

with

Independent Auditors' Report



Mary Taylor, CPA
Auditor of State

Board of Education
Covington Exempted Village School District
25 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, 2004 through June 30, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 4, 2007

This Page is Intentionally Left Blank.

COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT

Table of Contents

Independent Auditors' Report.....	1-2
Management's Discussion and Analysis – June 30, 2005	3-12
Basic Financial Statements – June 30, 2005:	
Statement of Net Assets	13
Statement of Activities.....	14
Balance Sheet – Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in the Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund	19
Statement of Fiduciary Net Assets – Fiduciary Funds.....	20
Notes to the Basic Financial Statements	21-46
Management's Discussion and Analysis – June 30, 2006	47-56
Basic Financial Statements – June 30, 2006:	
Statement of Net Assets	57
Statement of Activities.....	58
Balance Sheet – Governmental Funds	59
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	60
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	61
Reconciliation of the Statement of Revenues, Expenditures and Changes in the Fund Balances of Governmental Funds to the Statement of Activities	62
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund	63
Statement of Fiduciary Net Assets – Fiduciary Funds.....	64
Notes to the Basic Financial Statements	65-89
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	90-91
Schedule of Prior Audit Findings	92

This Page is Intentionally Left Blank.



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
www.cshco.com

Independent Auditors' Report

Board of Education
Covington Exempted Village School District
25 N. Grant Street
Covington, Ohio 4531845318

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 years ended June 30, 2006 and June 30, 2005, 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 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 Covington Exempted Village School District as of June 30, 2006 and June 30, 2005, the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the 2005 basic financial statements, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, Deposits and Investment Risk Disclosure and GASB Technical Bulletin 2004-2, Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers for the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2007, 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, grants 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 should be considered in assessing the results of our audit.

The Management's Discussion and Analysis Sections, on pages 3 through 12 and 47 through 56 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires 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.

Clark, Schaefer, Hachett & Co.

Springfield, Ohio
January 16, 2007

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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, 2005. 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 2005 are as follows:

- In total, net assets of governmental activities decreased \$523,352 which represents a 24.88% decrease from 2004.
- General revenues accounted for \$5,527,498 in revenue or 80.53% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,336,128 or 19.47% of total revenues of \$6,863,626.
- The District had \$7,386,978 in expenses related to governmental activities; \$1,336,128 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 \$5,527,498 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$5,963,607 in revenues and \$6,505,287 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance decreased \$541,680 from \$646,870 to \$105,190.

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, 2005

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 2005?" 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 13-14 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 funds. 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 15-19 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 20. 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, 2005

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 21-46 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2005 and 2004.

	Net Assets	
	Governmental Activities	Governmental Activities
	<u>2005</u>	<u>2004</u>
<u>Assets</u>		
Current and other assets	\$ 3,147,424	\$ 3,790,694
Capital assets	<u>1,537,782</u>	<u>1,458,000</u>
Total assets	<u>4,685,206</u>	<u>5,248,694</u>
<u>Liabilities</u>		
Current liabilities	2,558,157	2,650,016
Long-term liabilities	<u>546,811</u>	<u>495,088</u>
Total liabilities	<u>3,104,968</u>	<u>3,145,104</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,537,782	1,458,000
Restricted	97,852	59,208
Unrestricted (deficit)	<u>(55,396)</u>	<u>586,382</u>
Total net assets	<u>\$ 1,580,238</u>	<u>\$ 2,103,590</u>

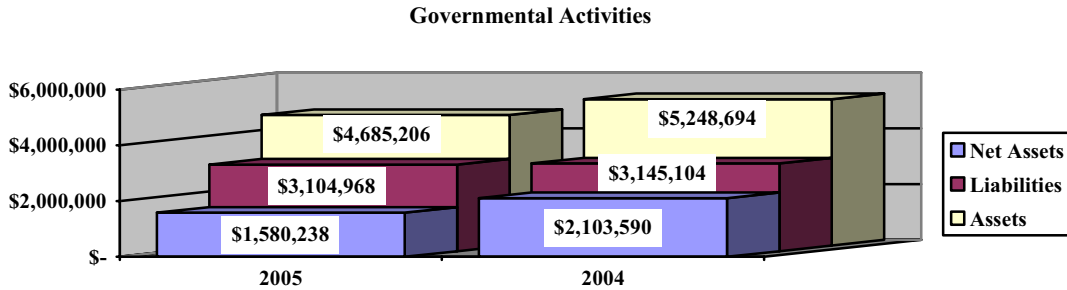
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$1,580,238. Of this total, \$97,852 is restricted in use.

At year-end, capital assets represented 32.82% 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, 2005, were \$1,537,782. 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, \$97,852, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$55,396.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005



The table below shows the change in net assets for fiscal year 2005 and 2004.

Change in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 847,544	\$ 772,132
Operating grants and contributions	481,864	663,429
Capital grants and contributions	6,720	-
General revenues:		
Property taxes	2,024,993	1,938,399
School district income tax	410,841	387,475
Grants and entitlements	3,001,669	2,684,309
Investment earnings	26,062	19,826
Other	63,933	69,411
Total revenues	<u>6,863,626</u>	<u>6,534,981</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Change in Net Assets

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,340,004	\$ 3,163,763
Special	659,874	604,409
Other	20,904	19,728
Support services:		
Pupil	246,674	273,566
Instructional staff	447,739	360,810
Board of education	11,571	9,010
Administration	731,605	769,206
Fiscal	218,147	237,069
Operations and maintenance	615,372	1,114,304
Pupil transportation	316,159	309,344
Central	114,501	97,414
Operations of non-instructional services		
Non-instructional services	96,361	66,455
Food service operations	232,918	259,290
Extracurricular activities	<u>335,149</u>	<u>382,530</u>
Total expenses	<u>7,386,978</u>	<u>7,666,898</u>
Change in net assets	(523,352)	(1,131,917)
Net assets at beginning of year	<u>2,103,590</u>	<u>3,235,507</u>
Net assets at end of year	<u>\$ 1,580,238</u>	<u>\$ 2,103,590</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$523,352. Total governmental expenses of \$7,386,978 were offset by program revenues of \$1,336,128 and general revenues of \$5,527,498. Program revenues supported 19.47% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes, and grants and entitlements. These revenue sources represent 79.22% of total governmental revenue.

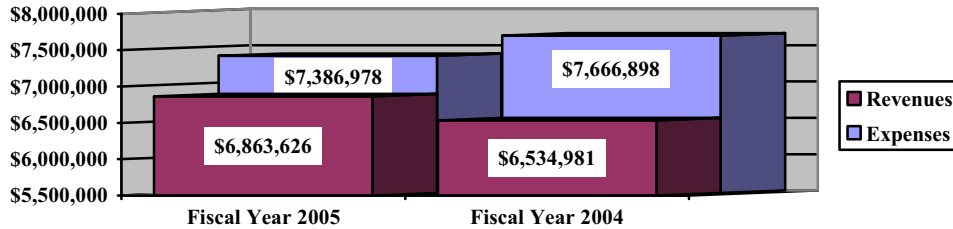
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,020,782 or 58.58% of total governmental expenses for fiscal 2005.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005 and 2004.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

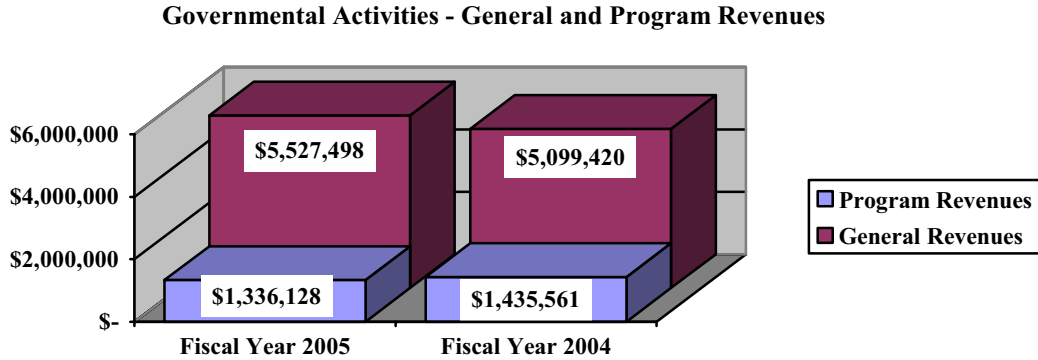
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 3,340,004	\$ 2,827,951	\$ 3,163,763	\$ 2,725,922
Special	659,874	595,981	604,409	323,173
Other	20,904	20,904	19,728	4,502
Support services:				
Pupil	246,674	204,338	273,566	220,576
Instructional staff	447,739	334,624	360,810	280,640
Board of education	11,571	9,571	9,010	9,010
Administration	731,605	719,587	769,206	727,527
Fiscal	218,147	218,109	237,069	236,504
Operations and maintenance	615,372	606,833	1,114,304	1,110,216
Pupil transportation	316,159	307,382	309,344	309,344
Central	114,501	97,576	97,414	81,574
Operations of non-instructional services				
Non-instructional services	96,361	96,261	66,455	26,035
Food service operations	232,918	(33,274)	259,290	(1,956)
Extracurricular activities	335,149	45,007	382,530	178,270
Total expenses	<u>\$ 7,386,978</u>	<u>\$ 6,050,850</u>	<u>\$ 7,666,898</u>	<u>\$ 6,231,337</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 85.68% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.91%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

The graph below presents the District's governmental activities revenue for fiscal year 2005 and 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$351,117, which is lower than last year's total of \$864,710. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	Increase (Decrease)	Percentage Change
General	\$ 105,190	\$ 646,870	\$ (541,680)	(83.74) %
Other Governmental	245,927	217,840	28,087	12.89 %
Total	<u>\$ 351,117</u>	<u>\$ 864,710</u>	<u>\$ (513,593)</u>	<u>(59.39) %</u>

General Fund

The District's general fund balance decreased \$541,680 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to increased expenditures still being more than increasing revenues. Expenditures exceed revenues for fiscal year 2005 by \$539,591. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 2,435,480	\$ 2,316,669	\$ 118,811	5.13 %
Tuition	418,145	334,072	84,073	25.17 %
Earnings on investments	22,488	18,456	4,032	21.85 %
Intergovernmental	3,001,669	2,904,499	97,170	3.35 %
Other revenues	<u>85,825</u>	<u>86,617</u>	<u>(792)</u>	(0.91) %
Total	<u>\$ 5,963,607</u>	<u>\$ 5,660,313</u>	<u>\$ 303,294</u>	5.36 %
<u>Expenditures</u>				
Instruction	\$ 3,789,208	\$ 3,536,417	\$ 252,791	7.15 %
Support services	2,477,101	2,526,307	(49,206)	(1.95) %
Non-instructional services	28,315	30,804	(2,489)	(8.08) %
Extracurricular activities	198,586	187,108	11,478	6.13 %
Facilities acquisition and construction	<u>9,988</u>	<u>-</u>	<u>9,988</u>	100.00 %
Total	<u>\$ 6,503,198</u>	<u>\$ 6,280,636</u>	<u>\$ 222,562</u>	3.54 %

The increase in investment income is due to increases in interest rates by the Federal Reserve Bank throughout the year. The increase in tuition income is due to a change in the accounting of tuition revenues and expenses. All other revenue remained comparable to 2004. Instruction expenditures increased 7.15% and represented the largest expenditure item of the District. All other expenditures remained comparable to 2004.

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.

During the course of fiscal 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$5,730,450 and final budgeted revenues and other financing sources were \$5,732,250. Actual revenues and other financing sources for fiscal 2005 was \$5,862,496. This represents a \$130,246 increase from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$6,758,584 were lowered to \$6,701,480 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$6,568,025, which was \$133,455 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, 2005

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$1,537,782 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 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	Restated 2004
Land	\$ 352,453	\$ 352,453
Land improvements	371,289	366,008
Building and improvements	529,480	489,364
Furniture and equipment	164,432	169,991
Vehicles	120,128	80,184
Total	\$ 1,537,782	\$ 1,458,000

The overall increase in capital assets of \$79,782 is due to capital outlays of \$209,942 exceeding depreciation expense of \$130,160 in the current fiscal year.

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

Debt Administration

At June 30, 2005, the District had no debt outstanding.

At June 30, 2005, the District's overall legal debt margin was \$7,849,467, and an unvoted debt margin of \$87,216.

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

Current Financial Related Activities

As State funding continues to be an unreliable source of income, we are forced to go to the local taxpayers for additional support. In May of 2005 the voters approved an additional five-year 1.25% Income Tax Levy (to begin 2006, collected thru 2010). The tax is projected to generate approximately \$1,000,000 per year. It will take one and one-half years (six quarters) to receive the full amount of taxes liable from the first year it is levied because of how the tax is collected. Employer withholding comes in throughout the year, but individual annual returns are not due until the following calendar year.

As part of passage of the increased income tax, the Covington Board of Education agreed to allow the 5-year, 5-mill Emergency Levy to expire on December 31, 2005. This levy generated about \$384,000 annually.

Even with the new income tax, it will be difficult to establish a "balanced budget" when faced with rising utility rates, diesel fuel costs and health care premiums, while trying to maintain competitive employee salaries. The Board has already made reductions of nearly \$300,000, mainly through staff reductions and the elimination of capital improvement projects (repairs & upgrades to the buildings & properties.)

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

The district does not have a Permanent Improvement Levy; therefore all improvements and capital projects have been funded by General Fund dollars. A Permanent Improvement Levy was defeated by the voters in the November 2004 election. With drastic reductions in the General Fund budget, the need for funds for these improvements still exists.

The District's financial abilities will be called upon to meet the challenges the future will bring. It is imperative the Board of Education continue to carefully and prudently plan in order to provide the resources required to meet the students' desired needs over the next several years.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's 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, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 765,676
Cash with fiscal agent	316
Receivables:	
Taxes	2,318,546
Accounts	4,440
Intergovernmental	18,599
Materials and supplies inventory	39,847
Capital assets:	
Land	352,453
Depreciable capital assets, net	1,185,329
	4,685,206
Total assets.	4,685,206
Liabilities:	
Accounts payable.	42,822
Accrued wages and benefits	539,808
Pension obligation payable.	156,834
Intergovernmental payable	24,859
Unearned revenue.	1,793,834
Long-term liabilities:	
Due within one year.	25,542
Due within more than one year	521,269
	3,104,968
Total liabilities.	3,104,968
Net Assets:	
Invested in capital assets, net.	1,537,782
Restricted for:	
Capital projects	86
State funded programs	970
Federally funded programs	6,467
Other purposes	90,329
Unrestricted (deficit)	(55,396)
	1,580,238
Total net assets.	\$ 1,580,238

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, 2005

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction:					
Regular	\$ 3,340,004	\$ 447,649	\$ 57,684	\$ 6,720	\$ (2,827,951)
Special	659,874	-	63,893	-	(595,981)
Other	20,904	-	-	-	(20,904)
Support services:					
Pupil	246,674	-	42,336	-	(204,338)
Instructional staff	447,739	-	113,115	-	(334,624)
Board of education	11,571	-	2,000	-	(9,571)
Administration	731,605	-	12,018	-	(719,587)
Fiscal	218,147	-	38	-	(218,109)
Operations and maintenance	615,372	6,843	1,696	-	(606,833)
Pupil transportation	316,159	-	8,777	-	(307,382)
Central	114,501	-	16,925	-	(97,576)
Operation of non-instructional services:					
Non-instructional	96,361	-	100	-	(96,261)
Food service operations	232,918	187,682	78,510	-	33,274
Extracurricular activities	335,149	205,370	84,772	-	(45,007)
Total governmental activities	\$ 7,386,978	\$ 847,544	\$ 481,864	\$ 6,720	(6,050,850)

General Revenues:

Property taxes levied for:	
General purposes	2,024,993
School district income tax	410,841
Grants and entitlements not restricted	
to specific programs	3,001,669
Investment earnings	26,062
Miscellaneous	63,933
Total general revenues	5,527,498
 Change in net assets	 (523,352)
 Net assets at beginning of year	 2,103,590
 Net assets at end of year	 \$ 1,580,238

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 511,076	\$ 254,600	\$ 765,676
Cash with fiscal agent	-	316	316
Receivables:			
Taxes	2,318,546	-	2,318,546
Accounts	4,130	310	4,440
Intergovernmental	-	18,599	18,599
Interfund receivable	3,463	-	3,463
Due from other funds	2,017	-	2,017
Materials and supplies inventory	-	39,847	39,847
Total assets	<u>\$ 2,839,232</u>	<u>\$ 313,672</u>	<u>\$ 3,152,904</u>
Liabilities:			
Accounts payable	\$ 32,150	\$ 10,672	\$ 42,822
Accrued wages and benefits	510,424	29,384	539,808
Compensated absences payable	7,535	-	7,535
Pension obligation payable	135,852	20,982	156,834
Intergovernmental payable	23,632	1,227	24,859
Interfund payable	-	3,463	3,463
Due to other funds	-	2,017	2,017
Unearned revenue	2,024,449	-	2,024,449
Total liabilities	<u>2,734,042</u>	<u>67,745</u>	<u>2,801,787</u>
Fund Balances:			
Reserved for encumbrances	24,792	117,470	142,262
Reserved for materials and supplies inventory	-	39,847	39,847
Reserved for property tax unavailable for appropriation	140,952	-	140,952
Unreserved, undesignated (deficit), reported in:			
General fund	(60,554)	-	(60,554)
Special revenue funds	-	91,017	91,017
Capital projects funds	-	(2,407)	(2,407)
Total fund balances	<u>105,190</u>	<u>245,927</u>	<u>351,117</u>
Total liabilities and fund balances	<u>\$ 2,839,232</u>	<u>\$ 313,672</u>	<u>\$ 3,152,904</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, 2005

Total governmental fund balances	\$ 351,117
<i>Amounts reported for governmental activities in 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.	1,537,782
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds. Taxes	230,615
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Compensated absences	<u>(539,276)</u>
Net assets of governmental activities	<u><u>\$ 1,580,238</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 2,435,480	\$ -	\$ 2,435,480
Tuition.	418,145	-	418,145
Charges for services.	-	187,682	187,682
Earnings on investments.	22,488	3,574	26,062
Classroom materials and fees.	29,504	-	29,504
Extracurricular.	-	205,370	205,370
Other local revenues.	56,321	100,624	156,945
Intergovernmental - State.	2,994,320	58,346	3,052,666
Intergovernmental - Federal	7,349	349,628	356,977
Total revenue	<u>5,963,607</u>	<u>905,224</u>	<u>6,868,831</u>
Expenditures:			
Current:			
Instruction:			
Regular	3,200,108	89,277	3,289,385
Special.	589,100	62,174	651,274
Other.	-	20,904	20,904
Support services:			
Pupil.	201,564	43,438	245,002
Instructional staff	318,948	119,089	438,037
Board of education	8,971	2,000	10,971
Administration.	708,504	34,194	742,698
Fiscal	219,301	38	219,339
Operations and maintenance.	588,138	2,241	590,379
Pupil transportation	346,523	8,731	355,254
Central.	85,152	20,043	105,195
Operation of non-instructional services:			
Non-instructional services	28,315	68,046	96,361
Food service operations	-	229,193	229,193
Extracurricular activities.	198,586	160,776	359,362
Facilities acquisition and construction	9,988	19,082	29,070
Total expenditures	<u>6,503,198</u>	<u>879,226</u>	<u>7,382,424</u>
Excess of revenues over (under) expenditures	<u>(539,591)</u>	<u>25,998</u>	<u>(513,593)</u>
Other financing sources (uses):			
Transfers in	-	2,089	2,089
Transfers (out).	<u>(2,089)</u>	<u>-</u>	<u>(2,089)</u>
Total other financing sources (uses)	<u>(2,089)</u>	<u>2,089</u>	<u>-</u>
Net change in fund balances	(541,680)	28,087	(513,593)
Fund balances			
at beginning of year (restated).	646,870	217,840	864,710
Fund balances at end of year.	<u>\$ 105,190</u>	<u>\$ 245,927</u>	<u>\$ 351,117</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, 2005

Net change in fund balances - total governmental funds \$ (513,593)

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

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

Capital asset additions	\$	209,942	
Current year depreciation		<u>(130,160)</u>	
 Total			 79,782

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

Taxes		354	
Intergovernmental		<u>(5,559)</u>	
 Total			 (5,205)

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.			<u>(84,336)</u>
--	--	--	-----------------

Change in net assets of governmental activities \$ (523,352)

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, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 2,315,390	\$ 2,316,117	\$ 2,318,223	\$ 2,106
Tuition.	407,872	408,000	418,145	10,145
Earnings on investments.	10,197	10,200	22,488	12,288
Classroom materials and fees	30,190	30,200	29,146	(1,054)
Other local revenues	55,482	55,500	46,865	(8,635)
Intergovernmental - State	2,882,228	2,883,133	2,994,320	111,187
Intergovernmental - Federal.	7,298	7,300	7,349	49
Total revenue	<u>5,708,657</u>	<u>5,710,450</u>	<u>5,836,536</u>	<u>126,086</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,279,961	3,245,898	3,187,482	58,416
Special.	609,904	592,626	592,708	(82)
Support services:				
Pupil.	210,454	211,035	204,520	6,515
Instructional staff	323,597	314,661	314,473	188
Board of education	9,231	10,450	8,971	1,479
Administration.	779,213	768,627	757,243	11,384
Fiscal	219,781	219,821	213,584	6,237
Operations and maintenance.	628,631	639,461	610,907	28,554
Pupil transportation	372,022	363,224	361,533	1,691
Central.	87,024	99,122	84,570	14,552
Operation of non-instructional services	29,136	32,000	28,315	3,685
Extracurricular activities.	197,202	192,466	191,642	824
Facilities acquisition and construction.	10,278	10,000	9,988	12
Total expenditures	<u>6,756,434</u>	<u>6,699,391</u>	<u>6,565,936</u>	<u>133,455</u>
Excess of revenues over (under) expenditures.	<u>(1,047,777)</u>	<u>(988,941)</u>	<u>(729,400)</u>	<u>259,541</u>
Other financing sources (uses):				
Refund of prior year expenditure.	-	-	4,117	4,117
Transfers (out)	(2,150)	(2,089)	(2,089)	-
Advances in.	19,994	20,000	20,000	-
Sale of capital assets.	1,799	1,800	1,843	43
Total other financing sources (uses)	<u>19,643</u>	<u>19,711</u>	<u>23,871</u>	<u>4,160</u>
Net change in fund balance	(1,028,134)	(969,230)	(705,529)	263,701
Fund balance at beginning of year.	1,002,004	1,002,004	1,002,004	-
Prior year encumbrances appropriated	162,583	162,583	162,583	-
Fund balance at end of year	<u>\$ 136,453</u>	<u>\$ 195,357</u>	<u>\$ 459,058</u>	<u>\$ 263,701</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 46,327
Total assets.	\$ 46,327
Liabilities:	
Due to students	\$ 46,327
Total liabilities	\$ 46,327

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, 2005

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 35 non-certificated employees, 65 certificated full-time teaching personnel who provide services to 867 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) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do 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, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. 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, foods 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 organizations' government 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. 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). The following organizations are described due to their relationship to the District:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Dayton Educational Cooperative Association

The District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Southwestern Ohio Instructional Technology Association

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Upper Valley Joint Vocational School

The Upper Valley Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from each of the seven participating school districts' elected boards, which possess 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, William Stump, who serves as Treasurer, 8811 Career Drive, Piqua, Ohio 45356-9254.

The Covington Education Fund

The Covington Education Fund is organized as a non-profit unincorporated association under the laws of the State of Ohio. The purpose of the Education Fund is to promote general education enrichment in the community of Covington.

The Covington Education Fund is governed by a Distribution Committee appointed by each of the following: Star Bank of Troy, Covington Village Council, Covington Chamber of Commerce, Covington Board of Education and Newberry Township Trustees. The Distribution Committee possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. All funding is through gifts, donations and grants. Financial information can be obtained from the Covington Education Fund, Larry Huffman, who serves as Treasurer, at 101 North High Street, Covington, Ohio 45318.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Southwestern Ohio Educational Purchasing Council 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 five 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. Includes 32 school districts with combined student enrollment of 62,649 combined values of \$1,425,139,321. The group is governed by the Southwestern Ohio Educational Purchasing Council and is a self-insurance package which allows the Council to: retain a portion of the predictable losses; transfer a portion of the catastrophic risk; broaden the district insurance program coverage's; budget for known maximum costs; and insulate the district from future market upheavals. The District paid \$31,991 to the group during fiscal year 2005 for property and casualty insurance. Cambridge Integrated Services Group, is responsible for processing claims. Marsh Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between Southwest Ohio EPC Insurance Program and members 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 appointed by the Covington Exempted Village School District Board of Education. Each Trustee is in office for a term of seven years.

The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the 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, 2005

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

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

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

PROPRIETARY FUND

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District does not have any private-purpose 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, 2005

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 Non-exchange 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.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair 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. Allocation 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 express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Miami County Budget Commission for rate determination.

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 June 30, 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 amended certificates in effect at the time the final appropriation resolution was passed by the Board of Education.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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.

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.

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 STAR Ohio during fiscal 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

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 2005 amounted to \$22,488, which includes \$3,159 assigned from other funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

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

H. Capital Assets

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

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

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 Estimated Lives
Land improvements	20 years
Buildings and improvements	10 - 50 years
Furniture and equipment	5 - 15 years
Vehicles	8 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance 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. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, 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 severance 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 severance payments has been calculated using pay rates in effect at June 30, 2005, 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.

K. 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, claims and judgments, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

L. Fund Balance Reserves

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. 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.

O. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have any effect on financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE- (Continued)

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 690,267	\$ 233,571	\$ 923,838
GASB Technical Bulletin No. 2004-2	<u>(43,397)</u>	<u>(15,731)</u>	<u>(59,128)</u>
Restated Fund Balances, June 30, 2004	<u>\$ 646,870</u>	<u>\$ 217,840</u>	<u>\$ 864,710</u>

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Management Information Systems	349
Ohio Reads	27
Summer School Intervention	21
Title I	1,661
Special Trust	2,493

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

The Summer School Intervention fund did not comply with Ohio Revised Code Section 5705.10, which does not permit a cash basis deficit at year-end. For GAAP purposes, the amount of \$2,017 has been reported as a fund liability.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim moneys 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.

Protection of 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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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.

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interim monies to 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 division (1) or (2) of this section 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 Treasury Asset Reserve of Ohio (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.

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. Cash with Fiscal Agent

At fiscal year-end, the District had \$316 in cash and cash equivalents held by the Miami County Educational Service Center. This amount is included on the balance sheet as "Cash with Fiscal Agent". The Miami County Educational Service Center holds this flow through grant money for the District together with that of other school districts and therefore the District cannot classify this money by risk.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$564,911. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$427,953 of the District's bank balance of \$667,686 was exposed to custodial risk as discussed below, while \$239,733 was covered by Federal Deposit Insurance Corporation.

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.

C. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturity</u>
		<u>6 months or less</u>
STAR Ohio	<u>\$ 247,092</u>	<u>\$ 247,092</u>

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.

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, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 247,092</u>	<u>100.00%</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 564,911
Cash with fiscal agent	316
Investments	<u>247,092</u>
Total	<u>\$ 812,319</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 765,992
Agency funds	<u>46,327</u>
Total	<u>\$ 812,319</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2005 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 3,463

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the Statement of Net Assets.

- B. Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 2,089

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- C. Due from/to other funds consisted of the following at June 30, 2005, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental Funds	\$ 2,017

The purpose of the due from/to other funds is to cover a negative cash balance at June 30. The amount will be repaid within one year.

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, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Miami County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date tax bills are sent.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$140,952 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$37,365 in the general fund.

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second		2005 First	
	Half Collections		Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 72,092,030	87.76	\$ 77,474,270	88.83
Public Utility Personal	3,469,230	4.22	3,388,540	3.89
Tangible Personal Property	<u>6,588,410</u>	<u>8.02</u>	<u>6,353,490</u>	<u>7.28</u>
Total	<u>\$ 82,149,670</u>	<u>100.00</u>	<u>\$ 87,216,300</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 40.64		\$ 40.35	

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. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005 consisted of income and property taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Taxes	\$ 2,318,546
Accounts	4,440
Intergovernmental	<u>18,599</u>
Total	<u>\$ 2,341,585</u>

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

NOTE 9 - CAPITAL ASSETS

The balances of governmental activities building and improvements and equipment have been restated due to errors reported in the prior year. Buildings and improvements have been restated from \$3,051,571 to \$3,128,483 and equipment from \$874,915 to \$798,003 at June 30, 2004. This restatement did not have an effect on net assets as of December 31, 2004. Capital asset activity for the year ended June 30, 2005 was as follows:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Restated Balance <u>06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/05</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	757,977	34,097	-	792,074
Buildings and improvements	3,128,483	73,437	-	3,201,920
Furniture and equipment	798,003	45,250	(26,424)	816,829
Vehicles	394,402	57,158	-	451,560
Total capital assets, being depreciated	<u>5,078,865</u>	<u>209,942</u>	<u>(26,424)</u>	<u>5,262,383</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(391,969)	(28,816)	-	(420,785)
Buildings and improvements	(2,639,119)	(33,321)	-	(2,672,440)
Furniture and equipment	(628,012)	(50,809)	26,424	(652,397)
Vehicles	(314,218)	(17,214)	-	(331,432)
Total accumulated depreciation	<u>(3,973,318)</u>	<u>(130,160)</u>	<u>26,424</u>	<u>(4,077,054)</u>
Governmental activities capital assets, net	<u>\$ 1,458,000</u>	<u>\$ 79,782</u>	<u>\$ -</u>	<u>\$ 1,537,782</u>

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 46,749
Special	1,225

Support Services:

Pupil	595
Instructional staff	1,556
Board of education	600
Administration	2,918
Fiscal	442
Operations and maintenance	1,371
Pupil transportation	17,214
Central	7,248
Extracurricular activities	46,032
Food service operations	<u>4,210</u>
Total depreciation expense	<u>\$ 130,160</u>

NOTE 10 - LONG-TERM OBLIGATIONS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

- A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2005</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences	\$ 495,088	\$ 120,659	\$ (68,936)	\$ 546,811	\$ 25,542
Total long-term obligations, governmental activities	<u>\$ 495,088</u>	<u>\$ 120,659</u>	<u>\$ (68,936)</u>	<u>\$ 546,811</u>	<u>\$ 25,542</u>

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$7,849,467 and an unvoted debt margin of \$87,216.

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2005, the District joined together with other school districts in Ohio to participate in the Southwestern Ohio Educational Purchasing Council Insurance Program, a public entity self-insurance purchasing. The District contracted with Marsh Insurance Company, and coverage is provided by Selective Insurance Company. Insurance coverage provided includes the following:

Building – Replacement Cost	\$16,314,420
Contents (\$2,500 deductible)	5,928,837
Automobile:	
Liability	1,000,000
General Liability	
Per occurrence	1,000,000
Aggregate	3,000,000
Excess Liability Umbrella	5,000,000
Excess Property	200,000,000
Boiler and Machinery	50,000,000
School Board Legal Liability	1,000,000

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

B. Workers' Compensation

For fiscal year 2005, the district participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Totals savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 11 - RISK MANAGEMENT - (Continued)

C. Medical Benefits

For fiscal year 2005, the District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 2.A.). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

NOTE 12 - DEFINED BENEFIT PENSION PLAN

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$122,446, \$117,272 and \$75,957, respectively; 44.10% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$68,448 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

NOTE 12 - DEFINED BENEFIT PENSION PLAN - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$438,660, \$412,351, and \$378,516, respectively; 82.84% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$75,264 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$481 made by the District and \$563 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$31,333 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2005 net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2005 were \$178.221 million and the target level was \$367.3 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million and SERS had approximately 58,123 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$46,631 during the 2005 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of 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);

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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	\$ (705,529)
Net adjustment for revenue accruals	127,071
Net adjustment for expenditure accruals	8,703
Net adjustment for other sources/uses	(25,960)
Adjustment for encumbrances	54,035
GAAP basis	\$ (541,680)

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Reserve</u>
Set-aside cash balance as of June 30, 2004	\$ (85,514)	\$ (100,422)	\$ 18,363
Current year set-aside requirement	115,717	115,717	-
Qualifying disbursements	<u>(107,171)</u>	<u>(180,108)</u>	<u>(18,363)</u>
Total	<u>\$ (76,968)</u>	<u>\$ (164,813)</u>	<u>\$ -</u>
Cash balance carried forward to FY 2006	<u>\$ (76,968)</u>	<u>\$ (164,813)</u>	<u>\$ -</u>

The District had qualifying expenditures during the year that reduced the capital maintenance and textbook set-asides below zero; these extra amounts are being carried forward to reduce the set-aside requirements of future years.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 17 – SUBSEQUENT EVENTS

Effective December 31, 2005 the District allowed a five-year 5-mill emergency operating levy expire. This levy generated approximately \$384,000 annually for the District. The levy was allowed to expire as part of a promise by the Board of Education in gaining voter support of an additional 1.25 percent income tax levy for the next five years. The income tax levy was approved by voters in May 2005 with collection of the new taxes beginning in January 2006. It is anticipated the additional income tax levy will provide approximately \$1 million annually to the District.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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, 2006. 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 2006 are as follows:

- In total, net assets of governmental activities decreased \$289,395 which represents an 18.31% decrease from 2005.
- General revenues accounted for \$5,725,159 in revenue or 80.45% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,391,094 or 19.55% of total revenues of \$7,116,253.
- The District had \$7,405,648 in expenses related to governmental activities; \$1,391,094 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 \$5,725,159 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$6,311,276 in revenues and \$6,392,365 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund balance decreased \$81,089 from \$105,190 to \$24,101.

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, 2006

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 2006?" 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 56-57 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 52. Fund financial reports provide detailed information about the District's major funds. 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 58-62 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 63. 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, 2006

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 64-89 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 2006 and 2005.

	Net Assets	
	Governmental Activities	Governmental Activities
	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Current and other assets	\$ 2,752,324	\$ 3,147,424
Capital assets	<u>1,471,811</u>	<u>1,537,782</u>
Total assets	<u>4,224,135</u>	<u>4,685,206</u>
<u>Liabilities</u>		
Current liabilities	2,375,335	2,558,157
Long-term liabilities	<u>557,957</u>	<u>546,811</u>
Total liabilities	<u>2,933,292</u>	<u>3,104,968</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,471,811	1,537,782
Restricted	109,889	184,652
Unrestricted (deficit)	<u>(290,857)</u>	<u>(142,196)</u>
Total net assets	<u>\$ 1,290,843</u>	<u>\$ 1,580,238</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$1,290,843. Of this total, \$109,889 is restricted in use.

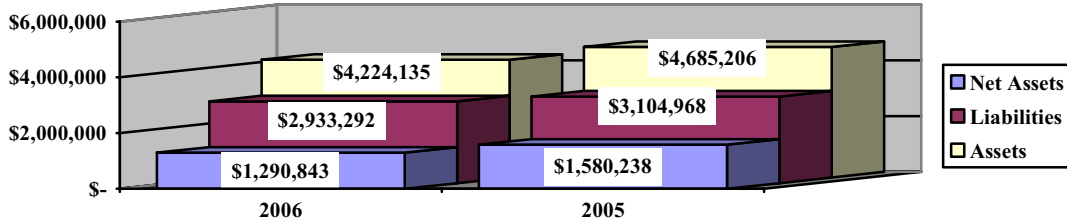
At year-end, capital assets represented 34.84% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$1,471,811. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$109,889, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$290,857.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Governmental Activities



The table below shows the change in net assets for fiscal year 2006 and 2005. The property tax revenue decreased due to the expiration of the District's five-year emergency operating levy that generated approximately \$384,000 annually. The income tax revenue increased due to the passage of an additional 1.25 percent five year income tax levy with collections beginning in January 2006.

Change in Net Assets

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 870,796	\$ 847,544
Operating grants and contributions	520,298	481,864
Capital grants and contributions	-	6,720
General revenues:		
Property taxes	1,893,294	2,024,993
School district income tax	742,436	410,841
Grants and entitlements	3,008,979	3,001,669
Investment earnings	33,743	26,062
Other	<u>46,707</u>	<u>63,933</u>
Total revenues	<u>7,116,253</u>	<u>6,863,626</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Change in Net Assets

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,277,186	\$ 3,340,004
Special	731,484	659,874
Other	24,575	20,904
Support services:		
Pupil	290,515	246,674
Instructional staff	382,984	447,739
Board of education	10,898	11,571
Administration	740,293	731,605
Fiscal	197,046	218,147
Operations and maintenance	502,269	615,372
Pupil transportation	318,971	316,159
Central	135,265	114,501
Operations of non-instructional services		
Non-instructional services	89,804	96,361
Food service operations	272,601	232,918
Extracurricular activities	<u>431,757</u>	<u>335,149</u>
Total expenses	<u>7,405,648</u>	<u>7,386,978</u>
Change in net assets	(289,395)	(523,352)
Net assets at beginning of year	<u>1,580,238</u>	<u>2,103,590</u>
Net assets at end of year	<u>\$ 1,290,843</u>	<u>\$ 1,580,238</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$289,395. Total governmental expenses of \$7,405,648 were offset by program revenues of \$1,391,094 and general revenues of \$5,725,159. Program revenues supported 18.90% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes, and grants and entitlements. These revenue sources represent 79.32% of total governmental revenue.

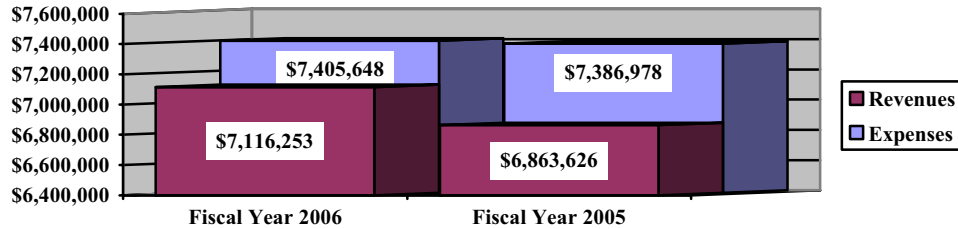
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,033,245 or 54.46% of total governmental expenses for fiscal 2006.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2006 and 2005.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

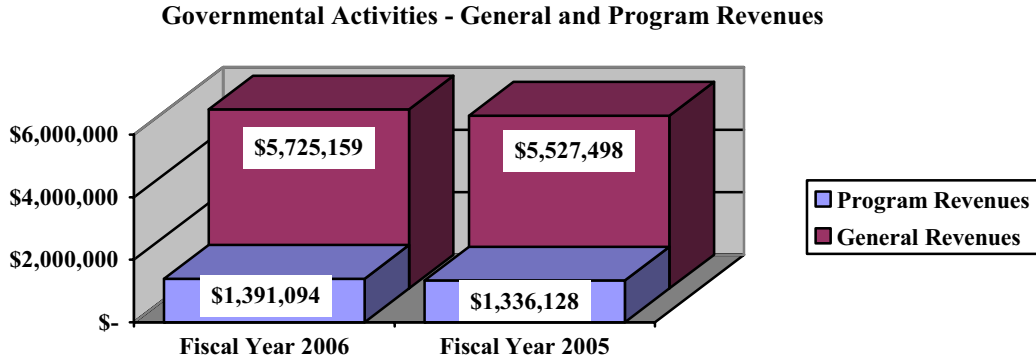
	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program expenses				
Instruction:				
Regular	\$ 3,277,186	\$ 2,772,502	\$ 3,340,004	\$ 2,827,951
Special	731,484	606,554	659,874	595,981
Other	24,575	11,679	20,904	20,904
Support services:				
Pupil	290,515	248,527	246,674	204,338
Instructional staff	382,984	314,500	447,739	334,624
Board of education	10,898	10,898	11,571	9,571
Administration	740,293	700,687	731,605	719,587
Fiscal	197,046	197,046	218,147	218,109
Operations and maintenance	502,269	491,295	615,372	606,833
Pupil transportation	318,971	306,308	316,159	307,382
Central	135,265	118,648	114,501	97,576
Operations of non-instructional services				
Non-instructional services	89,804	21,296	96,361	96,261
Food service operations	272,601	(15,034)	232,918	(33,274)
Extracurricular activities	431,757	229,648	335,149	45,007
Total expenses	<u>\$ 7,405,648</u>	<u>\$ 6,014,554</u>	<u>\$ 7,386,978</u>	<u>\$ 6,050,850</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 84.07% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.22%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The graph below presents the District's governmental activities revenue for fiscal year 2006 and 2005.



The District's Funds

The District's governmental funds reported a combined fund balance of \$281,808, which is lower than last year's total of \$351,117. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Increase (Decrease)	Percentage Change
General	\$ 24,101	\$ 105,190	\$ (81,089)	(77.09) %
Other Governmental	257,707	245,927	11,780	4.79 %
Total	<u>\$ 281,808</u>	<u>\$ 351,117</u>	<u>\$ (69,309)</u>	(19.74) %

General Fund

The District's general fund balance decreased \$81,089. The decrease in fund balance can be attributed to several items related to increased expenditures still being more than increasing revenues. Expenditures exceed revenues for fiscal year 2006 by \$73,128. The increase in income tax revenue is attributed to the additional 1.25 percent income tax levy approved in May 2005, with collections beginning in January 2006. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 2,785,544	\$ 2,435,480	\$ 350,064	14.37 %
Tuition	403,600	418,145	(14,545)	(3.48) %
Earnings on investments	27,865	22,488	5,377	23.91 %
Intergovernmental	3,008,979	3,001,669	7,310	0.24 %
Other revenues	<u>85,288</u>	<u>85,825</u>	<u>(537)</u>	<u>(0.63) %</u>
Total	<u>\$ 6,311,276</u>	<u>\$ 5,963,607</u>	<u>\$ 347,669</u>	<u>5.83 %</u>
<u>Expenditures</u>				
Instruction	\$ 3,772,370	\$ 3,789,208	\$ (16,838)	(0.44) %
Support services	2,367,215	2,477,101	(109,886)	(4.44) %
Non-instructional services	31,330	28,315	3,015	10.65 %
Extracurricular activities	213,489	198,586	14,903	7.50 %
Facilities acquisition and construction	<u>-</u>	<u>9,988</u>	<u>(9,988)</u>	<u>100.00 %</u>
Total	<u>\$ 6,384,404</u>	<u>\$ 6,503,198</u>	<u>\$ (118,794)</u>	<u>(1.83) %</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.

During the course of fiscal 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$5,982,275 and final budgeted revenues and other financing sources were \$5,987,561. Actual revenues and other financing sources for fiscal 2006 was \$6,111,211. This represents a \$123,650 increase from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$6,437,505 were increased to \$6,470,004 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$6,468,480, which was \$1,524 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, 2006

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$1,471,811 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 2006 balances compared to 2005:

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

	Governmental Activities	
	2006	2005
Land	\$ 352,453	\$ 352,453
Land improvements	360,182	371,289
Building and improvements	502,170	529,480
Furniture and equipment	157,458	164,432
Vehicles	99,548	120,128
Total	\$ 1,471,811	\$ 1,537,782

The overall decrease in capital assets of \$65,971 is due to depreciation expense of \$154,511 exceeding capital outlays of \$88,540 in the current fiscal year.

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

Debt Administration

At June 30, 2006, the District had no debt outstanding.

At June 30, 2006, the District's overall legal debt margin was \$7,873,556, and an unvoted debt margin of \$87,484.

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

Current Financial Related Activities

In spite of reductions-in-force and other budget cuts (totaling nearly \$300,00) the District's 2005-06 expenditures still exceeded income. With the third straight year of deficit spending, the district's cash reserve has virtually been depleted.

First quarter collections on the additional income tax (which became effective January 1, 2006) were received in May and were higher than anticipated; however, even with the new income tax, it will be difficult to establish a "balanced budget". The Board continues to work toward neutral spending by scrutinizing all expenditures and looking for opportunities to implement further cost-saving measures, and exploring ways to generate additional revenue. Recent negotiations with classified personnel resulted in smaller than average wage increases and concessions in medical insurance; while negotiations with certified personnel resulted with experience/step pay increases only.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The major area of fiscal concern remains with capital improvement expenses (repair of our facilities, purchasing buses, upgrading textbooks & computer equipment, and installing safety equipment in all buildings.) The District does not have a Permanent Improvement Levy; therefore all improvements and capital projects have been funded by General Fund dollars. With drastic reductions in the General Fund capital outlay budget, it is critical that additional revenue is acquired to pay for these necessary expenses.

In summary, the fiscal state of the District is tenuous. The Board will continue to monitor the District's financial condition and lobby for the State of Ohio to fulfill commitments made to the District for funding through the State Foundation program and against any legislation that will further erode our local tax revenue.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's 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, 2006

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 452,634
Cash with fiscal agent	206
Receivables:	
Taxes	2,213,403
Accounts	6,641
Intergovernmental	44,836
Prepayments.	4,887
Materials and supplies inventory	29,717
Capital assets:	
Land	352,453
Depreciable capital assets, net	1,119,358
	4,224,135
Total assets.	4,224,135
Liabilities:	
Accounts payable.	12,284
Accrued wages and benefits	546,893
Pension obligation payable.	158,110
Intergovernmental payable	26,779
Unearned revenue	1,631,269
Long-term liabilities:	
Due within one year.	30,479
Due within more than one year	527,478
	2,933,292
Total liabilities	2,933,292
Net Assets:	
Invested in capital assets, net.	1,471,811
Restricted for:	
Capital projects	159
State funded programs	3,818
Federally funded programs	7,172
Other purposes	98,740
Unrestricted (deficit)	(290,857)
	1,290,843
Total net assets	\$ 1,290,843

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, 2006

	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	\$ 3,277,186	\$ 451,211	\$ 53,473	\$ (2,772,502)
Special	731,484	-	124,930	(606,554)
Other	24,575	9,418	3,478	(11,679)
Support services:				
Pupil	290,515	-	41,988	(248,527)
Instructional staff	382,984	-	68,484	(314,500)
Board of education	10,898	-	-	(10,898)
Administration.	740,293	18,923	20,683	(700,687)
Fiscal.	197,046	-	-	(197,046)
Operations and maintenance	502,269	10,258	716	(491,295)
Pupil transportation.	318,971	-	12,663	(306,308)
Central	135,265	-	16,617	(118,648)
Operation of non-instructional.	89,804	1,154	67,354	(21,296)
Food service operations	272,601	208,848	78,787	15,034
Extracurricular activities.	431,757	170,984	31,125	(229,648)
Total governmental activities	<u>\$ 7,405,648</u>	<u>\$ 870,796</u>	<u>\$ 520,298</u>	<u>(6,014,554)</u>

General Revenues:

Property taxes levied for:	
General purposes	1,893,294
School district income tax	742,436
Grants and entitlements not restricted	
to specific programs	3,008,979
Investment earnings	33,743
Miscellaneous	46,707
Total general revenues.	<u>5,725,159</u>
Change in net assets.	(289,395)
Net assets at beginning of year	<u>1,580,238</u>
Net assets at end of year.	<u>\$ 1,290,843</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 209,570	\$ 240,575	\$ 450,145
Cash with fiscal agent	-	206	206
Receivables:			
Taxes	2,213,403	-	2,213,403
Accounts	543	6,098	6,641
Intergovernmental	-	44,836	44,836
Due from other funds	1,061	-	1,061
Prepayments	4,887	-	4,887
Materials and supplies inventory	-	29,717	29,717
Restricted assets:			
Equity in pooled cash and cash equivalents	2,489	-	2,489
Total assets	<u>\$ 2,431,953</u>	<u>\$ 321,432</u>	<u>\$ 2,753,385</u>
Liabilities:			
Accounts payable	\$ 7,327	\$ 4,957	\$ 12,284
Accrued wages and benefits	510,955	35,938	546,893
Compensated absences payable	13,506	874	14,380
Pension obligation payable.	138,543	19,567	158,110
Intergovernmental payable.	25,451	1,328	26,779
Due to other funds.	-	1,061	1,061
Deferred revenue.	1,712,070	-	1,712,070
Total liabilities	<u>2,407,852</u>	<u>63,725</u>	<u>2,471,577</u>
Fund Balances:			
Reserved for encumbrances.	54,477	85,353	139,830
Reserved for materials and supplies inventory.	-	29,717	29,717
Reserved for prepayments	4,887	-	4,887
Reserved for property tax unavailable for appropriation	150,681	-	150,681
Reserved for school bus purchase	2,489	-	2,489
Unreserved, undesignated (deficit), reported in:			
General fund	(188,433)	-	(188,433)
Special revenue funds.	-	142,478	142,478
Capital projects funds.	-	159	159
Total fund balances	<u>24,101</u>	<u>257,707</u>	<u>281,808</u>
Total liabilities and fund balances	<u>\$ 2,431,953</u>	<u>\$ 321,432</u>	<u>\$ 2,753,385</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, 2006

Total governmental fund balances	\$ 281,808
<i>Amounts reported for governmental activities in 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.	1,471,811
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds. Taxes	80,801
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Compensated absences	<u>(543,577)</u>
Net assets of governmental activities	<u><u>\$ 1,290,843</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 2,785,544	\$ -	\$ 2,785,544
Tuition.	403,600	-	403,600
Charges for services.	-	199,423	199,423
Earnings on investments.	27,865	5,878	33,743
Classroom materials and fess.	32,256	-	32,256
Extracurricular.	-	219,767	219,767
Other local revenues.	53,032	130,628	183,660
Intergovernmental - State.	3,000,725	44,151	3,044,876
Intergovernmental - Federal	8,254	354,944	363,198
Total revenue	<u>6,311,276</u>	<u>954,791</u>	<u>7,266,067</u>
Expenditures:			
Current:			
Instruction:			
Regular	3,162,873	67,931	3,230,804
Special.	602,023	128,623	730,646
Other.	7,474	17,101	24,575
Support services:			
Pupil.	248,559	41,277	289,836
Instructional staff	311,793	67,771	379,564
Board of education	10,571	-	10,571
Administration.	698,051	40,548	738,599
Fiscal	196,009	-	196,009
Operations and maintenance.	497,551	5,087	502,638
Pupil transportation	290,898	12,564	303,462
Central.	113,783	16,336	130,119
Food service operations	-	267,743	267,743
Operation of non-instructional services	31,330	64,131	95,461
Extracurricular activities.	213,489	221,171	434,660
Facilities acquisition and construction	-	689	689
Total expenditures	<u>6,384,404</u>	<u>950,972</u>	<u>7,335,376</u>
Excess of revenues over (under) expenditures	<u>(73,128)</u>	<u>3,819</u>	<u>(69,309)</u>
Other financing sources (uses):			
Transfers in	-	7,961	7,961
Transfers (out).	<u>(7,961)</u>	<u>-</u>	<u>(7,961)</u>
Total other financing sources (uses)	<u>(7,961)</u>	<u>7,961</u>	<u>-</u>
Net change in fund balances	(81,089)	11,780	(69,309)
Fund balances at beginning of year.	<u>105,190</u>	<u>245,927</u>	<u>351,117</u>
Fund balances at end of year.	<u>\$ 24,101</u>	<u>\$ 257,707</u>	<u>\$ 281,808</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, 2006

Net change in fund balances - total governmental funds	\$	(69,309)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 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	\$ 88,540	
Current year depreciation	<u>(154,511)</u>	
Total		(65,971)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes		(149,814)
 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.		
		<u>(4,301)</u>
Change in net assets of governmental activities	\$	<u><u>(289,395)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<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:				
Taxes	\$ 2,399,367	\$ 2,401,487	\$ 2,578,307	\$ 176,820
Tuition	451,601	452,000	403,600	(48,400)
Earnings on investments	14,986	15,000	27,865	12,865
Classroom materials and fees	35,169	35,200	32,539	(2,661)
Other local revenues	42,962	43,000	53,367	10,367
Intergovernmental - State	3,025,116	3,027,789	3,000,725	(27,064)
Intergovernmental - Federal	6,994	7,000	8,254	1,254
Total revenue	<u>5,976,195</u>	<u>5,981,476</u>	<u>6,104,657</u>	<u>123,181</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,142,649	3,148,298	3,214,308	(66,010)
Special	669,894	672,667	602,250	70,417
Other	-	5,400	5,718	(318)
Support services:				
Pupil	207,752	207,752	242,593	(34,841)
Instructional staff	311,520	312,520	314,199	(1,679)
Board of education	10,903	12,128	10,585	1,543
Administration	705,066	704,274	693,162	11,112
Fiscal	198,183	196,383	205,315	(8,932)
Operations and maintenance	553,419	553,169	505,820	47,349
Pupil transportation	314,117	314,117	303,669	10,448
Central	100,782	110,455	112,791	(2,336)
Operation of non-instructional services	30,000	30,000	31,330	(1,330)
Extracurricular activities	193,220	194,758	218,657	(23,899)
Total expenditures	<u>6,437,505</u>	<u>6,461,921</u>	<u>6,460,397</u>	<u>1,524</u>
Excess of revenues over (under) expenditures	<u>(461,310)</u>	<u>(480,445)</u>	<u>(355,740)</u>	<u>124,705</u>
Other financing sources (uses):				
Refund of prior year expenditure	2,498	2,500	2,969	469
Transfers in	122	122	122	-
Transfers (out)	-	(8,083)	(8,083)	-
Advances in	3,460	3,463	3,463	-
Total other financing sources (uses)	<u>6,080</u>	<u>(1,998)</u>	<u>(1,529)</u>	<u>469</u>
Net change in fund balance	(455,230)	(482,443)	(357,269)	125,174
Fund balance at beginning of year	459,058	459,058	459,058	-
Prior year encumbrances appropriated	54,035	54,035	54,035	-
Fund balance at end of year	<u>\$ 57,863</u>	<u>\$ 30,650</u>	<u>\$ 155,824</u>	<u>\$ 125,174</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 37,695
Total assets.	\$ 37,695
Liabilities:	
Due to students	\$ 37,695
Total liabilities	\$ 37,695

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, 2006

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 30 non-certificated employees, 62 certificated full-time teaching personnel who provide services to 839 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) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do 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, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. 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, foods 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 organizations' government 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. 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). The following organizations are described due to their relationship to the District:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Dayton Educational Cooperative Association

The District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Southwestern Ohio Instructional Technology Association

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Upper Valley Joint Vocational School

The Upper Valley Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from each of the seven participating school districts' elected boards, which possess 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, William Stump, who serves as Treasurer, 8811 Career Drive, Piqua, Ohio 45356-9254.

The Covington Education Fund

The Covington Education Fund is organized as a non-profit unincorporated association under the laws of the State of Ohio. The purpose of the Education Fund is to promote general education enrichment in the community of Covington.

The Covington Education Fund is governed by a Distribution Committee appointed by each of the following: Star Bank of Troy, Covington Village Council, Covington Chamber of Commerce, Covington Board of Education and Newberry Township Trustees. The Distribution Committee possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. All funding is through gifts, donations and grants. Financial information can be obtained from the Covington Education Fund, Larry Huffman, who serves as Treasurer, at 101 North High Street, Covington, Ohio 45318.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Southwestern Ohio Educational Purchasing Council 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 five 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. Includes 32 school districts with combined student enrollment of 62,649 combined values of \$1,425,139,321. The group is governed by the Southwestern Ohio Educational Purchasing Council and is a self-insurance package which allows the Council to: retain a portion of the predictable losses; transfer a portion of the catastrophic risk; broaden the district insurance program coverage's; budget for known maximum costs; and insulate the district from future market upheavals. The District paid \$31,991 to the group during fiscal year 2005 for property and casualty insurance. Cambridge Integrated Services Group, is responsible for processing claims. Marsh Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between Southwest Ohio EPC Insurance Program and members 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 appointed by the Covington Exempted Village School District Board of Education. Each Trustee is in office for a term of seven years.

The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the 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, 2006

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

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

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

PROPRIETARY FUND

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District does not have any private-purpose 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, 2006

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 Non-exchange 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.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair 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. Allocation 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 express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Miami County Budget Commission for rate determination.

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 June 30, 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 amended certificates in effect at the time the final appropriation resolution was passed by the Board of Education.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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.

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.

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 STAR Ohio during fiscal 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

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 2006 amounted to \$27,865, which includes \$9,049 assigned from other funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

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

H. Capital Assets

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

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

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 Estimated Lives
Land improvements	20 years
Buildings and improvements	10 - 50 years
Furniture and equipment	5 - 15 years
Vehicles	8 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance 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. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2006, 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 severance 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 severance payments has been calculated using pay rates in effect at June 30, 2006, 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.

K. 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, claims and judgments, compensated absences, and contractually required pension contributions 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.

L. Fund Balance Reserves

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. As of June 30, 2006, the District had no net assets restricted by enabling legislation.

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

N. 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.

O. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 16.

P. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Latch Key	\$ 3,218
Title I	5,967

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

C. Compliance

The Latch Key fund did not comply with Ohio Revised Code Section 5705.10, which does not permit a cash basis deficit at year-end. For GAAP purposes, the amount of \$1,061 has been reported as a fund liability.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim moneys 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.

Protection of 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, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interim monies to 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 division (1) or (2) of this section 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 Treasury Asset Reserve of Ohio (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.

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. Cash with Fiscal Agent

At fiscal year-end, the District had \$206 in cash and cash equivalents held by the Miami County Educational Service Center. This amount is included on the balance sheet as "Cash with Fiscal Agent". The Miami County Educational Service Center holds this flow through grant money for the District together with that of other school districts and therefore the District cannot classify this money by risk.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$179,991. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2006, \$150,276 of the District’s bank balance of \$315,159 was exposed to custodial risk as discussed below, while \$164,883 was covered by Federal Deposit Insurance Corporation.

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.

C. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	\$ 310,338	\$ 310,338

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.

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, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 310,338	100.00

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 179,991
Investments	310,338
Cash with fiscal agent	206
Total	\$ 490,535
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 452,840
Agency funds	37,695
Total	\$ 490,535

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 7,961

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.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

- B.** Due from/to other funds consisted of the following at June 30, 2006, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental Funds	\$ 1,061

The purpose of the due from/to other funds is to cover a negative cash balance at June 30. The amount will be repaid within one year.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 6 - PROPERTY TAXES - (Continued)

The amount available as an advance at June 30, 2006 was \$150,681 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$140,952 in the general fund.

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

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 77,474,270	88.83	\$ 78,768,600	90.04
Public Utility Personal	3,388,540	3.89	3,368,150	3.85
Tangible Personal Property	<u>6,353,490</u>	<u>7.28</u>	<u>5,347,210</u>	<u>6.11</u>
Total	<u>\$ 87,216,300</u>	<u>100.00</u>	<u>\$ 87,483,960</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 40.35		\$ 40.40	

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 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, 2006 consisted of income and property taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Taxes	\$ 2,213,403
Accounts	6,641
Intergovernmental	<u>44,836</u>
Total	<u>\$ 2,264,880</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balance</u> <u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/06</u>
<i>Governmental Activities</i>				
<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	792,074	16,518	-	808,592
Buildings and improvements	3,201,920	1,560	-	3,203,480
Furniture and equipment	816,829	70,462	(97,327)	789,964
Vehicles	<u>451,560</u>	<u>-</u>	<u>-</u>	<u>451,560</u>
Total capital assets, being depreciated	<u>5,262,383</u>	<u>88,540</u>	<u>(97,327)</u>	<u>5,253,596</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(420,785)	(27,625)	-	(448,410)
Buildings and improvements	(2,672,440)	(28,870)	-	(2,701,310)
Furniture and equipment	(652,397)	(77,436)	97,327	(632,506)
Vehicles	<u>(331,432)</u>	<u>(20,580)</u>	<u>-</u>	<u>(352,012)</u>
Total accumulated depreciation	<u>(4,077,054)</u>	<u>(154,511)</u>	<u>97,327</u>	<u>(4,134,238)</u>
Governmental activities capital assets, net	<u>\$ 1,537,782</u>	<u>\$ (65,971)</u>	<u>\$ -</u>	<u>\$ 1,471,811</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 54,188
Special	932

Support Services:

Pupil	461
Instructional staff	1,632
Board of education	327
Administration	3,005
Fiscal	555
Operations and maintenance	1,331
Pupil transportation	20,580
Central	7,379
Extracurricular activities	60,606
Food service operations	<u>3,515</u>
Total depreciation expense	<u>\$ 154,511</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 10 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance			Balance	
	Outstanding			Outstanding	
	<u>06/30/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/2006</u>	<u>Amounts Due in One Year</u>
Governmental Activities:					
Compensated absences	\$ 546,811	\$ 36,688	\$ (25,542)	\$ 557,957	\$ 30,479
Total long-term obligations, governmental activities	<u>\$ 546,811</u>	<u>\$ 36,688</u>	<u>\$ (25,542)</u>	<u>\$ 557,957</u>	<u>\$ 30,479</u>

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$7,873,556 and an unvoted debt margin of \$87,484.

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2006, the District joined together with other school districts in Ohio to participate in the Southwestern Ohio Educational Purchasing Council Insurance Program, a public entity self-insurance purchasing. The District contracted with Marsh Insurance Company, and coverage is provided by Selective Insurance Company, Federal Insurance Co, Travelers Insurance & West Chester Fire Insurance Company. Insurance coverage provided includes the following:

Building – Replacement Cost	\$16,314,420
Contents (\$1,000 deductible)	5,928,837
Automobile:	
Liability	1,000,000
General Liability	
Per occurrence	1,000,000
Aggregate	3,000,000
Excess Liability Umbrella	5,000,000
Excess Property	300,000,000
Boiler and Machinery	50,000,000
School Board Legal Liability	1,000,000

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 11 - RISK MANAGEMENT - (Continued)

B. Workers' Compensation

For fiscal year 2006, the District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Totals savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Hunter Consulting Company provides administrative, cost control and actuarial services to the GRP.

C. Medical Benefits

For fiscal year 2006, the District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 2.A.). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 12 - PENSION PLANS - (Continued)

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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$92,374, \$92,447, and \$76,143, respectively; 48.36% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$47,701 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 12 - PENSION PLANS - (Continued)

For the fiscal year ended June 30, 2006, 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 recommendation 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 to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$417,398, \$407,327, and \$382,897 respectively; 82.73% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$72,065 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2006 were \$4,474 made by the District and \$7,185 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$32,108 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282.7 million and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$42,982 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 were \$158.8 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of 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 a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ (357,269)
Net adjustment for revenue accruals	206,619
Net adjustment for expenditure accruals	18,697
Net adjustment for other sources/uses	(6,432)
Adjustment for encumbrances	<u>57,296</u>
GAAP basis	<u>\$ (81,089)</u>

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ (76,968)	\$ (164,813)
Current year set-aside requirement	118,114	118,114
Qualifying disbursements	<u>(98,458)</u>	<u>(60,146)</u>
Total	<u>\$ (57,312)</u>	<u>\$ (106,845)</u>
Cash balance carried forward to FY 2007	<u>\$ (57,312)</u>	<u>\$ (106,845)</u>

The District had qualifying expenditures during the year that reduced the capital maintenance and textbook set-asides below zero; these extra amounts are being carried forward to reduce the set-aside requirements of future years.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 16 - STATUTORY RESERVES - (Continued)

In addition to the above statutory reserves, the District also received monies restricted by State statute for school bus purchases.

A schedule of the restricted assets at June 30, 2006 follows:

Amount restricted for school bus purchases	<u>\$ 2,489</u>
--	-----------------



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
www.cshco.com

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, 2006 and June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 16, 2007, wherein we noted the District implemented GASB Statement No. 40 and GASB Technical Bulletin 2004-2 for the year ended June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 January 16, 2007.

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

Clark, Schaefer, Hachett & Co.

Springfield, Ohio
January 16, 2007

COVINGTON EXEMPTED VILLAGE SCHOOL DISTRICT

Schedule of Prior Audit Findings

Years Ended June 30, 2006 and June 30, 2005

None



Mary Taylor, CPA
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
MAY 17, 2007